

**MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION**

Legislative Building - Room 4100

Carson City, Nevada

Grant Sawyer State Office Building – Room 4412

Las Vegas, Nevada

Monday, April 28, 2014, 1:00 p.m.



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MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission's Audit Subcommittee
Date and Time of Meeting: April 28, 2014 - 1:00 p.m.
Place of Meeting: Legislative Building
401 S. Carson Street - Room 4100 - Carson City, Nevada

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

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

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

AGENDA

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

1. Public Comment

(Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers).

*For
Possible
Action*

2. Approval of minutes from January 7, 2014

*For
Possible
Action*

3. Awarding of contract for Single Audit for the State of Nevada for fiscal years 2014 through 2017 (NRS 218G.350) – Paul Townsend, Legislative Auditor; Shannon Ryan, Audit Supervisor

*For
Possible
Action*

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

– Paul Townsend, Legislative Auditor

a. State of Nevada, Single Audit Report

– Shannon Ryan, Audit Supervisor

b. Department of Corrections Information Technology Security

– Jeff Rauh, Deputy Legislative Auditor; Doug Peterson, Information Systems Audit Supervisor

c. Department of Business and Industry, Nevada State Athletic Commission

– Michael Herenick, Deputy Legislative Auditor; Doug Peterson, Information Systems Audit Supervisor

d. Department of Tourism and Cultural Affairs, Division of Tourism

– Todd Peterson, Deputy Legislative Auditor; Jane Bailey, Audit Supervisor

*For
Possible
Action*

5. Presentation of Review of Governmental and Private Facilities for Children, April 2014 (NRS 218G.575)

– Paul Townsend, Legislative Auditor

– Sandra McGuirk, Deputy Legislative Auditor; Jane Bailey, Audit Supervisor

Legislative Commission's Audit Subcommittee

AGENDA (continued)

*For
Possible
Action*

6. Presentation of six-month reports (NRS 218G.270)

- Paul Townsend, Legislative Auditor
- a. Department of Administration, Risk Management Division
– Jane Bailey, Audit Supervisor
- b. Department of Conservation and Natural Resources, Division of State Parks
– Doug Peterson, Information Systems Audit Supervisor
- c. Department of Business and Industry, Taxicab Authority
– Rocky Cooper, Audit Supervisor

7. Public Comment

(Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers).

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

Notice of this meeting was posted in the following Carson City, Nevada locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps; Capitol Building; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street.

Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Clark County Office, 500 South Grand Central Parkway, and Grant Sawyer State Office Building, 555 E. Washington Avenue.

Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

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

**AUDIT SUBCOMMITTEE MINUTES
JANUARY 7, 2014**

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

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

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

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:

Assemblywoman Maggie Carlton, Chair
Assemblyman Michael Sprinkle

Las Vegas:

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

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

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

The roll was taken. A quorum was present.

Item 1— Public comment

Chair Carlton called for public comment. There was none.

Item 2 — Approval of minutes from December 13, 2012

Chair Carlton called for a motion.

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

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

Chair Carlton opened the item for discussion.

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

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

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

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

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

a. Office of the Governor, Agency for Nuclear Projects

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

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

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

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

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

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

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

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

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

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

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

b. Report on Count of Money in State Treasury

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton thanked Ms. Ryan for the presentation.

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

Chair Carlton called for a motion.

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

d. Department of Business and Industry, Nevada Transportation Authority

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Mackay requested that Assemblyman Sprinkle repeat the question.

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

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

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

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

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

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

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

e. Department of Public Safety, State Fire Marshal Division

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton called for Division staff to testify.

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

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

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

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

Chair Carlton recognized Assemblyman Hardy.

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

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

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

Chair Carlton concurred.

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

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

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

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

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

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

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

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

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

Chair Carlton called for a motion.

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

f. Commission on Mineral Resources, Division of Minerals

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton thanked Ms. De Luca for the presentation.

Chair Carlton called for questions from the Committee.

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

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

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

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

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

Chair Carlton called for Commission staff to testify.

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

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

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

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

Chair Carlton called for a motion.

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

g. Department of Public Safety, Division of Emergency Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assemblyman Hardy concurred.

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

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

Assemblyman Sprinkle asked for an example of subgrantees.

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

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

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

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

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

Chair Carlton called for a motion.

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

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

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

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

Chair Carlton asked for comments from the Committee.

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

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

Chair Carlton called for a motion.

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

Chair Carlton called for questions or comments from the Committee.

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

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

Chair Carlton called for a vote on the motion.

THE MOTION CARRIED UNANIMOUSLY.

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

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

g. Department of Corrections, Accuracy of Criminal History Information

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

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

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

Chair Carlton called for agency staff to testify.

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton asked Mr. Neil to continue the presentation.

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

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

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

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

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

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

Chair Carlton called for questions from the Committee.

Chair Carlton called for a motion.

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

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

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

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

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

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

Chair Carlton called for questions from the Committee.

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

Chair Carlton called for a motion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton called for agency response.

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

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

Ms. Olson agreed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton thought that was the issue.

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

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

Ms. Olson agreed.

Chair Carlton called for a motion.

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

j. Public Employees' Benefits Program

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chair Carlton asked if auditors had the answers they needed.

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

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

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

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

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

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

Mr. Rosenberg answered that was correct.

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

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

Mr. Peterson asked when workers comp would be completed.

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

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

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

Chair Carlton called for a motion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Peterson agreed.

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

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

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

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

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

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

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

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

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

Senator Denis thanked Mr. Gustafson for the comments.

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

Chair Carlton stated progress would be monitored.

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

Chair Carlton called for a motion.

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

Item 7 — Public Comment

Chair Carlton called for public comment. There was none.

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

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

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

Respectfully submitted,

Donna Wynott, Audit Secretary

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

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

**AWARDING OF CONTRACT FOR
SINGLE AUDIT
FOR THE STATE OF NEVADA
FOR FISCAL YEARS 2014 THROUGH 2017**

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April 17, 2014

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada

Pursuant to NRS 218G.340 and 218G.350 the Audit Subcommittee may select a qualified accounting firm to perform audits required by the Federal Government. As such, the Legislative Auditor issued a Request for Proposal (RFP) for the Single Audit for fiscal years 2014, 2015, 2016, and 2017.

An RFP was issued in January 2014, and all certified public accounting firms registered with the Nevada State Board of Accountancy were invited to submit proposals. Proposals were received and evaluated by a review team consisting of Audit Division staff. The proposals were evaluated for key elements and requirements specified in the RFP, and categorized into the following five weighted areas:

- Firm Capability
- Staff Qualifications
- Governmental Auditing Experience
- Technical Approach
- Cost

Proposals from the following firms demonstrated sufficient expertise to be considered qualified to perform the Single Audit per NRS 218G.340:

- Kafoury, Armstrong & Co.
- Eide Bailly, LLP
- CliftonLarsonAllen, LLP

Enclosed please find a summary of the proposal evaluation and related materials.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw
Enclosure

**LEGISLATIVE COUNSEL BUREAU
AUDIT DIVISION
SINGLE AUDIT - FY 2014, 2015, 2016, 2017
PROPOSAL EVALUATION SUMMARY**

| Evaluation Factors | Weight | Total Points | KAFOURY, ARMSTRONG & CO. | EIDE BAILLY LLP | CLIFTON LARSON ALLEN LLP |
|--|-------------------------|--------------|--------------------------|---------------------|--------------------------|
| Firm Capability | 10% | 10 | 9.50 | 9.25 | 7.75 |
| Staff Qualifications | 25% | 25 | 9.09 | 8.65 | 8.13 |
| Governmental Auditing Experience | 15% | 15 | 9.47 | 8.60 | 7.67 |
| Technical Approach | 20% | 20 | 9.45 | 8.70 | 7.45 |
| Subtotal: Technical Evaluation | 70% | 70 | 37.51 | 35.20 | 31.00 |
| Cost | 30% | 30 | 10.00 | 9.91 | 6.35 |
| Total Evaluation Score | 100% | 100 | 47.51 | 45.11 | 37.35 |
| Proposed Audit Hours, Contract Cost Per Year, and Total Contract Cost | Current Contract | | 4,075 | 3,500 | 5,110 |
| Audit Hours Per Year | 4,200 | | | | |
| Contract Cost Per Year | \$ 348,150 | | \$ 350,000 | \$ 337,500 | \$ 534,530 |
| Fiscal Year 2014 | - | | 360,000 | 347,700 | 545,200 |
| Fiscal Year 2015 | - | | 345,000 | 358,200 | 556,100 |
| Fiscal Year 2016 | - | | 345,000 | 369,000 | 567,200 |
| Fiscal Year 2017 | - | | | | |
| Total Contract Cost | \$ 1,392,600 | | \$ 1,400,000 | \$ 1,412,400 | \$ 2,203,030 |

Request For Proposal Process

The Single Audit RFP was posted on the LCB website on January 10, 2014. All firms registered with the State Board of Accountancy as certified public accounting firms were notified of the RFP's issuance and invited to propose. Firms were required to submit questions regarding the RFP to the Audit Division and all questions and answers were posted on the LCB website. Technical proposals and cost proposals were required to be submitted separately. Technical proposals were submitted electronically and cost proposals were required to be submitted under separate cover and clearly marked. Evaluations of technical proposals were completed prior to the opening of cost proposals. Once technical evaluations were complete and scores tabulated, cost proposals were opened and incorporated into each proposing entity's score. The five areas used to evaluate proposals are described below.

Firm Capability

This area is an evaluation of the capabilities of the firm including its participation in and the results of its peer review, knowledge regarding applicable standards and the project, and staffing resources.

Staff Qualifications

This area is a review of the staff assigned to the project in the proposal, including an evaluation of staff and project manager experience related to governmental auditing; training received by staff regarding governmental accounting and auditing; and a review of the hours stated in the proposal, including the relationship between staff and management.

Governmental Auditing Experience

This area involves an evaluation of the firm's experience performing attestation and compliance engagements for governmental entities. The review includes evaluating the firm's experience with entities similar to the State, the size and nature of other governmental engagements, and experience auditing CAFR's and performing compliance engagements.

Technical Approach

This area involves a review of the firm's descriptions regarding the procedures to be performed, timeframes, and methods necessary to perform the engagement in relation to the RFP. In addition, the technical approach includes an evaluation of the contractor's understanding of certain requirements including conducting exit conferences, obtaining agency responses, and notifying the Legislative Auditor of significant events including the discovery of fraud.

Cost

Cost refers to the price over the term of the four-year contract.

AUDIT DIVISION

NRS 218G.340 Certain audits may be conducted by Legislative Auditor or private firms; procedure for evaluating qualifications of firms; combining of audits to obtain services from single source.

1. The Audit Subcommittee may require the Legislative Auditor to conduct, or may choose to contract with a qualified accounting firm to perform, an audit which is a prerequisite to the award of a grant from the Federal Government to a state agency.

2. The Legislative Auditor shall keep a list of firms qualified and willing to perform this kind of audit. Firms desiring to be included on the list must annually submit to the Legislative Auditor statements of qualifications and data relating to the performance of the firm, including relevant information regarding any consultants used or to be used by the firm.

3. When the Audit Subcommittee chooses to contract with a firm to perform an audit, the Legislative Auditor shall evaluate the data on file for each firm, together with any statements which firms may submit regarding the proposed audit and any other pertinent information. The Legislative Auditor shall prepare a list of not fewer than three firms which, in the judgment of the Legislative Auditor, are qualified to perform the proposed audit. The Legislative Auditor shall submit the list to the Audit Subcommittee.

4. Two or more separate audits may be combined by the Audit Subcommittee to obtain auditing services from a single source. Audits combined in this manner shall be deemed a single audit for purposes of compliance with NRS 218G.330, 218G.340 and 218G.350.

(Added to NRS by 1981, 1177; A 1983, 161)—(Substituted in revision for NRS 218.892)

NRS 218G.350 Selection of private firms; execution of contract; oversight; performance of audit; submission, presentation and distribution of report.

1. The Audit Subcommittee shall confer with the Legislative Auditor to establish standards of performance to be required of a firm chosen to perform an audit. The Audit Subcommittee shall conduct negotiations with each of the firms recommended for consideration by the Legislative Auditor and shall select the firm or firms which, in the judgment of the Audit Subcommittee, are best qualified to meet the standards of performance established. During the negotiations and in making its selection, the Audit Subcommittee shall consider:

- (a) The competency of the firms being considered;
- (b) The estimated cost of the services required to conduct the audit; and
- (c) The scope and complexity of the services required.

2. Each contract for an audit must be signed by the Legislative Auditor and an authorized representative of the firm selected to perform the audit. The Legislative Auditor shall periodically inspect the performance of the firm performing the audit to ensure that the terms of the contract are being complied with.

3. Except as otherwise provided in this section and NRS 218G.330 and 218G.340, the officers and employees of a firm performing an audit shall keep information disclosed by an audit in strict confidence and shall not disclose the contents of an audit before it is presented to the Audit Subcommittee or submitted to the appropriate federal agency or an entity designated by the federal agency. The officers and employees of the firm have the same rights of access to books, accounts, records, files, correspondence or other documents that the Legislative Auditor has.

AUDIT DIVISION

NRS 218G.350 cont.

4. At the conclusion of the audit, the firm or firms which have performed the audit shall submit a written report of the audit to the Legislative Auditor. The Legislative Auditor shall follow the procedures set forth in NRS 218G.230, concerning preliminary audit reports and shall attend, or have a member of the Legislative Auditor's staff attend, the discussion held pursuant to that section.

5. The Legislative Commission may by regulation provide for the distribution of copies of the written report submitted to the Legislative Auditor pursuant to subsection 4, to each member of the Audit Subcommittee before the report is presented to the Audit Subcommittee pursuant to subsection 6.

6. The Legislative Auditor shall present the final audit report to the Audit Subcommittee and thereafter distribute the report or a summary of the report to Legislators, other appropriate state officers and the head of the agency audited. If federal law requires the Legislative Auditor to submit the final audit report to a federal agency or an entity designated by the federal agency, the Legislative Auditor may submit the report to the federal agency or entity before the Legislative Auditor presents it to the Audit Subcommittee.

(Added to NRS by 1981, 1177; A 1983, 162; 1991, 394; 1997, 107; 2011, 3250)—(Substituted in revision for NRS 218.893)

**AWARDING OF CONTRACT FOR
SINGLE AUDIT
FOR THE STATE OF NEVADA
FOR FISCAL YEARS 2014 THROUGH 2017**

**Proposal From
Kafoury, Armstrong & Co.**

Technical Proposal



KAFOURY, ARMSTRONG & CO.

A PROFESSIONAL CORPORATION
Certified Public Accountants

**PROPOSAL TO PROVIDE PROFESSIONAL SERVICES TO THE
LEGISLATIVE COUNSEL BUREAU AUDIT DIVISION**

FOR THE

**SINGLE AUDIT OF THE
STATE OF NEVADA**

**FOR THE FISCAL YEARS ENDING
JUNE 30, 2014, 2015, 2016 AND 2017**



PRESENTED BY:

**KAFOURY, ARMSTRONG & CO.
CERTIFIED PUBLIC ACCOUNTANTS**



CONTACT PERSON:

FELICIA R. O'CARROLL, CPA, MST
SHAREHOLDER
6140 PLUMAS STREET
RENO, NEVADA 89519-6060
(775) 689-9100
focarroll@kafoury.com

February 28, 2014



KAFOURY, ARMSTRONG & CO.

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
6140 PLUMAS STREET, RENO, NV 89519
775-689-9100 FAX: 775-689-9299 www.kafoury.com

February 28, 2014

Mr. Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
State of Nevada
401 S. Carson Street
Carson City, Nevada 89701

Dear Mr. Townsend:

It is our great pleasure to respond to your Request for Proposal (RFP) to conduct the Single Audit of the State of Nevada for the fiscal years ending June 30, 2014, 2015, 2016 and 2017.

We have been honored over the past twenty years to perform the State of Nevada audit. Our past history is indicative of our diligence in meeting the audit deadlines. All deadlines were met unless extensions were requested for reasons beyond our control. Our experience with the State affords us an in-depth understanding of your operations and control environment, thus providing us a greater awareness of the challenges the State faces with limited resources in this current economic environment. Major changes mandated by the Governmental Accounting Standards Board in the form of Statements No. 65, 67 and 68 (GASB Nos. 65, 67 and 68) and single audit changes recently released, all of which will impact the audits covered by the Request for Proposal, increase the importance of selecting an auditing firm with extensive knowledge of the GASB pronouncements and Federal mandates and their implications to the State of Nevada.

We are confident that Kafoury, Armstrong & Co. is the most qualified firm to perform the Single Audit of the State of Nevada for the following reasons:

1. Established in 1941, Kafoury, Armstrong, & Co. is the leading CPA firm working throughout Nevada in the governmental audit arena. Our four offices located throughout the State, currently serve more than forty (40) local governments and we performed more than sixty (60) audits in accordance with government auditing standards during the 2012-2013 audit cycle. Our extensive knowledge in governmental audit and accounting is an important asset to our clients as they work to implement pronouncements issued by the Governmental Accounting Standards Board (GASB), and other authoritative bodies such as the U.S. Government Accountability Office (GAO).
2. Over the past twenty years, we have demonstrated the desire to perform the audit and the commitment to provide only the most qualified personnel to the engagement. We understand the importance of an efficient approach to the audit. Experienced staff translates into a minimum of disruption to the daily operations of the State and the ability to pass along cost savings. All members of the proposed audit team for the State have in-depth knowledge of the unique aspects of governmental auditing and accounting, and have experience on the State's prior audit engagements. We have again included a Shareholder with more than 38 years of experience as Project Manager.

Mr. Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
State of Nevada
February 28, 2014
Page ii

3. We commit to meet and have the ability to meet the deadlines specified in the RFP, and have provided a detailed roadmap of how we will accomplish this in the Audit Approach section of this proposal.
4. With Kafoury, Armstrong, & Co. you will receive unparalleled commitment to the quality of the work product. We are a member of the American Institute of Certified Public Accountants (AICPA) and the Government Audit Quality Center of the AICPA. Such memberships involve specific requirements in the form of continuing professional education, as well as, examinations of our work product by external peer review. Kafoury, Armstrong, & Co. received a "pass" rating on our most recent peer review examination conducted in May of 2013, in which several governmental audits were selected for review. "Pass" is the highest rating awarded.

With offices in both Reno and Las Vegas, staffed by experts in governmental audit and accounting, we can attend important meetings in either the North or the South at a moments notice as demonstrated this past year.

We support the concept of Nevadans helping Nevadans. We also support the concept of keeping our dollars local and strengthening our own economy. Kafoury, Armstrong & Co. is a Nevada firm and all dollars paid to Kafoury, Armstrong & Co. stay in Nevada. Kafoury, Armstrong & Co. is the leading CPA firm working throughout Nevada in the governmental audit area. The Single Audit of the State of Nevada is our premiere account and it would be our honor to once again dedicate our considerable resources to this engagement.

This proposal shall constitute a valid irrevocable offer to provide audit services for a period of 90 days. Ms. Felicia R. O'Carroll, Shareholder, (775) 689-9100, focarroll@kafoury.com is authorized to make representations for Kafoury, Armstrong & Co. and bind the Firm to a legal contract with the State of Nevada.

We welcome the opportunity to further discuss this proposal with you.

Very truly yours,

KAFOURY, ARMSTRONG & CO.

By: Felicia R. O'Carroll
Felicia R. O'Carroll, CPA, MST
Engagement Shareholder

FRO:ds

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Executive Summary

WHY KAFOURY, ARMSTRONG & CO. IS THE RIGHT CHOICE

KNOWLEDGE OF NEVADA GOVERNMENTS:

Kafoury, Armstrong & Co. is based in Nevada. Our four offices throughout the State currently serve more than 40 Nevada local governments in addition to the State of Nevada, which continues to be our premier client. A listing of the governments served by Kafoury, Armstrong & Co. is included on pages 14 and 15 of this proposal.

We have more than 70 years of experience with Nevada governments, an achievement that cannot be equaled by any other CPA firm. Our financial condition is strong and our reputation for being the leading experts in governmental auditing is long established. We are proud of our Nevada heritage and believe the audit of the largest government in the State should be awarded to a Nevada based firm. We all live in Nevada and share in its economic prosperity and its economic down-turns.

CONTINUITY OF STAFF:

All members of the proposed audit team have recent experience on the State audit. The specific duties of each level of staff are presented on pages 6 and 7. Resumes of the proposed engagement team (supervisors and above) can be found on pages B-1 through B-11. Experienced staff translates into a minimum of disruption to the daily operations of the State.

FAIR FEE:

Our proposed audit hours and fees are based on prior experience with the State. The proposed hours include our estimate of the time required to audit the State's implementation of GASB No. 65 in the year ending June 30, 2014 and GASB No. 68 in the year ending June 30, 2015. It also includes our estimate of the impact of the recently released changes to the Single Audit, which will first be effective in the year ending June 30, 2016. A detailed breakdown of the hours by staffing levels is included in the separate Cost Proposal.

Kafoury, Armstrong & Co.'s offices throughout the State help minimize travel time and travel expense - thereby resulting in fees based on productive hours only. A breakdown of our fees is also provided in the separate Cost Proposal.

EXPERTS IN GOVERNMENTAL AUDITING:

Kafoury, Armstrong & Co. presented a seminar on GASB No. 54 to both clients and non-clients. We presented on the changes to the Yellow Book at the 2013 Professional Development Conference sponsored by the Northern Nevada Chapter of the Association of Government Accountants in January of 2013. We also taught two training seminars on the single audit reporting process using the Single Audit Reporting Forms developed by the State to personnel from a variety of state agencies. These are a few examples of how Kafoury, Armstrong & Co. personnel stay current on changes in the accounting profession and how we use this knowledge to benefit our clients.

Executive Summary

Kafoury, Armstrong & Co. is a member of the Governmental Audit Quality Center and the Private Companies Practice Section of the AICPA. Our most recent peer review resulted in a “pass” ranking, the highest level given. A copy of the peer review report is included on page A1. This peer review included examination of a number of our governmental audits.

OUR PREMIER CLIENT:

Kafoury, Armstrong & Co. has demonstrated that the State of Nevada is our premier client over the past twenty years by our:

- Personal service;
- Quality and reliability;
- Flexibility to accommodate the State’s schedule; and
- Adherence to all deadlines.

Kafoury, Armstrong & Co. has developed a customized audit plan for the State of Nevada, detailed on pages 17 through 26, that includes:

- Early identification of potential risk factors as required under the risk assessment standards;
- Risk based approach to identifying major programs under the Single Audit Act, while adhering to the mandates of program selection and testing under ARRA, when applicable;
- Engagement Quality Control review by an individual familiar with the unique aspects of State government.

We understand the importance of the role of Project Manager and have once again included a Shareholder with more than 38 years of experience to serve as Project Manager. We have demonstrated our understanding of the engagement and commit to perform the Single Audit for four years beginning with the year ending June 30, 2014. We believe we are uniquely qualified to perform the audit and have proven our ability over the past twenty years to meet the deadlines imposed. We have provided an audit engagement team knowledgeable about Nevada governments and familiar with the State. All members of the proposed engagement team have worked on the State audit in the past. We believe we have provided an audit team that will provide the most effective and efficient audit. However, should the State wish to consider “Engagement Shareholder/ Project Manager rotation”, we have provided an alternate for this role, Shareholder Tamara Miramontes. Tamara is located in our Las Vegas office, though she began her career at Kafoury, Armstrong & Co. in the Reno office. She is now the Engagement Shareholder for the Clark County and Clark County School District audits, the second and third largest governments in the State. We are fortunate to have six Shareholders with strong governmental audit experience who can be called upon to provide expertise should the need arise.

We have organized our proposal to follow the requirements set forth in the RFP. The various items requested can be found in our proposal as follows:

- Our Contractor Identifying Information (RFP Section III E) can be found on pages 4 and 5. This section provides information about Kafoury, Armstrong & Co. including our corporate structure, longevity, offices and other information specifically requested.

Executive Summary

- Project Staffing and Organization (RFP Section III G) can be found on pages 6 through 9. This section introduces our proposed audit team, describes the specific duties of each category of audit team member, and includes an Organization Chart of the audit team lines of Authority. It clearly shows that we believe the ultimate responsibility for the audits rests with the Engagement Shareholder, who has also been selected as the Project Manager. Felicia R. O'Carroll is the proposed Engagement Shareholder/Project Manager. She has served in this role for the past 20 years and fully understands what is required to meet the required deadlines. She is recognized as a leader in the Government Community and heads up the governmental practice in the Reno Office of Kafoury, Armstrong & Co. We believe her 38 years of experience are a tremendous asset to the State; however, if the State prefers to rotate this position, we have provided a worthy alternate. We have also described how we will assure the quality of the audit team and provided our assurance that we have the ability to meet the deadlines required in the proposal.
- The Contractor Services Overview/Objectives (RFP Section III H) are found on page 11. This section demonstrates our understanding of the objectives of the audits.
- Contractor Capabilities (RFP Section III I) provides insight into our audit approach, describes our peer review history, identifies similar engagements carried out by the Reno office and contains an affirmative statement about our independence. This information can be found on pages 12 through 28. The Audit Approach section details the type and extent of our use of analytical procedures, describes our approach to updating our understanding of the State's internal control systems (both general and IT) and describes our sampling approach. This section also includes items not specifically requested in the RFP that we believe are pertinent to the proposal.
- The required information regarding current and prior (last five years) engagements with the State (RFP Section III J) is detailed on page 29. We have also included a statement that we believe none of the engagements represent a conflict of interest or impairs our independence.
- Exhibit A is a copy of our latest peer review report, which evidences that we received a ranking of "pass", the highest level given.
- Exhibit B includes resumes of all members of the audit team other than the Staff Auditors and clearly demonstrates our leading position as governmental auditors.
- Exhibit C is a summary of pertinent continuing education classes taken by all supervisor-and-above members of the audit team during the past three years.
- As required by the RFP, our Cost Proposal has been provided in a separate sealed envelope.

We trust we have provided all the information necessary for the evaluation panel to evaluate our qualifications, our commitment to the State and our desire to serve as the independent auditor for the State for the next four years. This proposal is submitted by Kafoury, Armstrong & Co. under the guidance of Shareholder, Felicia R. O'Carroll and her signature can bind the Firm to a contract with the State of Nevada.

Contractor Identifying Information

Business Organization:

- 1. Name and Address:** Kafoury, Armstrong & Co., A Professional Corporation
6140 Plumas Street
Reno, Nevada 89519-6060
- 2. Firm Structure:** Kafoury, Armstrong & Co. is a professional corporation, which is incorporated in the State of Nevada.
- 3. Duration:** Kafoury, Armstrong & Co. began business in 1941 and, as such, has been in business for more than 70 years.
- 4. Firm Locations:** Kafoury, Armstrong & Co. has four offices located throughout Nevada as follows:

Reno Office
6140 Plumas Street
Reno, Nevada 89519

Las Vegas Office
8329 W. Sunset Road, Suite 210
Las Vegas, Nevada 89113

Fallon Office
301 West Tolas Street
Fallon, Nevada 89406

Elko Office
975 Fifth Street
Elko, Nevada 89801
- 5. Office Responsible:** The Reno Office will have primary responsibility, but we will utilize staff from our Las Vegas office, as well.
- 6. Principal Contact:** Felicia R. O'Carroll, CPA, MST, Shareholder
6140 Plumas Street
Reno, Nevada 89519-6060
(775) 689-9100
Fax (775) 689-9299
E-Mail focarroll@kafoury.com
- 7. Federal Employer Identification Number:** The Federal Tax Identification Number is 88-0116396.

Contractor Identifying Information

8. Financial Stability:

Kafoury, Armstrong & Co. originated in 1941 with the formation of a public accounting partnership between the late Ray Armstrong and the late Sam Kafoury. We are one of the largest statewide firms of independent professional accountants in Nevada, with four offices throughout the state staffed by more than 80 people. Kafoury, Armstrong & Co. is a dynamic growing firm. Our financial condition is strong and our stability is evidenced by more than 70 years in operation. Our ability to provide the requisite services is supported by our performance over the past twenty years.

Project Staffing and Organization

Staffing:

In the audit world of today, there is a great deal of conversation about “Shareholder” or “Partner” rotation. While it is not required, nor even recommended, for governmental audits, we thought it was important to address it. Over the course of the past twenty years, we have had two different Engagement Shareholders, David Ebner followed by Felicia O’Carroll. We have also had several key changes in “Senior Staff” over that same time period. Some changes have occurred due to progression within the Firm (Tamara Miramontes who began as a staff accountant on the State audit is now presented as an alternate for Engagement Shareholder/Project Manager. The fact that she has remained with the Firm for more than 20 years speaks not only to her loyalty and dedication, but to the Firm’s strength and vitality). Other changes have occurred due to staff departures or changes in focus (moving from the audit department to the tax department within the Firm).

So while there has been rotation, our focus and commitment to the State has been on maintaining continuity in the key positions. Also, while primary responsibility for the audit will rest with the Reno office, we have included personnel from the Las Vegas office, as well. So it is no surprise that in selecting our proposed audit team for the State, we focused on two primary factors: continuity and balanced hours. Significant upper level involvement in the audit is one of the key features in our audit plan. The Engagement Shareholder will also serve as the Project Manager and will be an integral working part of the audit team. Detailed resumes of the proposed engagement team (supervisors and above) are included in Appendix B and pertinent CPE courses attended by the upper level members of the proposed engagement team are included in Appendix C. The role of Project Manager is such an integral part of the staffing that we have elected to add an Engagement Shareholder/Project Manager “alternate” in our team – a Shareholder from our Las Vegas office, Tamara Miramontes. She is the Engagement Shareholder on some of the Firm’s largest and most challenging clients. She will serve as Engagement Shareholder/Project Manager should the State choose to rotate Shareholder/Project Manager responsibilities during the engagement. Unless the State so chooses, Ms. O’Carroll will serve as Engagement Shareholder/Project Manager.

Total Hours

Engagement Shareholder/Project Manager – Felicia R. O’Carroll:

Engagement Shareholder/Project Manager, Alternate – Tamara Miramontes:

The Engagement Shareholder has the ultimate responsibility for assuring that the audit is performed properly and in a timely fashion. Ms. O’Carroll has been the Engagement Shareholder for the State of Nevada Single Audit engagement since 1998 and as Project Manager since 1994. As an indication of our commitment to the State of Nevada, the Engagement Shareholder will also serve as the Project Manager. The Project Manager will oversee all of the audit activities as required by the Request for Proposal (RFP). She will be responsible for contact with the State and for processing all communications with the Cognizant Agency for the Single Audit. The Project Manager will be present at the exit conference to discuss the draft report with management. The Project Manager will be responsible for the execution of the field work and will coordinate and direct the entire engagement. She will serve as a consultant to the senior staff, supervisors and staff auditors; review the more technical areas of field work; and submit periodic reports on the progress of the audit. Ms. O’Carroll has been the Project Manager for the State of Nevada Single Audit engagements for the past 20 years.

880

Project Staffing and Organization

Total Hours

Engagement Quality Control Review Shareholder – Kristen Burgess:

The role of the Engagement Quality Control Review Shareholder was expanded significantly under the Quality Control Standards issued by the AICPA. Under these standards, the Engagement Quality Control Review Shareholder has the responsibility of providing an independent review of the audit report for its format, content and compliance with required standards of reporting and disclosure. This review also includes discussions with the Engagement Shareholder, review of support for all areas involving auditor judgment and review of selected workpapers.

120

Senior Staff – Dan Carter, Emily Voshall, Debra Clark and Daniel Rushin:

The senior staff will assist the Project Manager in organizing and carrying out the audits. They will maintain contact with the various departments and perform the more difficult and complicated financial and compliance audit functions. They will also be responsible for review of the work product prepared by the supervisors. All four of the senior staff have numerous years of experience auditing the State.

4,600

Supervisors – Kurt Schlicker, James Ripsom, Nielsine Sherk and Jacqueline Flickinger:

The supervisors will assist the Project Manager and senior staff, as necessary, including the supervision of staff auditors. Each compliance supervisor will work as a team in conjunction with one or two staff auditors. All four of the supervisors have previous experience on the State audit.

3,900

Staff Auditors – Alyce Kugler, Thomas O'Carroll, Kira Wirges and Christina Williams:

The staff auditors have the responsibility of professional performance of the work assigned by the supervisors, as detailed by the financial and compliance audit programs. All of the staff auditors have previous experience on the State audit.

6,640

Support Staff:

Support staff are needed for typing of correspondence, the Data Collection Form, Findings and the Single Audit Reports.

160

Resumes of all professional staff (Supervisors and above) are included in Exhibit B.

Total Hours for the Four Year Engagement

16,300

Project Staffing and Organization

Ability to Meet Required Deadlines:

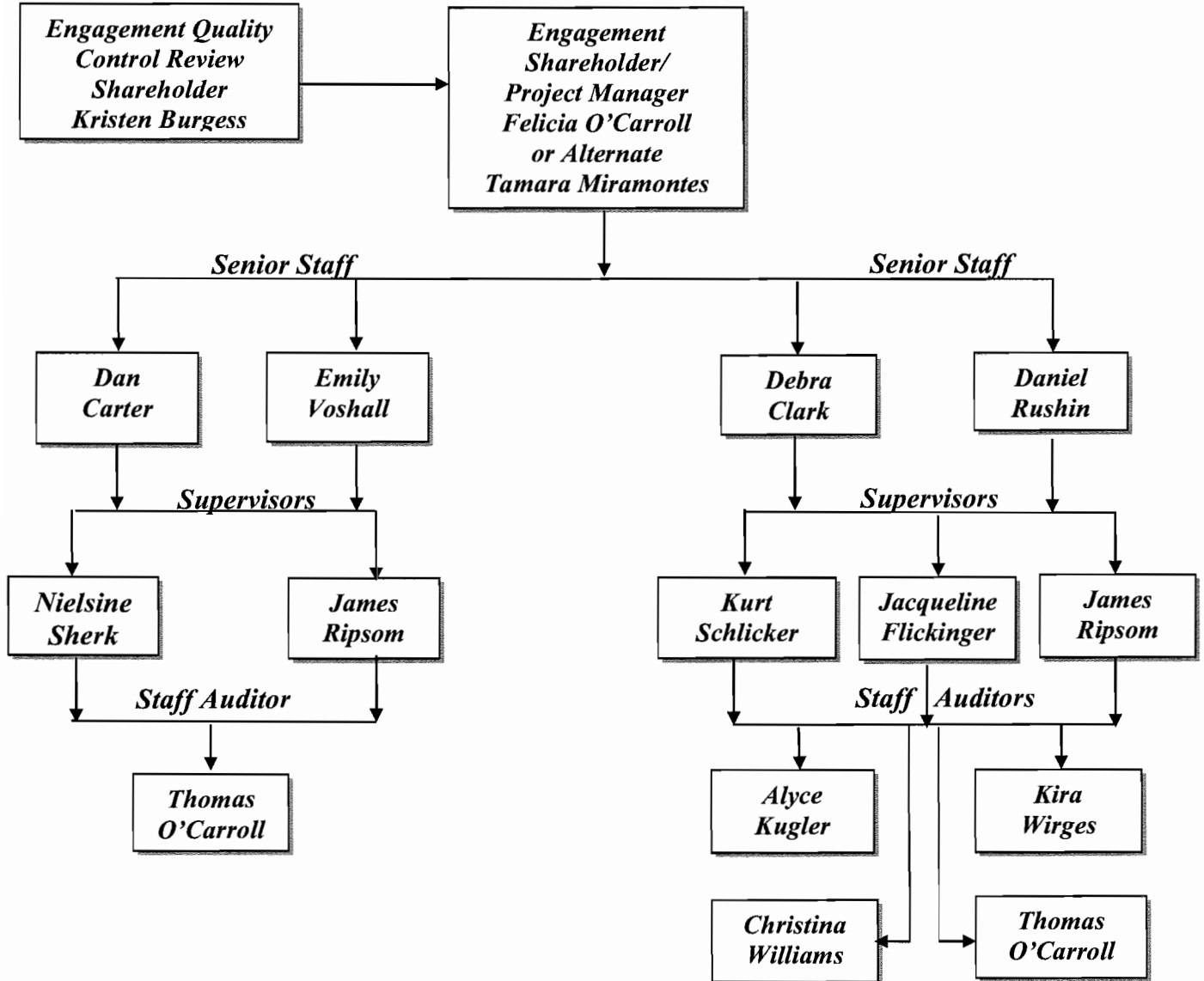
We hereby commit the Firm to meet the deadlines established in the RFP. Our past performance stands as evidence since in each of the twenty prior years we successfully met all required deadlines (except when the reason for not meeting them was outside of our control). We are confident we can meet the deadlines established in the RFP.

Project Staffing and Organization

ORGANIZATION CHART:

Financial Audit

Compliance Audit



Project Staffing and Organization

ASSURANCE OF QUALITY:

This proposal is prepared under the assumption that the key individuals included in the proposal (Shareholders and Senior Staff) will indeed fill the positions and perform the responsibilities related thereto during the audit. We would discuss with the Legislative Counsel Bureau any modifications to this staffing plan as they relate to the key individuals if the need should arise. Tamara Miramontes is provided as an “alternate” Engagement Shareholder/Project Manager should the State request to rotate these positions during the term of the engagement.

Contractor Services Overview/Objectives

We have read and understand the Contractor Services Overview/Objectives as outlined below and have incorporated the pertinent information into the Audit Approach section presented on pages 17 through 26 of this proposal. We understand the objectives to be:

1. Determine and report whether the Basic Financial Statements of the State of Nevada are presented fairly in conformity with generally accepted accounting principles.
2. Determine and report on the supplementary information and required supplementary information included in the Comprehensive Annual Financial Report.
3. Determine and report whether the assessment of the internal control structure made as a part of the examination of the Basic Financial Statements disclosed any significant deficiencies or material weaknesses in the State's accounting system.
4. Determine and report whether the State of Nevada has complied with laws and regulations that may have a material effect on the financial statements.
5. Determine and report whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
6. Determine and report on compliance with laws, regulations and the provisions of contracts or grant agreements which have a direct and material effect on each major program.
7. Determine and report on the implementation status of the recommendations presented in the Single Audit Report of the State of Nevada for the prior year.
8. Any other objectives or reporting requirements as defined by regulations developed pursuant to the Single Audit Act Amendments of 1996 (or its successor).

Contractor Capabilities

BUSINESS ORGANIZATION:

Name and Address:

Kafoury, Armstrong & Co., A Professional Corporation
6140 Plumas Street
Reno, Nevada 89519-6060

Primary Responsibility:

Felicia R. O'Carroll, CPA, MST, Shareholder
6140 Plumas Street
Reno, Nevada 89519-6060
(775) 689-9100

While primary responsibility will rest with the Reno office, Kafoury, Armstrong & Co. is a statewide firm and we plan to use resources from our Las Vegas office, as well.

PEER REVIEW:

Our most recent peer review resulted in a "pass" opinion, the highest level awarded. A copy of this report has been included as Exhibit A.

INDEPENDENCE:

Our firm is satisfied that we fully meet the independence requirements of auditing standards generally accepted in the United States of America and the Government Accountability Office's (GAO) *Government Auditing Standards* to perform the Single Audit of the State of Nevada in accordance with *Government Auditing Standards*. Presented on page 29 is a listing of the contractual relationships that have existed with the State of Nevada over the past five years.

EXPERIENCE OF THE FIRM:

Governmental Experience:

Kafoury, Armstrong & Co. has a leading position in service to the State and local governments in Nevada. Governmental auditing has always been a strong focus for the firm, and we have developed this into our largest niche. Governmental audits comprise 66 percent of our entire audit practice and 34 percent of our total practice (which includes taxes, bookkeeping, and other services, in addition to audit services.) Of the 80 firmwide staff, 44 have government audit experience. As demonstrated below, we have a rich history of performing governmental audits including counties, cities, and special districts, and have six shareholders (partners) with current Nevada government audit experience. Some facts that demonstrate our depth and breadth of expertise are as follows:

- Kafoury, Armstrong & Co. has proven staying power – we have been performing audits for more than 70 years.

Contractor Capabilities

- Kafoury, Armstrong & Co. has performed audits for 13 of the 17 Nevada counties during the past 15 years and currently serves as the auditor for 8 of the 17 Nevada counties.
- Kafoury, Armstrong & Co. has performed 387 of the 1,030 A-133 audits covering Nevada governments over the past 15 years. This equates to 38% of all Nevada government A-133 audits included in the Federal Audit Clearinghouse database and is greater than four times any other CPA firm performing Nevada government A-133 audits during that same time period.
- During 2013, Kafoury, Armstrong & Co.'s governmental audit division logged more than 33,000 hours using 52 professionals to perform audits for our Nevada government clients.

Recent (Last Three Years) Governmental Single Audit Experience and the Percentage of Chargeable Time Spent on Federal Award Audits Only (Does not Include Time to Perform the Financial Audits for the Entities Comprising These Percentages) (Compliance Supervisors and Above):

| | | | |
|-------------------------------|---|----------------------------------|--|
| Felicia R. O'Carroll (27%) | State of Nevada Washoe County Washoe County School District Douglas County Pershing County Regional Transportation Commission Reno-Tahoe Airport Authority | Daniel Rushin (66%) | State of Nevada Clark County Clark County Department of Aviation (McCarran International Airport) City of Las Vegas |
| Tamara Miramontes (14%) | State of Nevada Clark County Clark County School District City of Las Vegas McCarran International Airport | Jacquelyn Flickinger (32%) | State of Nevada Clark County Washoe County |
| Debra Clark (92%) | State of Nevada Washoe County Washoe County School District City of Sparks Douglas County Carson City Reno-Tahoe Airport Authority Regional Transportation Commission | Kurt Schlicker (30%) | State of Nevada Washoe County Douglas County Reno-Tahoe Airport Authority Sierra Fire Protection District |
| James Ripsom (13%) | State of Nevada Washoe County City of Sparks Reno-Tahoe Airport Authority Regional Transportation Commission | | |

Contractor Capabilities

Kafoury, Armstrong & Co. first formally recommended to clients that they consider applying for the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program in the late 1970s. Since then, Reno office personnel performed the financial statement review for Certificate of Achievement purposes on the following audits:

- | | |
|---|-----------------------------------|
| ➤ State of Nevada | ➤ Reno-Tahoe Airport Authority |
| ➤ Washoe County | ➤ City of Fallon |
| ➤ City of Sparks | ➤ Churchill County |
| ➤ Regional Transportation Commission | ➤ Truckee Meadows Water Authority |
| ➤ Reno-Sparks Convention & Visitors Authority | ➤ Clark County |
| ➤ Washoe County School District | ➤ City of Las Vegas |
| ➤ Carson City | ➤ Clark County School District |
| ➤ Henderson District Public Libraries | |

The following is a representative listing of state and local government clients currently or recently (within the last three years) served by our firm as auditors, consultants, or both.

State Government:

- State of Nevada
- Legislative Counsel Bureau
- Local Government Investment Pool
- Nevada Higher Education Tuition Trust Fund
- Department of Education, Training and Rehabilitation (Services to the Blind) (Agreed-Upon Procedures)
- Department of Health and Human Services (Subrecipient Monitoring)
- Nevada Capital Investment Corporation

Local Governments:

Cities

- Las Vegas
- Sparks
- Carlin
- Lovelock
- Elko
- Fernley
- Fallon

Counties

- Washoe
- Clark
- Carson City
- Elko
- Pershing
- Douglas
- Churchill
- Eureka

School Districts

- Washoe County
- Clark County
- Elko County
- Lander County
- Churchill County
- Eureka County

Unincorporated Towns:

- | | |
|----------------|------------|
| ➤ Genoa | ➤ Imlay |
| ➤ Minden | ➤ Jackpot |
| ➤ Gardnerville | ➤ Montello |

Contractor Capabilities

Special Districts (Partial Listing):

- Reno-Tahoe Airport Authority
- Reno-Sparks Convention & Visitors Authority
- Lovelock Meadows Water District
- Regional Transportation Commission
- Truckee Meadows Fire Protection District
- Sierra Fire Protection District
- Churchill County Economic Development Authority
- North Lake Tahoe Fire Protection District
- Clark County Water Reclamation District
- Truckee Meadows Water Authority
- Truckee Meadows Water Reclamation Facility
- Truckee Meadows Regional Planning Agency
- West Wendover Recreation District
- Elko Convention and Visitors Authority
- Southern Nevada Health District
- Central Dispatch Administrative Authority
- Elko Television District
- Elko County Recreation Board
- Henderson District Public Libraries
- Elko Convention & Visitors Authority
- Clark County Department of Aviation
- Incline Village General Improvement District
- Pershing County Tourism Authority
- Clark County Regional Flood Control District

Contractor Capabilities

As noted earlier, Kafoury, Armstrong & Co. has a leading position in service to state and local governments in Nevada. We believe that our clients have benefited from our expertise and our years of experience in dealing effectively with the wide variety of accounting, reporting and information technology issues facing government today.

Our listing of similar engagements emphasizes our experience in auditing Nevada local governments, thereby establishing our familiarity with governmental audit and accounting issues, the Nevada Revised Statutes and the Nevada Administrative Code, and includes engagements performed in each of the past three years. The primary contact is the reference we selected and the pertinent information is provided below.

State of Nevada:

This engagement encompasses the financial and compliance audits of the State of Nevada. The most current audit was performed for the year ended June 30, 2012 (the June 30, 2013 compliance audit is still in progress). The audit involved more than 4,200 staff hours. This engagement is listed as a reference due to its size and complexity. The State of Nevada received the Certificate of Achievement for Excellence in Financial Reporting. Felicia O'Carroll was the Engagement Shareholder, Debbie Clark, Dan Carter, Emily Voshall and Daniel Rushin were senior staff, Kurt Schlicker, James Ripsom, Jacquelyn Flickinger and Nielsine Sherk were supervisors and Alyce Kugler, Kira Wirges, Christina Williams and Thomas O'Carroll were staff auditors. Our contact and reference for this engagement is Paul Townsend, CPA, Legislative Auditor, (775) 684-6815, townsend@lcb.state.nv.us. We have been the external auditors for the State of Nevada for 20 years. The federal awards were generally in the \$4 billion range and the number of major programs over the past five years ranged between 19 (the year of the Pilot Project) and 26.

City of Sparks:

This engagement encompasses the financial and compliance audits of the City of Sparks. The most current audit was performed for the year ended June 30, 2013 and involved more than 1,545 staff hours. Kristen Burgess was the Engagement Shareholder and James Ripsom was a supervisor on the financial and single audit portions of the engagement. This engagement is listed as a reference due to the size of the entity and its complexity. The City of Sparks received the Certificate of Achievement for Excellence in Financial Reporting. Our contact person and reference for this engagement is Mr. Jeff Cronk, CPA, Director of Financial Services, (775) 353-2301, jcronk@cityofsparks.us. The Reno office of Kafoury, Armstrong & Co. has been the external auditors for more than 20 years. Federal awards ranged between \$1.5 million and \$7 million and the number of major programs ranged between two and four.

Washoe County:

This engagement encompasses the financial and compliance audits of Washoe County. The most current audit was performed for the year ended June 30, 2013 and involved more than 1,300 staff hours. Felicia O'Carroll was the Engagement Shareholder, Debbie Clark was the Project Manager for the compliance audit and Kurt Schlicker was the supervisor. This engagement is listed as a reference due to its size and complexity and because the make-up of the engagement team closely mirrors the State's engagement team. Washoe County received the Certificate of Achievement for Excellence in Financial Reporting. Our contact person and reference for this engagement is Ms. Cynthia Washburn, Acting Finance Director/Comptroller, (775) 328-2563, cwashburn@washoecounty.us. We have been the external auditors for more than 50 years. The federal awards were generally in the \$39 million range and the number of major programs over the past five years ranged between six and eight.

Contractor Capabilities

Carson City:

This engagement encompasses the financial and compliance audits of Carson City. The most current audit was performed for the year ended June 30, 2013 and involved more than 1,090 staff hours. Dan Carter was the Engagement Shareholder, Daniel Rushin was the Project Manager for the financial audit and Debbie Clark was the Project Manager on the single audit portion of the engagement. This engagement is listed as a reference due to the size and nature of the entity. Carson City received the Certificate of Achievement for Excellence in Financial Reporting. Our contact person and reference for this engagement is Mr. Nick Providenti, CPA, Finance Director, (775) 283-7143, nprovidenti@carson.org. We have been the external auditors for more than 15 years. The federal awards ranged between \$5 million and \$16 million and the number of major programs ranged between four and nine.

Washoe County School District:

This engagement encompasses the financial and compliance audits of Washoe County School District. The most current audit was performed for the year ended June 30, 2013, and involved more than 1,050 staff hours. Felicia O'Carroll was the Engagement Shareholder and Debbie Clark was one of the Project Managers. This engagement is listed as a reference because of its size and complexity. Washoe County School District received the Certificate of Achievement for Excellence in Financial Reporting. Our contact person and reference for this engagement is Mr. Tom Ciesynski, Chief Financial Officer, (775) 348-0313, tciesynski@washoeschools.net. We have been the external auditors for 21 years. The federal awards ranged between \$57 million and \$64 million and the number of major programs ranged between four and six.

AUDIT APPROACH:

We have customized our audit procedures to ensure our clients have first-hand experience of our commitment to provide the most efficient and timely service, as well as provide constructive information for future success. Our goals are to provide the State with the kind of attention that will result in early detection and identification of problems and assist in developing a plan to solve them. We also strive to maintain open communication allowing for continual brainstorming of ideas between the State and the audit team.

Our audit plan includes a full description of the course we will take to accomplish the job. Our experience auditing the State over the past twenty years and our familiarity with GASB pronouncements in effect and on the horizon provide reliable tools for developing that plan. We may make minor modifications to the timing of the audit based on discussions with various department personnel prior to commencing the engagement, but will be sure to communicate these changes when appropriate. As you know, it's advantageous to all individuals involved that there be as little disruption as possible to the daily operations of the State. With our unparalleled commitment to provide quality staff, we are confident we can achieve this goal.

Contractor Capabilities

You can expect a progress report each quarter and monthly progress billings to be delivered each month (if significant audit work was performed) to the Legislative Auditor, from the date of the award until each final report has been delivered. Included in the quarterly progress reports will be a detailed description of work completed, work remaining, the hours incurred to date and a statement as to whether the audit is proceeding on schedule in a timely fashion. By April 30 each year, a recap of hours by major program will be submitted to the Legislative Auditor.

Sample Selection and Analytical Procedures:

Statistical sampling is used when it is determined to be the most economic and efficient method of testing transactions or account balances. Our sample selection methods are designed to ensure that all transactions in the population of items to be tested have an equal chance of being selected. The sample size determination is a direct function of the population being tested and the objectives of the audit test. As a result, sampling methods and sample sizes are unable to be determined at this time. As a general guideline, and in accordance with the AICPA Audit Guide on Sampling, when populations being tested are more than 250, our sample sizes will generally be 25, 40 or 60 depending on a variety of factors. For small populations (less than 250), we will select 10%. We generally perform dual purposes tests (internal control and compliance) whenever practical.

Analytical procedures are used during the various phases of the audit cycle. To summarize, analytical procedures are used:

- During the initial risk assessment phases to assist in planning the nature, timing and extent of other auditing procedures. (Required by auditing standards)
- As a substantive test to obtain evidential matter about particular assertions related to account balances or classes of transactions. (Optional, but used on this engagement)
- As an overall review of the financial information in the final review stage of the audit. (Required by auditing standards)

The tools utilized for analytical procedures include industry ratios, prior years' financial information, the current year budget, current and prior staffing levels, multi-year rate adjustments and ratios of related expenses. These tools allow us to analyze trends over time, as well as to compare actual results to expected results. Key ratios specific to the State are also developed and analyzed as a by-product of the analytical procedures described above. We will also utilize our preferred Data Extraction Software, IDEA, when advantageous. In the past, we have also used a Legislative Counsel Bureau employee to assist with sample selection and, if acceptable, will continue to do so.

Contractor Capabilities

An analysis of the hours by person for the 2014 audit follows:

Financial Audit:

Advance Planning and Continuing Audit Management – May (O’Carroll, F.-4, Carter-4, Voshall-4):

As we develop the plan for the audit, we involve all members of the audit team. However, the primary responsibility lies with the Engagement Shareholder/Project Manager and the Senior Staff. We will begin the risk assessments to assist us in understanding internal and external factors, which will help us anticipate and assess any organizational risk. At this time, we will work with management to finalize an audit timeline that will set forth critical dates and benchmarks to be met by both management and Kafoury, Armstrong & Co. in order to meet the required deadlines in the RFP.

Evaluation of Internal Controls and Risk Assessment, including Walk-Throughs and Internal Control Testing – April – June – (O’Carroll, F.-4, Voshall-8, Sherk-10, Ripsom-10, O’ Carroll, T.-20):

During this preliminary stage of the audit, we will update our in-depth understanding of the operations of the State and its environment, including its internal control. Our focus will be on updating our knowledge to a level sufficient to identify **the risks of material misstatement of the financial statements** and design the nature, timing and extent of further audit procedures.

We will perform walkthroughs of significant audit areas, select areas where internal control testing is deemed beneficial, perform internal control testing and summarize the results of the walkthroughs and testing.

We will focus on matters that could cause material misstatement of the financial statements and we will gather information to identify risks of material misstatement. Information will be gathered from a variety of sources and will likely include procedures such as:

- Inquiries of management and others (including required fraud inquiries)
- Observation and inspection
- Identification of fraud risk factors

Our work will also entail:

- Discussion among engagement team members
- Preliminary analytical review
- Other planning procedures

Some of the specific risk factors we will consider are:

- Since the State relies heavily on income from specific sources (such as gaming taxes, sales taxes, and Federal grant awards), how likely is it that these sources might be negatively impacted by internal and external forces (such as due to the poor economy)? How does management address this type of risk?
- Are bond rating agencies considering down-grading the State's bond rating? What strategy would the State employ to address this?

Contractor Capabilities

- Have there been changes in the terms or volume of the State's Federal awards (for example, are the awards suddenly for shorter terms or are the awards being phased out)? Is there a plan in place to respond to this?
- What were the results of grantor agency reviews, if any, that were conducted in the past year?

Our evaluation of internal control will begin with the documentation provided and updated by the State in the past and our assessment of that information. We will review the results of our prior walkthroughs and testing of the key controls and compare it to our internal control testing for the current year.

A benefit to the State in having Kafoury, Armstrong & Co. perform the audit is that preliminary work will take a minimum amount of time. Due to our prior history auditing the State, we already know much of the pertinent information needed to assess the questions above. Our knowledge of the State means less time will be spent updating our permanent records on internal controls and control procedures.

Completing the Risk Assessments, including IT Assessment – May – July (O'Carroll, F.-4, Carter-20, Voshall-10, Sherk-20, Ripsom-22, O' Carroll, T.-20):

We will update our understanding of the State's IT systems through inquiry of the State's IT personnel to ensure our understanding of how data and transactions are initiated, recorded, processed, and reported has not changed. We will inspect systems documentation; observe the operation of IT controls; and plan and perform tests of IT controls, if deemed appropriate.

While not specifically designed to identify weaknesses, our procedures will address areas that subject the State's internal control systems to potential risk, such as:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions.
- Unauthorized changes to data in master files.
- Unauthorized changes to systems or programs.
- Failure to make necessary changes to systems or programs.
- Inappropriate manual intervention.
- Potential loss of data.

The IT evaluation will be performed to ensure our understanding of the system is current and will be used to:

- Identify types of potential misstatement
- Design tests of controls
- Design substantive tests

Contractor Capabilities

Analyzing the Risks and Developing the Audit Programs – June – July (Voshall-4, Sherk-8)

Analyzing the information gathered during the performance of risk assessment and other planning procedures allows us to identify risks that might be associated with seemingly unrelated information. To analyze the information and identify risks, auditors consider the information in the context of:

- The type of risk (that is, whether it relates to error or fraud)
- The pervasiveness of the risk
- What can go wrong at the relevant assertion level

After the information is analyzed and the risks of material misstatement are identified, the likelihood of the risks resulting in material misstatement is then assessed. Both **qualitative** and **quantitative** measures of materiality are considered at this stage. Once these have been identified, we develop the audit program and tailor it to address the risks and the factors to mitigate those risks.

Steps will be incorporated to address the special needs of the State, particularly in the areas most affected by any new GASB pronouncements. (GASB Nos. 65, 67 and 68 become effective during the years covered by the RFP).

Interim Testing and Preliminary Work to be performed On-Site – May – November – (O'Carroll, F.-8, Carter-20, Voshall-30, Sherk-15, Ripsom-15, Flickinger-15, O' Carroll, T.-48):

Internal control testing supports our conclusions about the internal controls on which we intend to rely. This testing covers the following areas:

- Cash receipts
- Cash disbursements
- Payroll and personnel
- Infrastructure capitalization*

*The control testing over this area will focus on the procedures in place to identify additions that increase capacity. These are the only capital outlay expenditures that can be capitalized under the Modified Approach to reporting infrastructure, which was elected by the State. We will also review the most current road/bridge condition assessment to ensure it falls within the parameters deemed acceptable by the State.

Inherent to the systems of internal control at the State of Nevada are the Nevada Revised Statutes, the Nevada Administrative Code, and various internal policies and procedures. During our control testing, we examine transactions to assure proper observance of these internally and externally mandated fiscal requirements.

We will correspond with the auditors for the various components and separately audited funds of the State (under the requirements of the Group Audit Standards) to ensure they are aware of what we will need at year-end to complete the financial audit process in a timely manner and we will obtain the required certifications as to their independence with regard to the State and whether they will perform their audit(s) in accordance with Government Auditing Standards.

Contractor Capabilities

In addition, we will revisit the preliminary analytical review procedures performed during the risk assessment phase, if warranted. As defined by AU Section 329, and as noted earlier, analytical procedures are **required** in both the planning and overall review stages of an audit. They may also be used as a substantive test of account balances. Preliminary analytical review is conducted for the purpose of assisting in planning the nature, timing and extent of our auditing procedures. These analytical procedures help our staff in enhancing their understanding of the State's operations, transactions, and events that have occurred since the previous audit. They also help us identify any areas that could present specific risks relevant to the audit. These preliminary analytical procedures will primarily consist of reviewing changes in account balances from the prior year, analyzing multi-year trends in account balances and meeting with various departments, when appropriate.

Final Field Work and Review of Financial Statements to be performed On-Site – November – December – (O'Carroll, F.-35, Carter-70, Voshall-160, Ripsom-100, Sherk-120, Flickinger-100, O'Carroll, T.-160):

Final fieldwork consists primarily of substantive testing and documentation of balances and other information presented in the financial statements. Analytical procedures will be used to compare actual results with expected results. We will build additional time into the schedule for the implementation of GASB 65 in 2014 and GASB 68 in 2015. These two standards will have an impact on the State's governmental accounting and auditing in the future, as more fully explained in the Additional Information provided at the end of this section. Throughout this time, the senior staff will be on-site each day to maintain contact with the various departments and perform the more difficult and complicated financial functions. The Project Manager will be on-site periodically during this time to assist with the more technical areas of fieldwork, as well as, review the work of the managers and review and approve the opinions and correspond with the Engagement Quality Control Review Shareholder. As in the past twenty years, we will work closely with the Controller's staff to ensure a report that continues to be worthy of submission to the Certificate of Achievement Program.

The timing of final fieldwork for the State's financial audit is to a large extent dependent on the timetable established by the Controller's office. Final fieldwork will be accomplished under the following approach:

- Several large audit areas are susceptible to cross-fund testing such as cash and investments, interest receivable, accounts payable, contracts and retentions payable and accrued payroll. Testing of these areas will begin in mid-to-late November, but cannot be completed until the Basic Financial Statements are drafted.
- We will perform a preliminary test of the State's determination of major funds. Testing at the major fund level can commence once all of the material adjustments have been posted to a particular major fund. Depending on the fund, completion will likely range anywhere from a few days to two weeks prior to the issue deadline. If necessary, we will audit from the fund files, prepared by the Controller's staff, while the financial statement drafts are still in process.
- The funds and components audited by other auditors must be integrated into the financial statements and notes. The timing of this phase is dependent on the release dates of the other audits, but typically falls near the deadline. We will test the majority of the integration as soon as final statements are provided.

Contractor Capabilities

- Testing of the aggregated nonmajor funds, fiduciary funds and internal service funds can commence once all of these funds, including those audited by others, are completed.
- Once all of the funds are complete, we will perform a final test of the State's determination of major funds.
- The government-wide financial statements, the reconciliations to the fund financial statements to the government-wide financial statements, required supplementary information (RSI), and the notes to the financial statements are, by necessity, the last financial areas finalized and submitted for audit. Once these are complete, the MD&A can be completed and it will be subjected to the limited procedures specified in the auditing standards. The statistical section and the transmittal letter will be crosschecked for consistency with the Basic Financial Statements.
- The auditor's reports will be drafted and provided to the Legislative Counsel Bureau for review by the third Wednesday in December and then submitted in final form by the third Friday in December.

We will ensure that we have adequate staffing to complete our work in a timely fashion and deliver four copies of our opinion on the State of Nevada's Comprehensive Annual Financial Report (addressed to the Controller) to the Legislative Auditor by the third Friday in December. We will also provide four opinions covering only the Basic Financial Statements for use in bond official statements and four reports on compliance and on internal control over financial reporting based on the audit of the State's financial statements (addressed to the Legislative Auditor) on the third Friday in December. In addition, we will provide draft copies of those reports 2 days before the final reports are delivered.

Compliance Audit:

Compliance Audit Planning – July – October – (160 Hours/Year) – (Clark-120, Rushin-40):

We have developed a methodology custom tailored for the State for applying the risk-based approach to identifying major programs, mandated by OMB Circular A-133. This approach, however, will be modified in years containing ARRA funding to incorporate the specific provisions required by ARRA. Our approach begins with consultation with the Legislative Counsel Bureau (LCB) as to any correspondence from the cognizant agency or other Federal Agencies relative to the selection of programs. We will obtain the preliminary Schedule of Expenditures of Federal Awards (SEFA) from the Controller's office.

From this preliminary SEFA, a calculation will be made to define the threshold for determining Type A and Type B programs. The threshold for Type A programs will be the greater of \$3,000,000 or .3% of total federal expenditures (approximately \$14,300,000 for the year ended June 30, 2012). All federal programs other than Type A programs will be classified as Type B programs.

As Kafoury, Armstrong & Co. would not qualify as a new auditor under the change of auditors concept, the risk approach to identifying major programs will be required. As such, risk assessments will be performed on all Type A programs. Factors such as prior audit experience, size of program, federal oversight, receipt of ARRA funding and complexity of compliance requirements will be evaluated. In addition, OMB Circular A-133 stipulates that in order for a Type A program to be determined low risk, it must have been audited as a major program in its present form in at least one of the two most recent audit periods and have had no findings that would be categorized as significant deficiencies or material weaknesses. All Type A programs assessed as high risk will be audited as major programs.

Contractor Capabilities

Type B programs will then be analyzed. Risk assessments will be performed to identify high-risk Type B programs. As a general rule, one of two methods will be used to replace low risk Type A programs with high-risk Type B programs. Low risk Type A programs can be replaced one-for-one with high-risk Type B programs or one-half of the high-risk Type B programs (one quarter in 2016 and 2017) can be audited in place of the low risk Type A programs. The specific option used will depend on the number and stratification of Type B programs and will be based on our experience with this process during the State's compliance audits under OMB Circular A-133. In assessing which of the Type B programs are high risk, consideration will be given to the higher dollar programs. In addition to these procedures, we will check the most recent OMB Compliance Supplement.

Based on our experience over the past twenty years, a minimum of seven versions of the SEFA can be expected. We must update our major program selection parameters with each revised SEFA. The final determination of major programs will be evaluated to ensure the required level of coverage is achieved. For the year ending June 30, 2014, the State will be a high risk auditee and 50% (by dollar) of the Federal awards will need to be audited.

Compliance Audit Testing – June – February – (Clark-300, Rushin-300, Schlicker-200, Flickinger-100, Ripsom-200, O'Carroll, T.-342, Wirges-350, Kugler-360, Williams-360):

Once a program has been determined to be a major program, the process of auditing the program begins. The following procedures are performed:

- We contact the individual responsible for administering the program and schedule an entrance conference.
- We obtain the compliance supplement for the program, if one has been issued. If a compliance supplement has not been issued, we obtain relevant grant information from the Catalog of Federal Domestic Assistance, the Notice of Grant Award, and other pertinent grant documents.
- Based on the information provided in the entrance conference, the compliance supplement, and the grant documents, we develop our understanding of the purpose and restrictions of the grant and prepare a Program Overview narrative.
- As part of the Program Overview, we determine which of the fourteen compliance requirements are applicable to the grant. For the applicable requirements, we determine if they are "direct and material" to the grant. This is a subjective determination that requires the auditor to assess the likelihood that noncompliance with the requirement would result in a questioned cost or in the grantor taking action against the State. In 2016 and 2017, the number of compliance requirements will be reduced.
- For those compliance requirements deemed direct and material, we evaluate the internal control procedures in place to ensure compliance. We must plan our testing of the internal control procedures to support a low level of control risk. Internal control testing is most often accomplished through a combination of sampling, observation and inquiry. We also test the three ARRA "special tests", if applicable.
- In conjunction with our internal control testing, we test the State's compliance with those requirements deemed direct and material. Our compliance tests must provide us with sufficient evidential matter to document that the State materially complied with the compliance requirements applicable to each major program.

Contractor Capabilities

- For compliance requirements A and B (Activities Allowed and Allowable Costs), we rely in part on the internal control testing performed during the financial audit. Testing over the CMIA process, compliance requirements C (Cash Management), H (Period of Availability) and part of compliance requirements I (Suspension and Debarment) and L (Reporting) are tested for the State as a whole.
- Once the testing phase is complete, we assess the degree of any noncompliance and the adequacy of internal controls. If the noncompliance is material in relation to a compliance requirement or the internal controls are not adequate to ensure compliance, a finding is reported in the Schedule of Findings and Questioned Costs. If the finding relates to internal control, it will be classified as either a significant deficiency or a material weakness, depending on the severity of the finding. If the finding is compliance in nature, it will generally be accompanied by a questioned cost. If the noncompliance is not material, it will be considered as "Other Matters" and will be included in the OMB Circular A-133 report as a compliance finding. If material noncompliance is noted, it will likely result in a modified report over the specific compliance requirement and program that experienced the noncompliance.

Single Audit Report – February – (O'Carroll, F.-20, Clark-100, Rushin-60, Schlicker-20, Ripsom-20):

Testing will be completed on the federal awards expended by the State, and four copies of the Single Audit Report and one copy of the Data Collection Form will be presented in draft form to the Legislative Auditor by February 28 of each year.

After the draft report is reviewed by the Legislative Auditor and/or his designees, we will schedule exit interviews with the appropriate departments.

Quality Control Review (Financial) – December (Burgess-15); (Compliance) – February – (Burgess-15):

The financial statements of the State will be reviewed by a shareholder independent of the fieldwork. This shareholder is particularly skilled in the financial reporting requirements of governmental entities and will ensure the financial statements comply with standards of presentation and disclosure. She has 19 years experience working on the State of Nevada audit and has an exceptional understanding of what needs to be accomplished through the Quality Control Review process. As noted earlier, these procedures have been expanded under the AICPA's quality control standards to include required communication with the Engagement Shareholder regarding all areas involving auditor judgment and review of certain workpapers.

Typing and Reproduction:

The State will type and reproduce the Comprehensive Annual Financial Report.

Single Audit Report Finalization – March – (O'Carroll, F.-20, Clark-20, Staff-40):

The Single Audit Report will be finalized and 10 copies will be delivered to the Legislative Auditor by the third Friday in March. In addition, print ready PDF versions of the Single Audit Report will be sent to the Legislative Auditor by the third Friday in March. We will also provide final document accessible through the Federal Audit Clearinghouse

Contractor Capabilities

Exit Conference (Financial and Compliance) – December – (O’Carroll, F.-2, Carter-1, Voshall-2):

We will review the results of the audit process with the Legislative Auditor and members of the Controller’s staff, if warranted.

UNDERSTANDING OF THE LEGISLATIVE AUDITOR’S ROLE:

It is our understanding that the Legislative Auditor will review and provide written acceptance of each year’s report. The Legislative Auditor will provide payment, perform a desk review of the final reports, and perform a field review of our working papers. The Legislative Auditor or his representative will attend all entrance and exit conferences held with State of Nevada employees.

ADDITIONAL INFORMATION:

Commitment to Quality:

Kafoury, Armstrong & Co. began with the strong belief that superior quality service was the only foundation on which to build. Consistent with this commitment, the Firm has elected to participate in and conform to the requirements of the Private Companies Practice Section of the American Institute of Certified Public Accountants, an external quality control review program. The Firm’s initial peer review under the supervision of the SEC Practice Section Division of Firms was concluded in December 1979 and resulted in an unqualified opinion that our system of quality control met the established standards of our profession. Since that initial review, Kafoury, Armstrong & Co. has had twelve additional peer reviews, the most recent in May of 2013, all of which resulted in “clean” or “pass” opinions. A copy of our latest peer review opinion is included as Exhibit A.

Kafoury, Armstrong & Co. joined the AICPA’s Governmental Audit Quality Center (the Center) in 2008, and did so to gain access to comprehensive resources that assist us in further enhancing the quality of our governmental and nonprofit audit practice. The Center membership provides us timely information on a variety of technical, legislative and regulatory subjects that we in turn apply to our audit practice to help ensure compliance with the appropriate standards and changes in regulations.

By joining the Center, we have committed to adhering to the highest quality standards by voluntarily agreeing to the Center membership requirements, which include designating a partner responsible for the quality of our governmental audit practice, establishing quality control programs, performing annual internal inspection procedures, and making our peer review report findings publicly available.

The Center membership allows us to continue our quality initiatives within our governmental audit practice and demonstrates our continued commitment to deliver the most efficient quality audit possible.

During the past twenty years, Kafoury, Armstrong & Co. has had their working papers for the State of Nevada reviewed by representatives of the U.S. Departments of Education, Health and Human Services, Transportation, Interior and Agriculture. None of these reviews have required any additional audit procedures to be performed nor any modifications to an issued report.

Contractor Capabilities

Kafoury, Armstrong & Co. has no record of substandard work with the State Board of Accountancy or the American Institute of Certified Public Accountants (AICPA). In addition, Kafoury, Armstrong & Co. has not had any disciplinary actions imposed upon it by the AICPA, State Society or the SEC. While we do not believe there are any pending actions that will impact Kafoury, Armstrong & Co.'s license status in the future or the license status of any of the key personnel listed in this proposal, there is one pending action with the Nevada State Board of Accountancy we believe we should disclose in order to ensure full transparency. The matter is related to Lakeside Mortgage Company, a subsidiary of Kafoury, Armstrong & Co. that has been effectively inactive since 2009. We are confident that the outcome will have no bearing on our ability to perform the requested services as outlined in your Request for Proposal. Should additional information be required, we would be happy to provide it.

Certificate of Achievement Experience:

The proposed Engagement Shareholder/Project Manager and one of the Senior Staff have served as reviewers for the Certificate of Achievement Program for Excellence in Financial Reporting. In addition, our firm has assisted many entities seeking (and receiving) the Certificate.

Equal Opportunity:

Kafoury, Armstrong & Co. is committed to equal opportunity. We recruit, employ and promote without regard to race, color, religion, sex, national origin, citizenship, veteran status, age, physical disability, or any other consideration made unlawful by federal, state and local laws. We believe strongly in supporting our local community. As such, we recruit and employ, whenever possible, from the talented graduate pool of the University of Nevada and other local institutions.

Professional Associations:

Kafoury, Armstrong & Co. is a member of the Leading Edge Alliance, an association of approximately 190 independent certified public accounting firms with offices in major cities in the United States, as well as, internationally. The Leading Edge Alliance was developed to share expertise and information among member firms to enable each firm to become more efficient and better able to serve its clients. The Leading Edge Alliance provides high quality seminars and training programs in addition to a global network of experts on which a member firm can draw.

Implementation of GASB Statements:

Our ongoing experience and multitude of governmental clients requires that all our governmental auditors be familiar with all Governmental Accounting Standards Board (GASB) pronouncements and be prepared to implement those pronouncements. We will be prepared to provide guidance to the State in implementing new reporting standards, although our involvement can only be advisory. All of these new standards will be implemented in the years ending June 30, 2014 and/or June 30, 2015.

Governmental Accounting Standards Board Statement No. 65 (GASB No. 65), *Items Previously Reported as Assets and Liabilities*, will be required to be implemented during the year ending June 30, 2014. This standard further defines Deferred Inflows and Deferred Outflows, which were first introduced to the State through GASB No. 63, implemented in the year ended June 30, 2013. Our preliminary analysis is that it will impact the State.

Contractor Capabilities

GASB No. 67, *Financial Reporting for Pension Plans*, will be required to be implemented by Public Employees' Retirement System (PERS) during the year ending June 30, 2014. This GASB sets forth standards to improve financial reporting by state and local governmental pension plans. This statement will have a significant impact on PERS and the PERS audit.

GASB No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27*, will be first effective for the year ending June 30, 2015. This GASB sets forth standards for reporting the unfunded pension liability of PERS on the Statements of Net Position of states and local governments. It is a far-reaching standard and implementation guidance has just recently been released. In addition, GASB No. 68 does not provide guidance as to how the allocation of the unfunded pension liability should be calculated, nor does it provide for who should prepare the allocation. In Nevada, the most expedient course of action would be to request the PERS' auditors to prepare the allocation and issue an "audit" or "attest" opinion on the allocation. However, there is no funding provided to PERS to pay for such an exercise, so payment would need to come from the state and local governments that participate in PERS on some type of pro-rata basis. Questions such as which actuarial valuation of PERS would be used, what the allocation base would be, how much information would be provided to the state and local governments or their auditors, what the cost would be, and what type of opinion or report would accompany the information are yet to be answered. For this reason, it is not possible to quote a fee for implementation of this standard. A general estimate based on what we currently know is included in the separate Cost Proposal.

Conflict of Interest

Kafoury, Armstrong & Co. is or has been a party to the following existing contractual relationships with the State of Nevada (Last Five Years):

Reno Office:

Kafoury, Armstrong & Co. has audited the following in each of the past five years:

- State of Nevada
- Nevada Higher Education Tuition Trust Fund
- Legislative Counsel Bureau

Kafoury, Armstrong & Co. performed Agreed-Upon Procedures on the following in each of the past five years:

- Local Government Investment Pool

Kafoury, Armstrong & Co. audited the following for the year ended June 30, 2013:

- Nevada Capital Investment Corporation

Las Vegas Office:

Kafoury, Armstrong & Co. has performed Agreed-Upon Procedures for the Department of Employment, Training and Rehabilitation (Services to the Blind) in each of the past five years.

Fallon Office:

Kafoury, Armstrong & Co. has performed Agreed-Upon Procedures related to subrecipient monitoring for the Department of Health & Human Services in each of the past five years.

▲ ▲ ▲ ▲ ▲

We believe none of the above represents a conflict of interest as it relates to the State of Nevada Single Audit.

Exhibit A

PEER REVIEW OPINION



KADURY, ARMSTRONG & CO.

System Review Report

To the Shareholders of
Kafoury, Armstrong & Co.
And the Nevada CPA Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Kafoury, Armstrong & Co. (the firm) in effect for the year ended December 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans

In our opinion, the system of quality control for the accounting and auditing practice of Kafoury, Armstrong & Co., in effect for the year ended December 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Kafoury, Armstrong & Co. has received a rating of *pass*.

Postlethwaite - Netterville

Baton Rouge, Louisiana
May 23, 2013

Exhibit B

RESUMES



KAPDURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration
University of Nevada, Reno
Masters of Science in Taxation,
Golden Gate University

EXPERIENCE 38 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 20 years

OVERVIEW

Felicia is the Managing Shareholder of the Reno office whose practice includes many of Kafoury, Armstrong & Co.'s largest governmental audit clients. She has served as a member of the Special Review Committee of the Government Finance Officers Association and is a frequent presenter at Government Conferences sponsored by Kafoury, Armstrong & Co.

As the Project Manager, Felicia will be responsible for assuring that the audit is performed properly and in a timely fashion. She will serve as a consultant to the engagement team, review the more technical areas of fieldwork and obtain and review periodic reports on the audit process. She has primary responsibility for the review of work papers and for the opinions and reports issued. She will be present at the entrance, progress, and exit conferences and will be on-site or available during fieldwork. She is known for her diligence in maintaining high standards for work produced during an audit.

Following is a partial listing of audit engagements for which Felicia has been the Engagement Shareholder:

- State of Nevada Financial and Compliance Audits
- Douglas County
- Washoe County
- Washoe County School District
- Reno-Tahoe Airport Authority
- North Lake Tahoe Fire Protection District
- South Truckee Meadows General Improvement District
- Pershing County
- Reno-Sparks Convention and Visitors Authority
- Regional Transportation Commission
- Legislative Counsel Bureau

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs
- Government Finance Officers Association
- Association of Government Accountants



KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration
University of Nevada, Reno

EXPERIENCE 19 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 5 years



OVERVIEW

Tamara is the Managing Shareholder of the Las Vegas office and has been with the firm for more than 19 years. Tamara has devoted the majority of her time to auditing and has specialized in government and nonprofit entities. She serves as a firmwide industry expert for nonprofit organizations as well as government agencies. In this capacity, Tamara has served as the Engagement Quality Control Reviewer for 40 engagements during the past three years. Additionally, she serves as the firm's Designated Audit Shareholder for the AICPA's Governmental Audit Quality Center. Tamara heads up the governmental and nonprofit practice for the Las Vegas office.

Following is a partial listing of audit engagements for which Tamara has served as the Engagement Shareholder:

- City of Las Vegas
- City of Las Vegas Redevelopment Agency
- Clark County Department of Aviation
- Clark County Regional Flood Control District
- Clark County School District
- Clark County Water Reclamation District
- Clark County
- Las Vegas Convention & Visitors Authority
- Regional Transportation Commission of Southern Nevada
- Southern Nevada Health District

MEMBERSHIPS

- AICPA
- Nevada Society of CPA's



KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration
California State University, Northridge

EXPERIENCE 19 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 19 years



OVERVIEW

Kristen is a Shareholder in the Reno office and devotes the majority of her time to auditing, specializing in government entities and employee benefit plans. She heads up the employee benefit plan practice for the Firm and is actively involved in the audits of the Reno Office's governmental clients.

Kristen is a member of the Firm's Accounting Practices Committee (APC), with specific APC responsibility for the Firm's Quality Control policies and procedures. Kristen will be responsible for providing an independent review of the final draft of the audit reports and financial statements for format, content, and compliance with required standards of reporting and disclosure. The Engagement Quality Control Review is performed by someone denoted in the Firm as an "expert" in the industry and is performed after all fieldwork and financial statement work has been completed. In addition, it is anticipated Kristen will be actively involved firm-wide with the upcoming implementation of GASB's new pension standards given her expertise in the employee benefit plan arena.

Following is a partial listing of audit engagements for which Kristen has served as the Engagement Shareholder:

- Carson City
- Churchill County
- City of Sparks
- State of Nevada Higher Education Tuition Trust Fund
- Truckee Meadows Regional Planning Agency
- Truckee Meadows Water Authority
- Truckee Meadows Water Reclamation Facility
- TMWA OPEB Trust
- Teachers Health Trust
- Retiree Health Trust

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs
- Government Finance Officers Association
- Association of Government Accountants



KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Agricultural Business,
 Cal Poly State University,
 San Luis Obispo, California
 Master of Accountancy,
 University of Nevada, Reno

EXPERIENCE 11 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 11 years

OVERVIEW

Dan is the Firm's newest Shareholder. He works out of our Reno office and has spent the past 11 years developing his expertise in the area of governmental audits. Dan serves as a member of the Special Review Committee of the Government Finance Officers Association and has presented at Nevada Government Finance Officers Association Annual Conferences and the Association of Governmental Accountants Professional Development Conference.

Dan will assist the other Senior Staff with the difficult areas of the financial audit and help coordinate the Supervisors and Staff Auditors. Dan will also assist with the review of the more technical areas of fieldwork.

Following is a partial listing of audit engagements Dan is the Engagement Shareholder:

- Carson City
- Henderson District Public Libraries
- Nevada Higher Education Tuition Trust Fund
- Nevada Capital Investment Corporation

In addition, Dan previously served as the Senior Staff on the following audit engagements:

- State of Nevada Financial Audit
- Washoe County
- City of Sparks
- Legislative Counsel Bureau
- Reno-Sparks Convention & Visitors Authority
- Truckee Meadows Fire Protection District
- Truckee Meadows Regional Planning Agency
- Truckee Meadows Water Reclamation Facility
- Sierra Fire Protection District
- Washoe County OPEB Trust

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs



KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration,
University of Nevada, Reno

EXPERIENCE 15 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 15 years



OVERVIEW

Debbie is a Senior Manager in the Reno office who specializes in governmental clients. Debbie's auditing experience with *Government Auditing Standards* and OMB Circular A-133 (single audit) engagements includes a variety of roles and she is considered one of the Firm's experts in this area. Debbie will be responsible for coordinating the single audit and will be responsible for communications with the Controller's office relative to the Schedule of Expenditures of Federal Awards and the Cash Management Improvement Act (CMIA) process.

Following is a partial listing of single audit engagements for which Debbie has served as a Senior Staff:

- State of Nevada Compliance Audit
- Douglas County
- Washoe County
- Churchill County
- Reno-Tahoe Airport Authority
- City of Sparks
- Washoe County School District
- Regional Transportation Commission
- Carson City

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs



KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration
University of Nevada, Reno

EXPERIENCE 8 years of public accounting experience
6 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 6 years

**OVERVIEW**

Daniel Rushin is a Senior Manager in the Reno office who rejoined Kafoury, Armstrong & Co. in the spring of 2012 after a few years working as a controller with two nonprofit organizations. Previously, he was a senior audit manager with the Firm and has worked in both our Reno and Las Vegas offices. He will assist with the Single Audit and coordinate the large major program audits. His experience includes government auditing and nonprofit organizations. He has served as Senior Staff for many of our financial and compliance audits.

Following is a partial listing of audit engagements for which Daniel has served as a Senior Staff:

- State of Nevada Compliance Audit
- City of Las Vegas, Nevada
- City of Las Vegas Redevelopment Agency
- Clark County School District
- Washoe County School District
- Tahoe Regional Planning Agency
- City of Lovelock
- Reno-Sparks Convention & Visitors Authority

MEMBERSHIPS

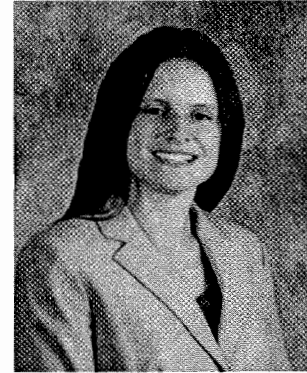
- AICPA
- Nevada Society of CPAs
- Arizona Society of CPAs



EDUCATION: B.S. Business Administration.
Wayne State College, Nebraska
Masters of Accountancy,
University of Nevada, Reno

EXPERIENCE: 7 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 7 years



OVERVIEW

Emily is a Manager in the Reno office who works primarily on governmental audit clients and tax returns. Emily will be assigned to the financial audit full time. Emily will perform the more difficult areas of the financial audit and will coordinate the work of the Supervisors and Staff Auditors. Emily will be responsible for communications with the Controller's office relative to the financial audit.

Following is a partial listing of audit engagements for which Emily has served as a Senior Staff:

- State of Nevada Financial Audit
- Regional Transportation Commission
- Washoe County
- North Lake Tahoe Fire Protection District
- Douglas County
- NV Energy Employee Benefit Plans
- Northern Nevada Trust Funds

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs

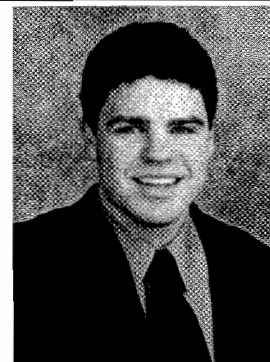


KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration,
University of Nevada, Reno

EXPERIENCE 6 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 4 years



OVERVIEW

James is a Senior Accountant in the Reno office. James will be assigned to the both the financial audit and single audit. He will perform the more difficult areas of the financial audit and single audit, while coordinating the work of the Staff. James will perform portions of the risk assessment, perform the audit work over capital assets and infrastructure, and review the work of the Staff Auditors. James' knowledge of these areas makes him a key member of the audit team.

Following is a partial listing of engagements for which James has served as Supervisor:

- State of Nevada Financial and Compliance Audits
- Regional Transportation Commission
- City of Sparks
- Washoe County
- Reno Tahoe Airport Authority
- NV Energy Employee Benefit Plans
- Northern Nevada Trust Funds

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs

EDUCATION B.S. in Business Administration
University of Nevada, Reno

EXPERIENCE 7 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 7 years



OVERVIEW

Nielsine is a Senior Accountant in the Reno office who works primarily on governmental and employee benefit plan audit clients. Nielsine will be assigned to the financial audit full time. Nielsine will perform the more difficult areas of the financial audit and will coordinate the work of the Staff. Nielsine will perform portions of the risk assessment, perform the audit work over cash and investments, revenue, and review the work of the Staff Auditors.

The following is a partial listing of engagements for which Nielsine has served as Supervisor

- State of Nevada Financial Audit
- Regional Transportation Commission
- Sierra Fire Protection District
- Washoe County
- Reno-Tahoe Airport Authority
- Truckee Meadows Fire Protection District
- Northern Nevada Trust Funds
- NV Energy Employee Benefit Plans
- Washoe County, Nevada, OPEB Trust Fund
- TMWA OPEB Trust



EDUCATION B.S. in Business Administration
University of Nevada, Reno
Master of Accountancy,
University of Nevada, Reno

EXPERIENCE 4 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 4 years

OVERVIEW

Jacquelyn is a Senior Accountant in the Las Vegas office of Kafoury, Armstrong & Co. and has been with the firm for four years. She began her career in our Reno office and transferred to the Las Vegas office in 2013. Jacquelyn has gained extensive experience auditing governmental entities. Her auditing experience includes a variety of roles as her experience has increased. Jacquelyn will be assigned to the single audit. She will work with a team of Staff Auditors to audit a portion of the major programs.

Following is a partial listing of engagements for which Jacquelyn has served as a Supervisor:

- State of Nevada Financial and Compliance Audits
- Carson City
- Clark County, Nevada
- Clark County School District
- Nevada Higher Education
- Reno-Sparks Convention & Visitors
- Sierra Fire Protection District
- Truckee Meadows Fire Protection District
- Washoe County

MEMBERSHIPS

- AICPA
- Nevada Society of CPAs

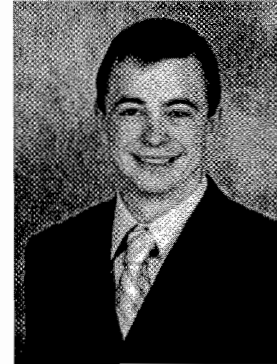


KAFOURY, ARMSTRONG & CO.

EDUCATION B.S. in Business Administration,
University of Nevada, Reno

EXPERIENCE 3 years with Kafoury, Armstrong & Co.

STATE OF NEVADA EXPERIENCE 3 years



OVERVIEW

Kurt is a Senior Accountant in the Reno office. He will be assigned to the single audit full time. Kurt will work with a team of Staff Auditors to audit a portion of the major programs. His knowledge of single audit makes him a key member of the audit team.

Following is a partial listing of engagements for which Kurt has served as a Supervisor:

- State of Nevada Compliance Audit
- Washoe County
- Douglas County
- Truckee Meadows Fire Protection District
- Sierra Fire Protection District
- Reno-Tahoe Airport Authority

Memberships:

- AICPA
- Nevada Society of CPAs

Exhibit C

**GOVERNMENTAL CONTINUING
PROFESSIONAL EDUCATION**



KAPOURY, ARMSTRONG & CO.

Governmental Continuing Education

Felicia R. O'Carroll, CPA, MST
Engagement Shareholder/Project Manager

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|-------------------------------------|--------------|---------------|
| 01/14/11 | AGA Professional Development Conference | AGA | 2.00 | 10.00 |
| 02/15/11 | GASB 54 Seminar | Kafoury, Armstrong & Co., P.C. | | 9.00 |
| 06/03/11 | IT Round Table - Computer Tips | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 09/18/11 | The Real Adventures of Sampling in a Single Audit: Concepts, Strategies, and Techniques You Can Use | AICPA | | 4.00 |
| 09/20/11 | 2011 AICPA GAAC West Conference | AICPA | | 16.00 |
| 04/30/12 | April Technical Topics- How To | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/11/12 | G 400 Group Meeting | AICPA | | 11.00 |
| 09/20/12 | 2012 AICPA GAAC Western Conference | AICPA | | 16.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/11/13 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 11.00 |
| 01/11/13 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 6.00 |
| 04/24/13 | GASB Updates | State of Nevada Controller's Office | 1.00 | 16.50 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 06/05/13 | GFOA Annual Conference | GFOA | | 19.00 |
| 06/07/13 | NASBA's Western Regional Conference | NASBA | 1.00 | 7.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 4.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 14.00 | 169.50 |

Governmental Continuing Education

Tamara Miramontes, CPA**Alternate Engagement Shareholder/Project Manager**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|----------------------------|--|--------------------------------|---------------|---------------------------|
| 04/06/11 | State and Local Government Financial Statement Audits: A 2011 Audit Issues Rundown | AICPA | | 2.00 |
| 05/03/11 | Governmental Audit Quality Center | AICPA | | 2.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 10/26/11 | 2011 AICPA Governmental & Not-for-Profit Training Program | AICPA | | 23.00 |
| 05/23/12 | 34th Annual Gaming Conference | NVCPA | | 12.00 |
| 06/12/12 | June Managing Partner Meeting | Leading Edge | | 11.50 |
| 07/11/12 | GAQC Required Annual Update Webcast | AICPA | | 2.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 10/24/12 | 2012 National Governmental and Not-for-Profit Training Program | AICPA | | 21.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/18/13 | The Winning Is Everything Conference | Koltin Consulting Group | | 17.00 |
| 02/21/13 | Interactive Gaming Overview | NVCPA | | 1.00 |
| 04/30/13 | 2013 GAQC Required Annual Update Webcast | AICPA | | 2.00 |
| 05/22/13 | 35th Annual Gaming Conference | NVCPA | | 11.00 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 09/17/13 | 2013 AICPA National Governmental Accounting and Auditing Update (GAAC) West Conference | AICPA | | 16.00 |
| 10/28/13 | Nonprofit SIG | Leading Edge | | 7.00 |
| 10/29/13 | Accounting & Auditing SIG | Leading Edge | | |
| 10/29/13 | General Session | Leading Edge | | 1.00 |
| TOTAL: | | | 8.00 | 151.50 |

Governmental Continuing Education

Kristen Burgess, CPA**Engagement Quality Control Review Shareholder**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|--|--------------------------------|--------|---------------|
| 01/14/11 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 10.00 |
| 01/19/11 | 2011 EBP Designated Partner Planning Webinar | AICPA | | 2.00 |
| 02/10/11 | GASB 54 Seminar | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 04/21/11 | Payroll Audit Training | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 06/10/11 | EBP Conference Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 01/13/12 | Regional Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 3.00 |
| 01/18/12 | 2012 EBP Designated Partners Audit Planning Live Forum: Audito Webcast | AICPA | | 2.00 |
| 02/20/12 | IT Tips & Tricks | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 03/22/12 | SAS Clarity Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/11/12 | Key Points From 2012 LEA EBP SIG Meeting | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/17/12 | Revisions to GFOA Blue Book | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 11/01/12 | Annual Governmental GAAP Update | GFOA | | 4.00 |
| 12/07/12 | Clarified SAS Overview with video | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 12/13/12 | How to Avoid Common Audit Quality Issues: Compliance Audits, Governmental Audits and Not-for-Profit Audits | AICPA | | 2.00 |
| 12/19/12 | Top 10 GAAP Issues: Derivatives | AICPA | | 1.00 |
| 12/26/12 | Accounting and Auditing Supplement: Fall 2012 | AICPA | | 1.00 |
| 12/26/12 | Assessment and Reporting Internal Control Deficiencies: Practice Issues | AICPA | | 2.00 |
| 12/26/12 | Auditing 401(k) Plans: Other Auditing Considerations | AICPA | | 2.00 |
| 12/26/12 | Fair Value Accounting: Fair Value Disclosures plus Current Issues | AICPA | | 2.00 |
| 12/26/12 | Fraud in the Financial Statements: Revenue-Related | AICPA | | 2.00 |
| 12/26/12 | Top 10 GAAP Issues: Accounting Standards Updates | AICPA | | 1.00 |
| 12/26/12 | Top 12 Audit Issues Facing CPAs: GAS & Independence, Information Outside Basic Statements | AICPA | | 2.00 |
| 12/26/12 | Top Govt & Non-Profit Issues: Clarity Project & SAS 122 Plus Audits of Group FS | AICPA | | 2.00 |
| 12/27/12 | Comprehending OMB A-133: The Current OMB A-133 Environment | AICPA | | 2.00 |

Governmental Continuing Education

Kristen Burgess, CPA (cont.)***Engagement Quality Control Review Shareholder***

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|--|--------------------------------|--------------|---------------|
| 12/27/12 | Single Audit & Yellow Book Deficiencies: Engagement Letters, Yellow Book CPE | AICPA | | 2.00 |
| 12/27/12 | Top Ten Fraud Schemes: Red Flags, Rules and the Expectations Gap | AICPA | | 2.00 |
| 01/11/13 | Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 13.00 |
| 02/06/13 | An Overview of The New GASB Pension Accounting Standards: Part I | AICPA | | 2.00 |
| 02/22/13 | EBPAQC Designated Partner 2013 Audit Planning Live Forum Webinar | AICPA | | 2.00 |
| 02/27/13 | The New GASB Pension Standards - An Auditor's Perspective: Part II | AICPA | | 2.00 |
| 03/21/13 | How to Deliver a Superior Audit | SourceMedia Inc. | | 1.00 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 07/10/13 | Staff Level II Training | Kafoury, Armstrong & Co., P.C. | | 9.50 |
| 07/17/13 | Staff Level III Training | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 16.00 | 125.50 |

Dan Carter, CPA, MAcc***Project Manager - Financial***

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|----------------------------------|--------|---------------|
| 01/14/11 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 10.00 |
| 01/19/11 | Cost Segregation an Opportunity Worth Pursuing | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 02/10/11 | GASB 54 Seminar | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 03/16/11 | Computer Forensics and Data Security | NVCPA | | 1.00 |
| 05/18/11 | Nevada's Economic Outlook | NVCPA | | 1.00 |
| 07/07/11 | Perfecting Analytical Procedures | Practitioners Publishing Company | | 2.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 10/19/11 | Federal Healthcare Reform Update | NVCPA | | 1.00 |
| 01/13/12 | Regional Professional Development Conference | AGA Northern Nevada Chapter | | 9.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | | 1.00 |

Governmental Continuing Education

Dan Carter, CPA, MAcc (cont.)**Project Manager - Financial**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|-------------------------------------|--------------|---------------|
| 04/30/12 | April Technical Topics- How To | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/16/12 | Small Business Development Center, Our Role in Economic Development in Nevada | NVCPA | | 1.00 |
| 07/11/12 | GAAFR Training | GFOA | | 2.00 |
| 07/17/12 | Revisions to GFOA Blue Book | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 12/29/12 | GAO Standards: Yellow Book | MicroMash | | 7.00 |
| 01/11/13 | Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 11.00 |
| 01/11/13 | Professional Development Conference | AGA Northern Nevada Chapter | | 4.00 |
| 04/24/13 | GASB Updates | State of Nevada Controller's Office | 1.00 | 16.50 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 06/05/13 | GFOA 107th Annual Conference | GFOA | | |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/30/13 | Group Audit Standard | Kafoury, Armstrong & Co., P.C. | | 6.50 |
| 10/28/13 | Marketing SIG | Leading Edge | | 4.00 |
| 10/29/13 | General Session: Barry Melancon, President AICPA | Leading Edge | | 1.00 |
| 10/29/13 | Internal Technology SIG | Leading Edge | | 6.50 |
| 10/30/13 | Gale Crosley - de-Mystifying Growth Workshop | Leading Edge | | 4.50 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 15.00 | 129.00 |

Debbie Clark, CPA**Project Manager - Compliance**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|--------------------------------|--------|---------------|
| 01/14/11 | AGA Professional Development Conference | AGA | 2.00 | 10.00 |
| 02/10/11 | GASB 54 Seminar | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 06/29/11 | An Overview of the 2011 OMB Compliance Supplement | AICPA | | 2.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |

Governmental Continuing Education

*Debbie Clark, CPA (cont.)**Project Manager - Compliance*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|--|--------------------------------|--------------|---------------|
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 01/13/12 | Regional Professional Development Conference | AGA | 2.00 | 3.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 02/22/12 | Effect of SAS 119 on the Work Associated with the SEFA | AICPA | | 2.00 |
| 03/07/12 | Subrecipient Monitoring: An Auditor and Auditee Perspective | AICPA | | 2.00 |
| 03/22/12 | SAS Clarity Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 04/02/12 | Art of the Finding | Yellowbook-CPE.com | | 2.00 |
| 04/30/12 | April Technical Topics- How To | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/08/12 | GAQC Required Annual Update Webcast | AICPA | | 2.00 |
| 05/15/12 | Checkpoint: Refresher and New Features | Thomson Reuters | | 1.00 |
| 06/20/12 | 2012 AICPA Not-for-Profit Industry Conference | AICPA | | 9.00 |
| 06/22/12 | 2012 AICPA Not-for-Profit Industry Conference | AICPA | | 17.00 |
| 07/17/12 | Revisions to GFOA Blue Book | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/11/13 | Professional Development Conference | AGA | | 8.00 |
| 04/30/13 | 2013 GAQC Required Annual Update Webcast | AICPA | | 2.00 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 2.00 | |
| 06/13/13 | The 2013 OMB Compliance Supplement and Proposed Single Audit Reforms | AICPA | | 2.00 |
| 07/29/13 | GASB Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 6.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 12/16/13 | Documenting Fieldwork: Audit Tests | AICPA | | 1.00 |
| 12/16/13 | Documenting Fieldwork: Workpaper Critique and Improvement | AICPA | | 1.00 |
| TOTAL: | | | 10.00 | 101.00 |

Governmental Continuing Education

*Daniel Rushin, CPA**Project Manager - Compliance*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|--|--------------------------------|-------------|---------------|
| 09/21/11 | Not-for-Profit Conference | Arizona Society of CPAs | | 8.00 |
| 10/04/11 | Business Rules, Help Files | Serenic | | 4.50 |
| 10/04/11 | Navigation Basics, Entering Transactions | Serenic | | 4.00 |
| 10/05/11 | Accounts Payable | Serenic | | 5.00 |
| 10/05/11 | Cash Management | Serenic | | 4.00 |
| 10/06/11 | Accounts Receivable Overview | Serenic | | 1.50 |
| 10/06/11 | Budget Vision Training | Serenic | | 7.50 |
| 10/07/11 | Budget Vision Training | Serenic | | 4.00 |
| 10/07/11 | Budget Vision Training | Serenic | | 2.00 |
| 10/07/11 | Reporting Option, Data Storage | Serenic | | 4.00 |
| 10/26/11 | 2011 AICPA Governmental and Not-for-Profit Training Program | AICPA | | 25.00 |
| 12/21/11 | Do's and Don'ts of Hiring and Firing | HR Consultant GBS Benefits | | 2.00 |
| 04/30/12 | April Technical Topics- How To | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/07/12 | GASB Statement No. 54: Fund Balance Reporting and Governmental Fund | MicroMash | | 5.00 |
| 09/20/12 | 2012 AICPA National Governmental Accounting & Auditing Update (GAAC) West Conference | AICPA | | 15.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/21/13 | Professional Ethics for Arizona CPAs | Pass Online | 4.00 | |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 07/29/13 | GASB Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 08/06/13 | AICPA's Annual Auditing and Accounting Workshop | NVCPA | | 16.00 |
| 08/13/13 | AICPA National Governmental Accounting and Auditing Update Conference East | AICPA | | 16.00 |
| 11/07/13 | The New Data Collection Form and Important Clearinghouse System Changes | AICPA | | 2.00 |
| 12/04/13 | The Yellow Book: A Hodgepodge of Related Topics from a Practitioners Perspective | AICPA | | 2.00 |
| TOTAL: | | | 8.00 | 142.50 |



KAFOURY, ARMSTRONG & CO.

Governmental Continuing Education

Emily Voshall, CPA, MAcc

Senior Staff - Financial

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|---|-------------------------------------|--------|---------------|
| 01/19/11 | Cost Segregation an Opportunity Worth Pursuing | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 01/26/11 | 2011 EBP Manager & Supervisor Planning Webinar | AICPA | | 2.00 |
| 02/10/11 | GASB 54 Seminar | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 03/01/11 | Passive Losses | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 03/15/11 | Real Estate and Investment Sales | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 04/21/11 | Payroll Audit Training | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/04/11 | AICPA National Conference on Employee Benefit Plans | AICPA | | 23.50 |
| 06/10/11 | EBP Conference Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 6.50 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 01/13/12 | Regional Professional Development Conference | AGA | 2.00 | 12.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 02/20/12 | IT Tips & Tricks | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 03/22/12 | SAS Clarity Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/08/12 | GAQC Required Annual Update Webcast | AICPA | | 2.00 |
| 05/15/12 | Checkpoint: Refresher and New Features | Thomson Reuters | | 1.00 |
| 05/16/12 | Small Business Development Center, Our Role in Economic Development in Nevada | NVCPA | | 1.00 |
| 06/06/12 | Employee Benefit Plans Conference Highlights | AICPA | | 3.50 |
| 07/11/12 | Key Points From 2012 LEA EBP SIG Meeting | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/17/12 | Revisions to GFOA Blue Book | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 08/02/12 | AuditWatch University Level 5: Moving Beyond In-Charge | Thomson Reuters | | 24.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/25/13 | ASU 2011-04 EBP Fair Value Disclosures Live Forum | AICPA | | 2.00 |
| 04/22/13 | EBPAQC Managers and Supervisors 2013 Audit Planning Live Forum Webinar | AICPA | | 2.00 |
| 04/24/13 | GASB Updates | State of Nevada Controller's Office | 1.00 | 16.50 |
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |

Governmental Continuing Education

*Emily Voshall, CPA, MAcc (cont.)**Senior Staff - Financial*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|--|--------------------------------|--------------|---------------|
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 08/06/13 | AICPAs Annual Auditing and Accounting Workshop | AICPA | | 16.00 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 13.00 | 154.00 |

*James Ripsom, CPA**Supervisor - Financial and Compliance*

| Completion Date | Activity Title | Sponsor | General | A&A/ Govt. |
|--------------------|--|----------------------------------|---------|---------------|
| 04/21/11 | Payroll Audit Training | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 05/11/11 | Staff Level II Training | Kafoury, Armstrong & Co., P.C. | 3.00 | 21.00 |
| 06/10/11 | EBP Conference Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/11/11 | Companion to PPC's Guide to Audits of Employee Benefit | Practitioners Publishing Company | | 8.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | 1.00 | |
| 02/20/12 | IT Tips & Tricks | Kafoury, Armstrong & Co., P.C. | 2.00 | |
| 03/22/12 | SAS Clarity Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/11/12 | Key Points From 2012 LEA EBP SIG Meeting | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/19/12 | AuditWatch University Level 3: Beginning In-Charge Training | Thomson Reuters | 2.00 | 22.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 12/19/12 | Companion to PPC's Guide to Single Audits - Course 1 - Pre-Engagement Activities and Internal Control Considerations (GSATG121) | Practitioners Publishing Company | | 8.00 |
| 12/19/12 | Companion to PPC's Guide to Single Audits - Course 2 - Planning the Single Audit and Single Audit Sampling (GSATG122) | Practitioners Publishing Company | | 8.00 |
| 12/19/12 | Companion to PPC's Guide to Single Audits - Course 3 - Concluding the Single Audit and Reporting Under the Single Audit (GSATG123) | Practitioners Publishing Company | | 8.00 |
| 01/11/13 | Professional Development Conference | AGA- Northern Nevada Chapter | | 13.00 |
| 03/27/13 | Fieldwork Complete...Is the Audit Complete or Are You Stuck in "Wrap-Up?" | CCH a Wolters Kluwer Business | | 2.00 |

Governmental Continuing Education

James Ripsom, CPA (cont.)**Supervisor - Financial and Compliance**

| Completion Date | Activity Title | Sponsor | General | A&A/ Govt. |
|-----------------|---|---|--------------|---------------|
| 05/29/13 | Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 07/29/13 | GASB Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 08/16/13 | Effective Feedback Techniques for Seniors, Managers and Supervisors | Practitioners Publishing Company (Group-live and Group-Internet-based) | 2.00 | |
| 10/24/13 | Young Professionals and Emerging Leaders Conference | NVCPA | 8.00 | |
| 11/08/13 | Managing Multiple Projects, Objectives and Deadlines | SkillPath | 6.00 | |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 30.00 | 121.00 |

Nielsine Sherk**Supervisor - Financial**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|---|--------|---------------|
| 01/26/11 | EBPAQC 2011 EBP Manager & Supervisor Planning Webinar | AICPA | | 2.00 |
| 05/18/11 | EBPAQC 401(k) Basics - Part 3, Investments and Distribution Testing | AICPA | | 2.00 |
| 06/08/11 | Employee Benefit Plan Audit Sampling | AICPA | | 2.00 |
| 06/10/11 | EBP Conference Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 06/16/11 | Performing Efficient Audits of Employee Benefit Plans + Free (Optional) Checkpoint Training | Practitioners Publishing Company (Group-live and Group-Internet-based) | | 5.00 |
| 07/25/11 | Yellow Book University: Government and Nonprofit Update | Thomson Reuters | | 8.00 |
| 07/26/11 | Governmental Day | Kafoury, Armstrong & Co., P.C. | | 4.00 |
| 07/26/11 | Professional Ethics Update - Governmental Day | Kafoury, Armstrong & Co., P.C. | 4.00 | |

Governmental Continuing Education

Nielsine Sherk (cont.)

Supervisor - Financial

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|---|--------------------------------|--------|---------------|
| 11/11/11 | Employee Benefit Plans I: Accounting Principles | MicroMash | | 8.00 |
| 12/29/11 | Employee Benefit Plans II: Auditing Considerations | MicroMash | | 9.00 |
| 02/20/12 | IT Tips & Tricks | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 07/11/12 | Key Points From 2012 LEA EBP SIG Meeting | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/17/12 | Revisions to GFOA Blue Book | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 08/08/12 | | AICPA | | 1.00 |
| 08/30/12 | Employee Benefit Plans: Health and Welfare Plans Basic Governmental Accounting: 'Govt. Environment & GAAP' & 'Fund Accounting & Financial Reporting' | AICPA | | 2.00 |
| 08/31/12 | Basic Governmental Accounting: 'Budgeting' plus 'Measurement Focus and Basis of Accounting' | AICPA | | 1.00 |
| 08/31/12 | Basic Governmental Accounting: Governmental Funds - Revenues and Expenditures | AICPA | | 1.00 |
| 08/31/12 | Basic Governmental Accounting: Proprietary Funds | AICPA | | 1.00 |
| 09/16/12 | Basic Governmental Accounting: Financial Reporting and the CAFR | AICPA | | 1.00 |
| 09/16/12 | Basic Governmental Accounting: Government- Wide Statements | AICPA | | 1.00 |
| 09/19/12 | Basic Governmental Accounting: 'Reporting Entity' plus 'Special Purpose Governments' | AICPA | | 1.00 |
| 09/21/12 | Basic Governmental Accounting: 'Fiduciary Funds' plus 'Fund Financial Statements' | AICPA | | 2.00 |
| 09/21/12 | Fraud in Exempt Organizations: Misappropriation of Assets | AICPA | | 1.00 |
| 10/07/12 | Government Accounting and Reporting: Introduction plus Financial Statements and Other Information | AICPA | | 2.00 |
| 09/21/12 | Basic Governmental Accounting: 'Fiduciary Funds' plus 'Fund Financial Statements' | AICPA | | 2.00 |
| 09/21/12 | Fraud in Exempt Organizations: Misappropriation of Assets | AICPA | | 1.00 |
| 10/07/12 | Government Accounting and Reporting: Introduction plus Financial Statements and Other Information | AICPA | | 2.00 |

Governmental Continuing Education

*Nielsine Sherk (cont.)**Supervisor - Financial*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|--|--------------------------------|--------|---------------|
| 10/08/12 | Employee Benefit Plans: 'The Basics' plus 'Accounting and Reporting Standards' | AICPA | | 2.00 |
| 10/08/12 | Government Accounting and Reporting: Fund Reporting | AICPA | | 2.00 |
| 10/09/12 | Employee Benefit Plans: Other Audit Considerations and Wrapping Up the Audit | AICPA | | 1.00 |
| 10/09/12 | Employee Benefit Plans: Reporting and Audit Requirements | AICPA | | 1.00 |
| 10/10/12 | Employee Benefit Plans: Audit Planning | AICPA | | 1.00 |
| 10/12/12 | Auditing 401(k) Plans: Introduction and Background | AICPA | | 1.00 |
| 10/12/12 | Auditing 401(k) Plans: The Auditor's Report | AICPA | | 1.00 |
| 10/12/12 | Employee Benefit Plans: Employee Stock Ownership Plans (ESOPs) and Defined Benefit Pension Plans | AICPA | | 1.00 |
| 10/13/12 | 2010 Health Care Reform Act: 'Provisions Effective in 2011 through 2013' plus 'Reform Beyond 2014' | AICPA | | 2.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 01/11/13 | Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 13.00 |
| 07/17/13 | Health and Welfare Plans, Part 2 - Audit Planning and Testing | AICPA | | 2.00 |
| 07/30/13 | GASB Pension Standards | Kafoury, Armstrong & Co., P.C. | | 1.50 |
| 07/30/13 | Group Audit Standards | Kafoury, Armstrong & Co., P.C. | | 2.50 |
| 12/18/13 | Government Auditing Standards: GAGAS (Yellow Book), Foundation and Ethical Principles | AICPA | | 1.00 |
| 12/18/13 | Government Auditing Standards: Standards for Use and Application of GAGAS, General Standards | AICPA | | 2.00 |
| 12/19/13 | Auditing 401(k) Plans: 'Financial Statement Disclosures' plus 'Supplemental Schedules' | AICPA | | 2.00 |
| 12/19/13 | Auditing 401(k) Plans: The Auditor's Report | AICPA | | 2.00 |
| 12/19/13 | Government Auditing Standards: Field Work and Reporting Standards for Performance Audits | AICPA | | 2.00 |

Governmental Continuing Education

*Nielsine Sherk (cont.)**Supervisor - Financial*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|---|-----------------------------|-------------|---------------|
| 12/20/13 | Auditing 401(k) Plans: Internal Control Structure | AICPA | | 1.00 |
| 12/20/13 | Auditing 401(k) Plans: Introduction and Background | AICPA | | 1.00 |
| 12/20/13 | Auditing 401(k) Plans: Planning | AICPA | | 2.00 |
| 12/20/13 | Auditing 401(k) Plans: Statement of Changes in Net Assets Available for Benefits | AICPA | | 1.00 |
| 12/20/13 | Auditing 401(k) Plans: Statement of Net Assets Available for Benefits | AICPA | | 1.00 |
| 12/23/13 | Auditing 401(k) Plans: Other Auditing Considerations | AICPA | | 2.00 |
| 12/23/13 | Government Auditing Standards: Standards for Financial Audits and Attestation Engagements | AICPA | | 2.00 |
| 12/24/13 | Governmental Accounting and Reporting: Fund Accounting | AICPA | | 2.00 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 8.00 | 136.00 |

*Jacquelyn Flickinger, CPA**Supervisor - Compliance*

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|---|---------|--------|---------------|
| 08/13/13 | A Walk Through the GASB Pension Standards | AICPA | | 1.50 |
| 08/13/13 | An Auditing Standards Update: The Latest from the AICPA and the GAO | AICPA | | 1.00 |
| 08/13/13 | Auditor Considerations for the GASB Pension Standards | AICPA | | 1.50 |
| 08/13/13 | Best Practices in Implementing the Group Audits Standard (REPEAT of #28) | AICPA | | 1.50 |
| 08/13/13 | Healthcare Reform - Federal Response and Impact on States | AICPA | | 1.00 |
| 08/13/13 | The Challenges of Auditing State & Local Governments in Such An Uncertain Environment | AICPA | | 1.00 |

Governmental Continuing Education

Jacquelyn Flickinger, CPA (cont.)

Supervisor - Compliance

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|---|--------------------------------|--------|---------------|
| 08/12/13 | Getting Into the Weeds of Single Audit Sampling | AICPA | | 1.50 |
| 08/12/13 | Governmental Accounting Standards Update | AICPA | | 1.00 |
| 08/12/13 | Making Sense of Deferred Inflows and Outflows of Resources | AICPA | | 1.50 |
| 08/12/13 | The Impact of the New Yellow Book Independence Rules: A Real Life Look | AICPA | | 1.50 |
| 08/12/13 | The Politics of a Second Obama Administration | AICPA | | 1.00 |
| 08/12/13 | Updated Audit Guides for State and Local Governments and GAS-A133 Audits | AICPA | | 1.50 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 06/25/13 | | Thomson Reuters | | 1.00 |
| 05/29/13 | Checkpoint: For the Small and Medium CPA Firm Professional Ethics Update: Focus on Independence | Kafoury, Armstrong & Co., P.C. | 4.00 | |
| 03/27/13 | Fieldwork Complete...Is the Audit Complete or Are You Stuck in "Wrap-Up?" | CCH a Wolters Kluwer Business | | 2.00 |
| 01/11/13 | Professional Development Conference | AGA- Northern Nevada Chapter | | 13.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 07/19/12 | AuditWatch University Level 3: Beginning In-Charge Training | Thomson Reuters | | 24.00 |
| 07/11/12 | Key Points From 2012 LEA EBP SIG Meeting | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 06/15/12 | Fraud in Exempt Organizations: Government & NPO Environment plus Fraudulent Financial Reporting | AICPA | | 2.00 |
| 06/15/12 | Single Audit Issues: Overview plus Key Audit Planning Considerations | AICPA | | 2.00 |
| 06/14/12 | 2011 Annual A&A Update: Accounting Standards Updates | AICPA | | 2.00 |
| 06/14/12 | 2011 Governmental and Nonprofit Annual Update: GASB Activities | AICPA | | 2.00 |
| 06/14/12 | 2011 Yellow Book: Background, Govt. Auditing and Standards for Use and Application | AICPA | | 1.00 |
| 05/15/12 | Checkpoint: Refresher and New Features | Thomson Reuters | | 1.00 |
| 04/30/12 | April Technical Topics- How To | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 03/15/12 | Ethics and Professional Conduct for Nevada CPA's | PES | 4.00 | |

Governmental Continuing Education

Jacquelyn Flickinger, CPA (cont.)

Supervisor - Compliance

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|--------------------|--|--------------------------------|-------------|---------------|
| 03/13/12 | Auditing 401(k) Plans: Internal Control Structure & Statement of Net Assets Available for Benefits | AICPA | | 2.00 |
| 03/13/12 | Auditing 401(k) Plans: The Auditor's Report | AICPA | | 1.00 |
| 03/12/12 | Auditing 401(k) Plans: Other Auditing Considerations | AICPA | | 2.00 |
| 03/08/12 | Auditing 401(k) Plans: Financial Statement Disclosures plus Supplemental Schedules | AICPA | | 2.00 |
| 03/08/12 | Auditing 401(k) Plans: Planning | AICPA | | 2.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 06/15/11 | Staff Level 1 Training | Kafoury, Armstrong & Co., P.C. | | 24.00 |
| 06/10/11 | EBP Conference Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 04/28/11 | Checkpoint: Accounting & Auditing for Professionals | Thomson Reuters | | 1.00 |
| 04/21/11 | Checkpoint Tools for PPC | Thomson Reuters | | 1.00 |
| 04/21/11 | Payroll Audit Training | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 04/14/11 | Preparing Governmental Financial Statements Under GASBS No. 34: Introduction to Governmental Financial Reports and Fund Accounting Overview from PPC | PASS Online | | 7.00 |
| 04/08/11 | Basic Functionality and Features | Thomson Reuters | | 1.00 |
| 04/05/11 | Checkpoint: Researching the New FASB Codification System | Thomson Reuters | | 1.00 |
| 08/10/10 | KAC Government Accounting Training | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 05/17/10 | Financial Reporting Theory | University of Nevada Reno | | 45.00 |
| 05/18/09 | Audit Assurance Services | University of Nevada Reno | | 45.00 |
| 05/18/09 | Government/Not-For-Profit Accounting | University of Nevada Reno | | 45.00 |
| TOTAL: | | | 8.00 | 261.50 |

Governmental Continuing Education

Kurt Schlicker, CPA**Supervisor - Compliance**

| Completion Date | Activity Title | Sponsor | Ethics | A&A/ Govt. |
|-----------------|---|--------------------------------|--------------|---------------|
| 08/12/11 | Staff Level I Training | Kafoury, Armstrong & Co., P.C. | | 15.00 |
| 02/08/12 | Passthroughs | Kafoury, Armstrong & Co., P.C. | 1.00 | |
| 05/09/12 | Staff Level II Audit Training | Kafoury, Armstrong & Co., P.C. | 6.00 | 18.00 |
| 10/18/12 | Audit Sampling | Thomson Reuters | | 4.00 |
| 12/07/12 | Clarified SAS Overview | Kafoury, Armstrong & Co., P.C. | | 3.00 |
| 03/27/13 | Fieldwork Complete...Is the Audit Complete or Are You Stuck in "Wrap-Up?" | CCH a Wolters Kluwer Business | | 2.00 |
| 07/17/13 | Level III Staff Training | Kafoury, Armstrong & Co., P.C. | 4.00 | 20.50 |
| 07/29/13 | GASB Update | Kafoury, Armstrong & Co., P.C. | | 1.00 |
| 07/29/13 | Single Audit Update | Kafoury, Armstrong & Co., P.C. | | 2.00 |
| 01/09/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | | 8.00 |
| 01/10/14 | AGA Professional Development Conference | AGA Northern Nevada Chapter | 2.00 | 5.00 |
| TOTAL: | | | 13.00 | 78.50 |

Cost Proposal



KAFOURY, ARMSTRONG & CO.

A PROFESSIONAL CORPORATION
Certified Public Accountants

CONTACT PERSON:

FELICIA R. O'CARROLL, CPA, MST
SHAREHOLDER
6140 PLUMAS STREET
RENO, NEVADA 89519-6060
(775) 689-9100
focarroll@kafoury.com

Appendix A

COST PROPOSAL



KAPOURY, ARMSTRONG & CO.

Cost Proposal

The Contractor must state its proposed costs using the format described in the following table. The contractor's charges must include the entire cost of providing the services identified in this RFP for each year. A description of the rationale behind changes between annual costs should be included with the cost proposal. Failure to submit the information in the provided format will lead to disqualification of the proposal.

The cost proposal should be submitted in a sealed envelope, separate from the firm's technical proposal. Cost information must not be included in the technical proposal.

Cost Proposal
State of Nevada Single Audit RFP

Name of Firm: Kafoury, Armstrong & Co.

Name of Subcontractor(s) N/A

Signature of Firm / Subcontractor(s) Liliana R. O'Connell

| | <u>Annual Total Cost</u> |
|------------------|--------------------------|
| Fiscal Year 2014 | <u>\$ 350,000</u> |
| Fiscal Year 2015 | <u>\$ 360,000</u> |
| Fiscal Year 2016 | <u>\$ 345,000</u> |
| Fiscal Year 2017 | <u>\$ 345,000</u> |

Reasoning for Cost Changes Between Contract Years:

See attached

Budget Narrative

The total four year cost determined on page 1 is a function of our standard billing rates, our estimate of the hours needed to audit the State, and a discount to our standard billing rates based on the following factors:

1. This is a multi-year engagement. This allows for efficiencies in the audit processes in the later years.
2. The timing of the State audit fits well with our business model. We are sufficiently staffed to be able to meet the State's deadlines.
3. We are proud of our Nevada heritage and believe auditing the State is both an honor and a challenge.
4. We have enjoyed our relationship with the State over the past twenty years and would like to continue the strong working relationship we have developed.
5. The discount is part of our continuing commitment to the State.

We know how long it takes to audit the State in today's world. But the governmental auditing world over the next four years contains some big unknowns. GASB No. 65 will be implemented in 2014. Our analysis of this standard indicates it will impact the State audit, but only marginally. As such, the 2014 fee is within one-half of one percent (\$1,850) of the 2013 audit fee. GASB No. 68 will be implemented in 2015. While we expect there will be additional audit work required by this standard, the implementation methodology has not been finalized. If the auditors of PERS perform the allocation of the unfunded liability (this option is in the discussion phase) and issue an audit or attest opinion on their work (awaiting implementation guidance from GASB) and a funding mechanism to pay for that allocation can be agreed upon (no discussion as yet), the impact on the State audit will be significantly less than what it would be should any of these steps not come to fruition. Given the vast array of unknowns at this time, we have taken a mid-range stance and have projected the fee for 2015 will increase less than 3% (\$10,000). In years 2016 and 2017, the new single audit changes will be in effect. While not having a tremendous effect on the State, we do project some cost savings due to fewer compliance requirements and perhaps fewer programs. However, given the diversity in the State's Schedule of Expenditures of Federal Awards and the number of Type B programs, there may not be fewer programs to audit. For 2016 and 2017, the audit fee is actually lower than the 2013 audit fee.

Our experience auditing the State over the past twenty years provides a reliable tool for estimating the hours needed to audit the State.

- For the financial audit, we have identified the specific internal control cycles of the State, obtained and/or prepared documentation of the key internal controls that drive those cycles and have evaluated those controls for effectiveness. The new GASB standards will have some impact on this audit, as outlined above.
- For the compliance audit, we have developed a methodology custom tailored to the State for applying the risk-based approach mandated by OMB Circular A-133. This methodology has been subjected to review by the Legislative Counsel Bureau and the Offices of Inspectors General for the Departments of Education, Health and Human Services, Transportation, Interior and Agriculture. We offer an audit team already familiar with the terms and conditions of the CMIA agreement, as well as the State's procedures to ensure compliance with that agreement. Our familiarity with the Federal award programs received by the State improves both our efficiency and effectiveness. Over the past twenty years, we have audited all of the State's currently identified Type A programs, as well as all of the larger Type B programs and, therefore, offer an audit team knowledgeable about the specific program requirements over the majority of the State's Federal awards. We have also audited the programs receiving and expending ARRA funds. While this funding stream has mostly been exhausted, there are still a handful of programs receiving and expending ARRA awards. As noted above, how the new changes to the Single Audit Act will impact the State remains to be seen.

Budget Narrative

- We have found from experience that the State financial audit requires a very time intensive four to five-week period to complete. We have estimated 1,088 hours for the financial audit during 2014. Based on our years of experience we estimate that the Medicaid Cluster will require 375 hours, Unemployment Compensation and the Highway Planning Cluster will each require approximately 250-300 hours, while programs such as SNAP (Food Stamps), TANF, Child Support Enforcement, HIV, Vocational Rehabilitation Cluster and Foster Care/Adoption Assistance will each require close to 200 hours. We expect that many programs will continue to fall in the 80-200 hour range, while a select few will be below that. For budget purposes, we have estimated a blended hour requirement of 145 hours per program. Our budget is based on an estimated 26 major programs and assumes that approximately half of the Type A programs will be cycled on a three-year basis. The remaining 305 hours budgeted for the compliance audit include hours for planning, major program risk assessments, testing of the CMIA process, the reporting process, preparation of the Data Collection Form, and preparation and reproduction of the Single Audit report.

**AWARDING OF CONTRACT FOR
SINGLE AUDIT
FOR THE STATE OF NEVADA
FOR FISCAL YEARS 2014 THROUGH 2017**

**Proposal From
Eide Bailly, LLP**

Experience the Eide Bailly Difference



February 28, 2014

Proposal for Services

State of Nevada

Legislative Counsel Bureau- Audit Division

Eide Bailly LLP

Eric Berman, CGMA, CPA

Partner

208.424.3524

EBerman@eidebailly.com

Lealan Miller, CGFM, CPA

Director of Government Services Group

208.383.4756

LMiller@eidebailly.com

B. Transmittal Letter

February 28, 2014

Legislative Auditor
401 South Carson Street
Carson City, NV 89701

Thank you for giving Eide Bailly LLP the opportunity to propose on audit services for the Single Audit of the State of Nevada (the State).

We commit to provide the services described in the RFP issued by the State required by the Legislative Auditor.

This proposal is valid and irrevocable for 90 days from the day the proposals are due. If Eide Bailly is selected as the Contractor for the State, the proposal will be incorporated as part of the contract.

Eric Berman, MSA, CPA, CGMA, and Lealan Miller, CGFM, CPA, are authorized to bind the contractor to the representations in the following proposal.

Best regards,



Eric Berman, MSA, CPA, CGMA
Partner
208.424.3524
EBerman@eidebailly.com



Lealan Miller, CGFM, CPA
Director of Government Services Group
208.383.4756
LMiller@eidebailly.com



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D. Executive Summary

Thank you for giving Eide Bailly LLP the opportunity to propose on audit services for the State of Nevada (the State). We can offer the State the level of service expected from a small firm, coupled with the expertise and resources expected of a national firm. The public sector is one of our core lines of expertise; with more than 500 government clients, including many state agencies, large counties, cities and districts, we are well-prepared to serve you.


We acknowledge there are perceived obstacles in Eide Bailly LLP providing the necessary services to the State due to physical proximity. We have overcome these concerns with other clients served by our offices throughout the firm. One example is the University of Guam. When all was done, we were actually able to decrease the amount of time in the field, as well as shorten the report delivery time by an average of 30 days. The CFO commented that, "Eide Bailly was always available and was responsive to questions - and all this from a firm located in Boise, Idaho." We just had a similar experience where we performed the first year audit of South Dakota Retirement System out of Pierre, South Dakota by an office located outside of South Dakota. We were able to issue the report 13 days earlier than the previous year.

Another consideration is whether Eide Bailly has the necessary resources to deal with Nevada state statutes and regulations. We have purposefully built your engagement team to include Brad Berls, a manager who was with a Nevada firm prior to joining Eide Bailly. During his time in Nevada, he spent time working with government clients and managing compliance with the Nevada Revised Statutes (NRS) 350 and NRS 354. We also have access to a partner from a local Reno firm that has government experience and dealing with NRS 354.624. This will ensure our audits cover all the necessary compliance as well help to consult with any agencies dealing with these issues.

Government Industry Experience

"We get governments." Government auditing is not just a sideline. The public sector is one of our core lines of expertise. The engagement for the State will be led by nationally recognized leaders in the public sector with unquestioned expertise. Annually, Eide Bailly performs more than 100,000 service hours for more than 500 clients within the government industry. We have decades of experience with state and local governments nationwide. Furthermore, our team is dedicated to government and will not disappear during tax season or due to for-profit engagements.

We are involved at leadership positions in the AICPA's Governmental Audit Quality Center, local and national boards of the Association of Government Accountants (AGA), and the review committee for the GFOA's Certificate of Excellence for Achievement in Financial Reporting. Lealan Miller, the consulting partner of your audit team, just finished serving for three years on the AICPA's State and Local Government Expert Panel and other members of the firm serve on the AICPA's Auditing Standards Board and the PCPS Technical Committee. Our firm is also a proud sponsor for the National Association of State Auditors, Comptrollers and Treasurers (NASACT.) As a deputy comptroller, Eric Berman served in leadership positions for NASACT and continues to serve state clients nationwide as a consultant and trainer. He also just finished his term as Vice Chairman of the Governmental Accounting Standards Advisory Council (GASAC) and was replaced by Lealan Miller, keeping Eide Bailly's exposure to industry leaders at the highest levels. Eric will continue service to GASB by serving on task forces and



attending meetings on behalf of our clients and firm. This allows our clients to be prepared for changes years in advance through this ‘thought leadership.’ Freely available to you are some of our resources that we have provided our clients recently. Please feel free to click on <http://www.eidebailly.com/industries/government> to find out information the State can use. We also have firm members that are CAFR reviewers and some of these people are included on your proposed team. Eric also provides a unique perspective to your engagement possessing not only experience as an auditor, but as a preparer (deputy comptroller of the State of Massachusetts for 12 years) and consultant – something no other firm in the nation can offer the State. He has also worked with the State of Nevada’s CAFR team for years, training them and preparing them for new standards.

Eide Bailly provides a comprehensive team to our assurance clients. As part of our proposal, we include available specialists unmatched by most local and regional firms, including, but not limited to:

- **Insurance and Risk Management** specialists to provide guidance and expertise in the areas of self-insurance and workers compensation.
- **Investment and Valuation** specialists to provide expertise on investment fair value for the State’s pooled investment funds and derivatives.
- **Forensic** specialists to investigate any instances of fraud or internal controls breaches and provide recommendation for improvements to internal control systems.
- **Healthcare, Affordable Care Act and OPEB** specialists to provide expertise on areas of Medicaid, Post-retirement benefits, human resource issues and the upcoming so-called “Cadillac Tax.”
- **Information Technology Assurance** including operations, security, software development auditing, internal vulnerability testing and external penetration testing.
- **Tax Compliance and Nexus** experts that provide guidance on local taxation issues.

This comprehensive, integrated team approach provides the State with an unparalleled, consultative experience that no local or state specific firm can match at a price less than a national firm.

Personal, Customized Service

You can expect partner involvement throughout all phases of the engagement, as well as throughout the year. Our partners spend considerable review time on-site and our partner review time is generally 50% greater than our competitors. This partner involvement allows for immediate resolution of any issues that may arise. In addition, to help answer any questions that may come up during the year as a result of legal or regulatory changes, our partners will meet with the State’s management and/or the State’s board to have discussions and provide education; these services are included in our fees.

Transition

We will work with the State to ensure a smooth, seamless transition. To the extent possible, we will utilize your existing systems and workpapers to minimize disruptions and make your transition to Eide Bailly simple and comfortable. Our refined process will allow you to focus on day-to-day activities, instead of training our staff.

Communication

Because we recognize that effective communication is critical throughout the entire audit process, our service approach is one where communication begins with planning and continues throughout the year. We take a collaborative communication approach with our clients and include them in the process as our peers. This continuous communication ensures you are fully informed, and provides us with timely information that will enable us to best serve you.

Timeliness

We will better your deadlines. Audits that are not timely are not successful audits. Your engagement team has extensive experience working with large governmental agencies and we have fine-tuned our audit process to create a more effective and efficient audit than you will see with other firms. We understand, and will comply with, the schedules and scope for the audit, as outlined in your Request for Proposal, and will perform all work within the timeframes outlined, exceeding your expectations as we understand that timely information is relevant information. Barring any major changes in scope, each year we strive to publish in advance of the previous year. Study after study shows that decision-makers, bondholders and Citizens demand a timelier single audit than one that is published in 270 days. **We believe that with the proper planning, coordination and participation from the State, we can immediately save significant time from your current schedule.** This will allow us to have the field work completed for both the financial audit and single audit simultaneously, and issue the reports sooner than the State has experienced in the past.

Contact Information

Our contact information is listed on page 7 of this proposal. We pride ourselves in being accessible via phone, email, video conference or in person on your schedule. Even though we are out of state, chances are, our engagement leaders and management can be in your offices within a few hours.

Technical Information

The technical information section of our proposal begins on page 8. After reviewing the technical portion of our proposal, you will realize that our expertise, the expertise of our personnel who will render the requested services and the ability to plan and complete the audit in advance of current conditions will exceed your expectations.

Project Staffing and Organizational Information

The project staffing and organizational information section of our proposal begins on page 8. We view the potential engagement with the State of Nevada as a marquee engagement for our firm and we have staffed the engagement with four partners with nationally recognized backgrounds. You will also notice that our partners are engaged in a consultative manner to help the state achieve its goals as a business partner, allowing the state to prepare for changes.



Contractor Services Overview and Objectives Information

The contractor services overview and objectives information section of our proposal begins on page 19. After reviewing the overview and objectives information section, you will realize that our firm does not just “tick and tie.” For example, we are already preparing our clients for the massive changes occurring in the single audit starting on December 26, 2014 and are already holding Town Hall forums with decision-makers and staff on implementing the new defined benefit pension standards and the forthcoming defined benefit healthcare standards.

Contractor Capabilities Information

The contractor capabilities information section of our proposal begins on page 20. After reviewing this section, you will realize that we are independent and will provide the State with a unique perspective, not just what has been done for years. We are also highly experienced on both sides of the desk as not only auditors but preparers with an understanding unmatched in the industry. Finally, you will notice we have a fully collaborative audit approach that will result in a significant time savings from your current engagement.

Conflict of Interest Information

The conflict of interest information section of our proposal is contained on page 41. Our firm takes independence extremely seriously. To this end, we have no conflicts of interest with the State of Nevada.

Statement of Work Information

The statement of work information section of our proposal begins on page 42. As you review the section, you will realize that our proposed workplan may be different than what the State normally experiences as it is highly communicative, consultative and collaborative, providing an expert relationship, not an adversarial relationship.

Appendices

The appendices to our proposal begin on page 52. Contained therein are team profiles, a copy of our firm’s latest peer review (which was an unqualified [clean] report), relevant CPE reports for our service team, and recent newsletters on government that we make available to our clients and will make available to the State at no charge.

RFP Requirements

We have read and understand the requirements as detailed in the issued RFP. We believe the following proposal response meets all of said requirements.

Addendums

We are in receipt of the Addendum issuing the answers to the submitted questions as issued by the State on Feb. 5th, 2014.

Why Eide Bailly Wants to Work With You

The following pages highlight our strengths as a Firm and demonstrate why Eide Bailly merits serious consideration. Know that you will be a highly-valued, marquee client for our firm. We are including as your team our top audit partners and thought leaders unlike any the State has experienced in the past. We pledge to work with the State collaboratively, and not in an adversarial manner, to provide the State with the utmost service. Our people would be proud to work with the State of Nevada and build a trusting relationship with your team. Please contact Eric or Lee if you would like to discuss any aspect of this proposal.

Best regards,



Eric Berman, MSA, CPA, CGMA
Partner
208.424.3524
EBerman@eidebailly.com



Lealan Miller, CGFM, CPA
Director of Government Services Group
208.383.4756
LMiller@eidebailly.com

E. Contractor Identifying Information

1. Name and Address

Eide Bailly LLP
Principal Office
4310 17th Ave. S.
Fargo, ND 58108

2. Type of Entity & 3. Length of time in existence

Eide Bailly LLP is a Limited Liability Partnership domiciled in the State of North Dakota. Eide Bailly LLP is registered with the North Dakota Secretary of State on May 1, 1998 and remains in good standing. We are registered with the Secretary of State in Nevada as Entity No. LLP41-2000 and renew the license annually. We have been registered with the Nevada State Board of Accountancy since 2000 with license certification number PART-0674.

4. Name and location of all offices and other facilities of the contractor.

Location of Eide Bailly Offices

- Phoenix, AZ
- Boulder, CO
- Denver, CO
- Frisco, CO
- Golden, CO
- Grand Junction, CO
- Vail, CO
- Boise, ID
- Dubuque, IA
- Mankato, MN
- Minneapolis, MN
- Billings, MT
- Bismarck, ND
- Fargo, ND
- Williston, ND
- Norman, OK
- Oklahoma City, OK
- Tulsa, OK
- Aberdeen, SD
- Sioux Falls, SD
- Ogden, UT
- Salt Lake City, UT

5. Location of the office from which the work on this engagement will be performed.

While the individual audits will be performed between our Idaho, Colorado and Utah offices, we will have a single Client Relationship Executive, Eric Berman, overseeing all of the engagements. This will ensure efficient audits for the State. It is also vitally important as the State of Nevada engagement truly is a “group audit” by definition. Eric will coordinate communications and acceptance of documentation from all other audit firms that are part of the State of Nevada’s financial statement and single audits. The Idaho office performs more than 35 governmental audits which account for 15,000 hours annually and the Colorado offices perform more than 30 governmental audits, with 12,000 hours annually. The Salt Lake City office has more than 38 professionals who focus on the governmental industry, providing more than 8,000 hours of governmental audit services.

With more than 50 years of experience conducting government audits, the government industry has become a significant portion of our overall business.

Your entire engagement team is made up of 4 full-time partners, 2 senior managers, 3 managers, 2 senior associates, and several staff. This is the size of some firms' *entire organizations*. The engagement team is assembled with the recognition and expertise that a statewide audit cannot be comprised like any other municipality or special district local government audit. We do not anticipate using any professional staff on a part-time basis. In addition to our Idaho, Colorado and Utah offices, we have access to more than 100 other professionals that specialize in government audits from other offices, if needed.

6. Name, Address, business and telephone number, and fax number of the contractor's principal contact.

Eric Berman, MSA, CPA, CGMA
Partner
877 W. Main Street
Suite 800
Boise, ID 83702
Direct 208.424.3524
Main 208.344.7150
Mobile 626.375.3600
Fax 208.344.7435
eberman@eidebailly.com

7. Contractor's Federal Employer Identification Number

Eide Bailly LLP - 45 0250958

8. Statement regarding the financial stability of the contractor, including the ability of the contractor to perform the requisite services.

Eide Bailly is a financially stable partnership and has the capacity and experience to perform the requisite services as required by the State and Legislative Auditor. This is evidenced by our peer review and commitment to continuing professional education, with documentation included as appendices to this proposal.

F. Technical Information

After reviewing the subsequent sections of this proposal, you will realize that Eide Bailly is a firm with the expertise to render the services needed for the State of Nevada. We will plan and perform the audit in a collaborative, consultative manner, exceeding your expectations, saving the State valuable time and resources. With your help, we have a plan to deliver the information required in the Scope of Services in a far timelier basis than the State is currently experiencing.

G. Project Staffing and Organization

We are passionate about our work—and your success. We have chosen professionals for your service team based on their knowledge and experience in the government industry.

1. Staffing

Eric Berman will oversee all engagements and serve as Client Relationship Partner and Lealan Miller will serve as Consulting Partner for the State engagement. Kimberley K. Higgins and Ross Youngberg will serve as the engagement Partners. Your Senior Managers will consist of Susann Hartwig and Paul Kane, and Brad Berls, Ryan Tesch and Aly Steele will serve as Managers. Tyler Freeman and Justin Stevenson will serve as Senior Associates, and additional seniors and staff level members will be assigned as needed.


We also have access to a partner from a Reno accounting firm that is an affiliate of Eide Bailly, who has direct experience dealing with NRS 354.624. We will have access to this partner insuring that we are addressing the issues related to NRS 354.624. We have included a short bio of the partner below and the fees related to any consultation are included in our cost proposal.

These professionals have strong credentials and a desire to work with the State. If awarded this engagement, these individuals will serve as your primary contacts. Additional resources, including members of our Consulting Team, will support the project team as necessary.

One of our strong points is our ability to answer operational and advisory questions. Our clients feel comfortable calling us for input and advice on their ideas. Consulting with Eide Bailly can help the State “look before they leap” into projects and allows us to be proactive in helping the organization structure the events or projects to your best advantage. Your Consulting Team consists of partners and managers who specialize in a variety of fields that would benefit the State. A few include:

- **Technology Consultants**

- Our technology consultants are experienced business and technology professionals—including Certified Information Technology Professionals, Certified Project Managers, Certified Network Engineers and Certified Expert Penetration Tester—who are resourceful and versatile. We use proven methodologies to develop and implement the right solutions for your needs. These consultants can assist the State in its vital duty to safeguard and protect personally identifiable information. We regularly provide our clients with IT controls reviews. We assess the administrative, technical and operational controls that exist as well as an assessment of IT



applications. This evaluation identifies suggested improvements that management can implement to ensure systems availability and process integrity. We can help identify potential weaknesses in IT systems and provide recommendations for improving controls and mitigating risk. Compliance with HIPAA, GLBA, PCI, DSS and other regulations, along with the provisions that are vital to a State Government. We can help identify and test risks and help design and strengthen controls, policies and procedures. Finally, to boost better communications to Citizens and decision-makers, dashboards are becoming commonplace for even small and medium-sized governments. We can help the State implement executive dashboards on top of any existing system.

- **Forensic Services**

- Our qualified professionals consist of Certified Fraud Examiners, Certified Public Accountants, Licensed Private Investigators, past law enforcement professionals and Certified Forensic Interviewers. With access to the latest forensic accounting software, our team specializes in interview and interrogation, and fraud detection and investigation, specifically employee theft examinations. We have the proven ability to document fraudulent activities for use in criminal and/or civil courts by applying fraud methodologies to refute/support fraud allegations.

- **Risk Management**

- Eide Bailly's practical approach to ERM leverages the risk management efforts that the State may currently have underway. We have developed a dynamic, six-step ERM process to provide executive management with the information needed for effective decision-making. During our process, we use a Risk Universe, which illustrates both internal and external factors that provide the basis for identifying individual and categories of risks, and how they may be interrelated. Together, we will design a practical and customized approach that aligns with your organization's strategic objectives. We have also fully implemented the new Committee of Sponsoring Organizations (COSO) framework and have trained State of Nevada (and other states) personnel already on its impact.

- **Service Organization Control Reports**

- Especially as part of the implementation of the new defined benefit pension standards, the AICPA may require the State to have service organization control (SOC) reports. Our firm is fully staffed and ready to perform these engagements.

- **Insurance Services**

- Currently, we are engaged to review the structure and organization of a fund that provides Workers' Compensation activities for a State. We may be able to perform these in a similar fashion for the State of Nevada.

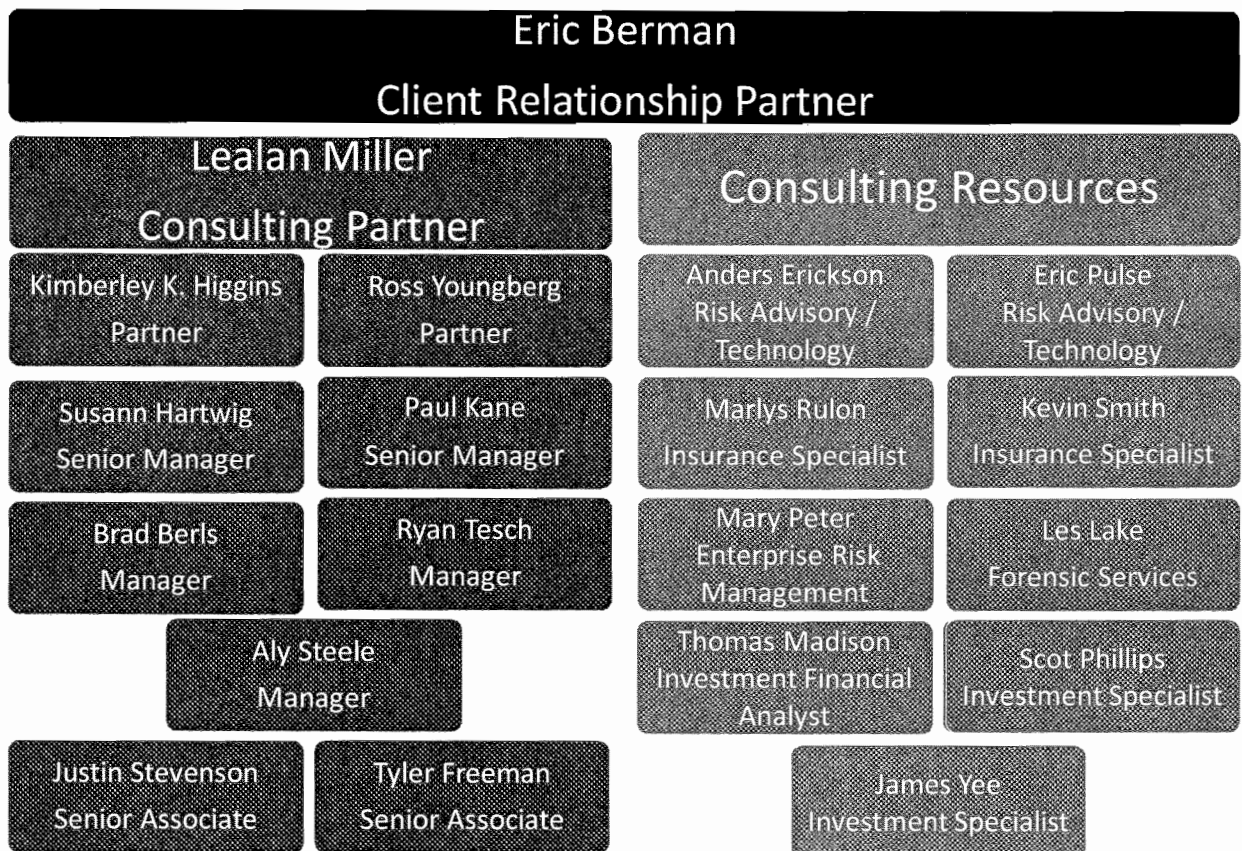
- **Investment Services**

- The GASB is in the midst of issuing guidance on fair value measurement and application. We have a team of specialists in investment valuation that can work with the State Treasurer to properly implement the forthcoming standards.

- **Health Care Reform (Affordable Care Act) Consulting**

- Eide Bailly has developed a proprietary tool to help the State make informed decisions regarding health insurance coverage. We also have expertise in understanding and complying with the new reporting and tax requirements.

Organization Chart



To deliver the requirements of the State's audit in advance, we believe that we have assembled a team that exceeds expectations as can be seen with the above personnel.

The projected hours under the proposed contract are as follows by each type of employee including Muckel Anderson partner and staff:

| | |
|---|--------------|
| Partners including Consulting Partner | 700 |
| Senior Managers and Managers | 700 |
| Senior Associates | 875 |
| Associate Staff and Clerical | 1,225 |
| Consultants | As needed |
| Total Number of Hours Estimated for the State of Nevada's Engagement | 3,500 |

We know the importance of a strong business relationship and, therefore we keep staffing changes to a minimum from year-to-year. Eide Bailly has a high retention rate, which allows us to provide stability. Your service team has extensive experience in the government industry. You will find comprehensive profiles for each team member in Appendix A. The following information will provide an overview of your service team.

Eric Berman, MSA, CPA, CGMA – Client Relationship Partner



Eric will serve as the State's lead client service partner. He brings more than 24 years of public accounting experience, and is unique in the fact he not only possesses nationally recognized audit experience, but also preparer, educator and authorship experience. Eric has worked in the governmental industry throughout his career. His experience includes acting as the Deputy Comptroller for the Commonwealth of Massachusetts, where he ran the State's audit for 11 years. He was also the Chief Financial Officer of the Massachusetts Water Pollution Abatement Trust, and served as Vice Chairman on the Government Accounting Standards Advisory Council (GASAC) to GASB. He is a nationally recognized expert on public employee retirement

systems, OPEB, derivatives, the single audit, governance and other important topics. He is also the author of the entire governmental library of reference information and audit programs for CCH Wolters Kluwer. His experience with states includes leadership positions with the National Association of State Auditors, Comptrollers and Treasurers.

Eric will bring this experience and knowledge of the governmental industry to the Engagement. Some of his audit clients have included: the City of Seaside, City of Pasadena, the Rose Bowl Operating Company, the Pasadena Center and Operating Company, the County of Riverside, Los Angeles County Employees' Retirement Association; Fresno City Employees' Retirement Association, and the Pasadena Community Development Commission. He has provided consulting expertise nationwide on a number of complex topics facing states, cities, counties and special districts.

Lealan Miller, CPA, CGFM – Consulting Partner



Lee will serve as a Consulting Partner and will provide technical support to the audit team when needed. He has 23 years in public accounting and possesses a high level of insight in government industry audits. He is currently the Director of Eide Bailly's Government Services Group, which oversees the governmental audit practice across all offices of the Firm. Lee recently completed his term as a member of the AICPA's State and Local Government Expert Panel and has been appointed to the GASAC which advises GASB on government standards.

Lee has partner responsibilities for several similar organizations including the City of Boise, the City of Flagstaff, the Town of Buckeye, Public Employees Retirement System of Idaho, South Dakota Retirement System, Rogue Community College, Treasure Valley Community College, and Boise State University Foundation. He also has experience as a Consulting Partner for Jefferson County, Colorado. Lee is a reviewer for the GFOA's Certificate of Achievement review program.

Kimberley K. Higgins, CPA – Partner



Kim has more than 30 years in public accounting, with experience in the government industry throughout her career. Kim currently has partner responsibility on a number of government clients, including state and local governments. She is integrally involved in the firm's A-133 practice, serving some of our largest governmental, non-profit and for-profit clients receiving federal awards. Her governmental clients include the Colorado State Lottery, Jefferson County, Douglas County, Summit County, Elbert County, the City of Commerce City, the City of Thornton, the Town of Breckenridge and the Town of Castle Rock. She also has experience as a Consulting Partner for the North Dakota Guaranteed Student Loan Program.

Kim has been a presenter on several key topics, including A-133 and Single Audits; New Auditing Standards; City Fraud Presentations; Sarbanes-Oxley, Government News Follies, and other topics for National, State and local governmental associations. She is a member of the AICPA, Colorado Society of CPAs Governmental Issues Committee, GFOA Special Review Committee, Governmental Audit Quality Center, Colorado Government Financial Officers Association, Government Finance Officers Association, Colorado Municipal League, Special District Association and Colorado Counties Inc.

Ross Youngberg, CPA – Partner



Ross has more than 37 years in public accounting with experience in the government and non-profit industries throughout his career. Ross has partner responsibilities for a number of similar entities, including the Salt Lake City International Airport. Ross' governmental experience includes Universities and Colleges, College Foundations, Towns, and Special Districts and he is a reviewer for the GFOA's Certificate of Achievement review program.

The Salt Lake City International Airport first applied for and received its certificate of achievement in financial reporting while a client of the firm. Ross has twice chaired the State and Local Government Committee for the Utah Association of Certified Public Accountants.

Susann Hartwig, CPA – Senior Manager



Susann has more than 20 years of public accounting experience. She currently provides audit services to counties, cities and towns, cooperatives and non-profit organizations. Susann has extensive experience working with yellow book and A-133 audits and speaks and trains on governmental topics. She is actively involved with her governmental clients on a continuing basis. Susann serves on the Colorado Governmental committee and teaches and writes articles with our governmental service team. Her governmental clients include Colorado State Lottery, Jefferson County, Douglas County, the City of Thornton, the City of Louisville and the City of Lafayette.

Paul Kane, CPA – Senior Manager



Paul has more than 10 years of audit experience and has worked with the government industry throughout his career. He has served as the engagement senior manager on several large governmental audits, including the Colorado State Lottery, Jefferson County and Douglas County. Paul has experience with A-133 single audits, including working with a variety of federal grants and agencies. His governmental clients include Pitkin County and the City of Thornton, as well as several other local agencies. Paul will ensure that our work conforms to the highest standards, and will work closely with the entire management team to ensure the timely completion of the audit.

Brad Berls, CPA – Manager



Brad began his career with a prominent CPA firm in Nevada that provides auditing services to a number of governmental clients. During Brad's time with this firm, he worked with various governmental entities, ensuring compliance with the Nevada Revised Statutes (NRS) 350 and NRS 354. He has more than nine years in public accounting, with experience in the government industry throughout his career. While with Eide Bailly, Brad has worked on Ada County, Boise City School District, City of Nampa, Capital City Development Corporation, South Dakota Retirement System and the Public Employee Retirement System of Idaho.

Ryan Tesch, CPA – Manager



Ryan has more than nine years in public accounting with experience in the government industry throughout his career. Ryan provides services to many industries, including government, single audit and non-profit entities and has experience conducting A-133 audits for some of the largest governments in the State of Utah. Ryan has managerial responsibility for several governmental clients, including Salt Lake City Corporation, Salt Lake City International Airport, Salt Lake

County and Wasatch County School District. He is knowledgeable of the unique requirements the government industry presents and is experienced in providing effective solutions. Ryan has expertise conducting audits under the Public Companies Oversight Board, privately held companies, State of Utah Legal Compliance, government, non-profit and employee benefit plan audits.

Aly Steele, CPA – Manager



Aly has five years in public accounting with extensive experience in the governmental industry throughout her career. She has had experience in dealing with clients located outside of our local office. Some of these clients include the University of Guam, Rogue Community College, Eugene, Oregon and Treasure City of Grants Pass, Oregon. Aly's focus will be on the single audits relating to the State. She has worked on several single audit programs similar to the State with her experience at the City of Boise and Ada County. A few of Aly's governmental clients include Ada County, Capital City Development Corporation, Wallowa County Health District, and Harney District Hospital.

Justin Stevenson – Senior Associate



Justin will serve as Senior Associate and will be responsible for timely delivery of the audit. He has more than two years in public accounting with experience in the government industry throughout his career. He also has knowledge of fund accounting and the related reporting and disclosures for governmental clients. A few of Justin's government clients include Salt Lake City International Airport, Town of Alta, and Wasatch County School District.

Tyler Freeman – Senior Associate



Tyler will also serve as Senior Associate and will be responsible for timely delivery of the audit. He is in his third year in public accounting with experience in the government industry throughout his career. Tyler's government clients include Canyon County, Ada County, the City of Meridian, and the City of Caldwell.

We will also have 6-8 associate level staff assigned to support the team as necessary. Based on our schedule and the timing of the audit, the above members will be the team that performs the audit.

Practicewise

To bring focused experience to our clients, as well as to provide local service to clients located in cities where Eide Bailly does not have offices, we have developed a group of quality CPA firms to form Practicewise. Through this group, you will have access to the talents, skills and resources of more than 1,000 additional professionals throughout the United States, including: Lauren Sankovich and the firm of Muckel Anderson CPAs located in Reno, Nevada. Muckel Anderson will provide additional resources for this engagement.

Lauren Sankovich, CPA, CFE – Partner



Lauren has more than 15 years of experience in public accounting with a concentration on audit, tax and litigation support/forensic accounting. Her audit, accounting and consulting experience has been with local corporations, not-for-profits, employee benefit plans, governments, construction, and homeowners' associations. Lauren's specialty is an excellent resource for the State and its agencies especially dealing with NRS 354.624 since she has dealt with Nevada governments all 15 years of her career. Lauren is a partner with Muckel Anderson CPAs and located in Reno, Nevada.

Team Assignments

The proposed audit team will be involved as follows with the following programs/deliverables:

| Team | CAFR Audit | A-133 Audit | Programs / Deliverables Other |
|-------------------------|------------|-------------|---|
| Eric Berman | √ | √ | Group Audit, Lead Engagement Partner, Coordination with Legislative Audit, Comptroller, Leadership, Consulting, Interaction with decision-makers and State of Nevada leadership |
| Lealan Miller | √ | √ | Technical review, Coordination, Consulting |
| Kimberley Higgins | | √ | A-133 Major programs leadership, SEFA, Internal Controls |
| Ross Youngberg | √ | | CAFR, Component Unit coordination |
| Susann Hartwig | | √ | A-133 day to day management |
| Paul Kane | √ | √ | CAFR as well as A-133 management |
| Brad Berls | √ | √ | NRS-354, CAFR, A-133 |
| Ryan Tesch | √ | √ | CAFR, A-133 |
| Aly Steele | √ | √ | CAFR, A-133 |
| Justin Stevenson | √ | √ | CAFR, A-133 |
| Tyler Freeman | √ | √ | CAFR, A-133 |
| Lauren Sankovich | √ | √ | NRS-354, CAFR, A-133 |
| Consultants/Specialists | √ | √ | IT, insurance, forensics, risk, investments etc. (as needed / on demand) |

Additional Resources – Consulting Team

If necessary, the State will have access to a consulting-centered team of over 130 professionals that spend a significant amount of their time working within the governmental industry. The following are a few members of our governmental committee from which the State would have access to if the need arose.

Anders Erickson, CISA, CRISC – IT Senior Manger



Anders has more than nine years of experience providing IT risk and control solutions within the private and public sector. His experience includes planning and executing assessments of IT security practices, risks, and controls against organizational, industry, and government standards. Anders is a Certified Information Systems Auditor as well as certified in Risk and Information Systems Control.

Eric Pulse, CISA, CISM, CRISC, GSEC, CFSA – Director of Risk Advisory Services



Eric has more than 15 years in the public accounting and consulting industry providing information technology risk advisory and security consulting services to a variety of industries, including government, health care, insurance, financial services, banking, and credit union. Eric has worked with clients on information system security certification and accreditation activities as required under Federal Information Security Management Act of 2002 for low, moderate, high impact federal information systems. He has also worked with preparation of information systems accreditation packages in accordance National Institute of Science and Technology (NIST) with Federal Information Processing Standard publication and Special Publication frameworks (i.e. NIST SP 800-53).

Marlys Rulon, CPA, CVA – Senior Manager



Marlys has more than 20 years in the public accounting including 14 years as an insurance industry statutory and GAAP auditor. She has experienced in life, health, disability, property casualty and workers compensation companies insurance and assists with regulatory financial examination services using TeamMate Audit Management System ® and ACL © software. In addition to public accounting experience, Marlys formerly served as chief financial officer for a large property, casualty, life and health insurance agency and served as a director for a Bermuda captive.

Kevin Smith, CPA – Partner



Kevin has more than 23 years in public accounting with experience serving a variety of clients, including government, health care and insurance. Some of the clients he has Partner and Engagement Quality Review responsibilities for are as follows: Delta Dental of Idaho, Hometown Health Plan, Avera Health Plan and Montana State Fund.

Mary Peter, CPA – Partner



Mary has more than 25 years of risk management experience and has worked with the financial institutions and insurance industry throughout her career. She leads the firmwide consulting for Enterprise Risk Management (ERM) program development and redesign. Mary works with clients on driving improved performance at all levels in an organization, utilizing ERM as a competitive advantage. A member of US TAG for the ISO 31000 Risk Management Standard and co-chair of an ERM Roundtable for ERM Executives, Mary is a frequent speaker and author on the topic of ERM at national, regional, state and industry conferences.

Les Lake, CFE, CREI – Forensic Manager



Les has more than 35 years combined experience in public and private accounting, business development and investigative services, specializing in governmental and health care fraud, real estate and mortgage loan fraud, and financial and tax analysis. He provides litigation support services for civil and criminal court for financial-related matters, including testifying before administrative hearings and court proceedings in magistrate, district, state Supreme Court, federal district and federal tax courts.

Thomas Madison, CFA, CPA – Partner



Thomas has more than 11 years public accounting experience providing services to a variety of industries, including trust companies, non-profit, foundations, construction, manufacturing, aggregates, wholesale and retail companies. He has partner responsibility for more than 85 organizations, many with significant investment portfolios, and has experience with derivatives and alternative assets. Thomas is a member of the Chartered Financial Analyst Institute.

Scot Phillips, CPA – Partner



Scot has more than 15 years public accounting experience providing services to a variety of governmental agencies, performing audits and consulting. Scot has also worked with several agencies regarding investments that qualify as derivative instruments in determining both accounting and disclosure requirements in accordance with GASB 53.

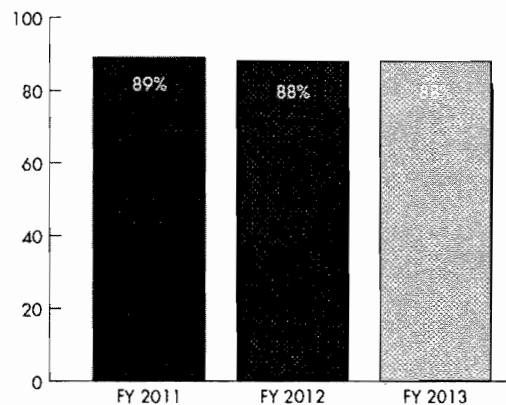
James Yee, CPA – Senior Manager



James has more than 10 years public accounting experience providing services to a governmental entities, including state agencies, counties, cities, school districts and special purpose entities. James has extensive experience working with investment based entities including endowment funds, foundations, investment management companies and investment funds.

2. Staff Quality and Continuity

Eide Bailly Firmwide Staff Retention Rate



To help ensure a strong business relationship and to minimize disruptions, we keep staffing changes to a minimum. Compared to the national average, Eide Bailly experiences a high retention rate (88% in FY2013), which provides stability in our business relationships. We have been successful in retaining our staff by providing a nurturing and caring environment—and by becoming the workplace of choice for 1,300 people. In addition, our firm was ranked as a Top 15 best accounting firm in North America for quality of life and prestige by Vault.com's *Accounting Firms Annual Rankings*. When you work with Eide Bailly professionals, you can be certain that you are working with people who love what they do and take pride in where they work and with whom they work. We are dedicated to being there for the State, both now and into the future.

The team identified above is considered to be essential to the services to be provided. Should the need arise to change any of the key engagement personnel, we will notify you in writing and provide the qualifications of the proposed replacement. Upon your approval, new engagement personnel will join your service team.

H. Contractor Services Overview/Objectives

We have read and understand the annual services to be performed as indicated in the Request for Proposal issued by the State, to be:

1. Determine and report whether the Basic Financial Statements of the State of Nevada are presented fairly in conformity with generally accepted accounting principles.
2. Determine and report on the supplementary information and required supplementary information included in the Comprehensive Annual Financial Report.
3. Determine and report whether the assessment of the internal control structure made as a part of the examination of the Basic Financial Statements disclosed any significant deficiencies or material weaknesses in the State's accounting system.
4. Determine and report whether the State of Nevada has complied with laws and regulations that may have a material effect on the financial statements.
5. Determine and report whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
6. Determine and report on compliance with laws, regulations, and the provisions of contracts or grant agreements which have a direct and material effect on each major program.
7. Determine and report on the implantation status of the recommendations presented in the Single Audit Report of the State of Nevada for the prior year.
8. Any other objective or reporting requirements as defined by regulations developed pursuant to the Single Audit Act Amendments of 1996, as amended.

We have further detailed our strategy in the next section to this proposal.

I. Contractor Capabilities

1. Business Organization

Principal Office

Eide Bailly LLP
4310 17th Ave. S.
Fargo, ND 58108
Phone: 701.239.8500
Fax: 701.239.8600
www.eidebailly.com

Primary Contact

Eric S. Berman, MSA, CPA, CGMA - Partner
877 W. Main Street, Suite 800
Boise, ID 83702
Phone: 208.424.3524
Fax: 208.344.7435
eberman@eidebailly.com

2. Peer Review

Eide Bailly is a member of the AICPA Private Companies Practice Section (PCPS) and Center for Public Company Audit Firms (CPCAF). Our membership with the AICPA requires a third-party peer review of our audit and accounting practice every three years.

A copy of our Firm's most recent peer review is included in Appendix B of this technical proposal. The quality review included governmental engagements as required by the AICPA Government Audit Quality Center. We are also currently registered with the Public Company Accounting Oversight Board (PCAOB). The portion of our practice related to PCAOB/SEC engagements is subject to an inspection by the PCAOB every three years. A copy of our most recent PCAOB inspection report can be found on the PCAOB website at www.pcaobus.org.

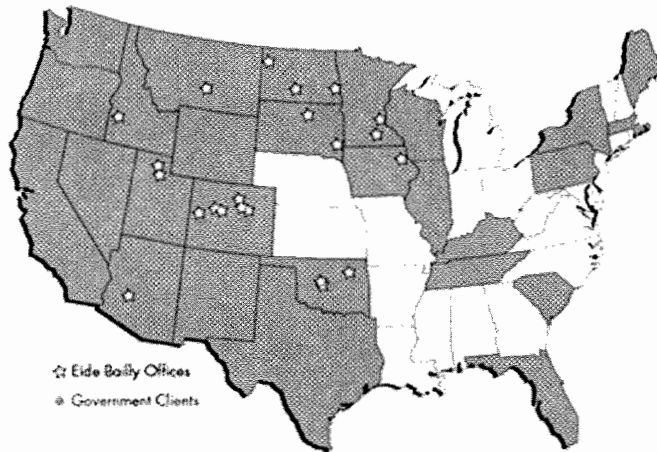
3. Independence

Eide Bailly is independent of the State as defined by the generally accepted auditing standards and the U.S. General Accountability Office's *Government Auditing Standards*. Within the past five years, the Firm has not had any relationships involving the State or its agencies/component units. Should Eide Bailly enter into any professional relationships deemed relevant during the course of this engagement, we will notify you in writing.

4. Experience of the Firm

Founded in 1917, Eide Bailly is a Top 25 CPA Firm in the nation, with 22 offices in 10 states. Eide Bailly has over 1,300 professionals with diverse skill sets and experiences to support this thought leadership, providing local and personal service before, during and after engagements. These professionals share information, learn from others and stay up-to-date on industry developments. This knowledge is then shared with professionals across the Firm to gain the greatest benefit. Eric Berman is a nationally recognized state and local government thought leader and author, presenting at dozens of venues annually nationwide. Due to his unprecedented skill set, our clients benefit from his knowledge.

The following map identifies Eide Bailly's office locations and client locations where we have governmental clients, as well as locations we have provided training and thought leadership engagements, throughout the nation.



The governmental industry represents Eide Bailly's third largest niche area—with more than 500 governmental clients Firmwide. Through serving these clients, our professionals have gained focused expertise in the governmental industry and will provide you with insightful advice that aids in managing the finances of the State.

Eide Bailly provides services to a wide range of government entities. However, we have built our practice around the needs of clients similar to the State. You will receive effective solutions that meet your needs from industry specialists who are familiar with government and single audits. Our goal is to provide the best teams for your audit while keeping costs to a reasonable amount.

Single Audit Experience

Eide Bailly has experience providing single audits related to federal expenditures which ensure our clients remain compliant. Our single audits include an audit of both the financial statements and the federal awards. We also assist in the preparation of the data collection form and prepare the reporting package for submission to the federal clearinghouse.

Eide Bailly audits more than \$5 billion in federal expenditures, which provides us with extensive experience in single audits. Our single audit experience includes the Department of Housing and Urban Development, Department of Agriculture, Department of Commerce, Department of Interior, Department of Transportation, Department of Justice, Department of Labor, Department of the Treasury, Department of Health and Human Services, Homeland Security, National Foundation on the Arts and the Humanities, Environmental Protection Agency, Department of Energy, Office of the National Drug Control Policy, Department of Defense, Department of Education, and the Bureau of Land Management.

Paired with our many years of experience, we are qualified to effectively work with your organization to ensure that federal requirements are met. In addition, Eide Bailly participates semi-annually in the Single Audit Roundtable, which is a meeting of federal single audit coordinators and public accountants to discuss issues related to auditing federal dollars. We are involved first-hand as new items are discussed and clarifications are provided for different areas. This involvement ensures our staff members are aware of regulation changes which reduces your staff's need to do so including the upcoming changes in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* being implemented throughout 2014.

Implementation of New Standards

In an industry where standards continually evolve and change, Eide Bailly makes it a priority to be part of the due process of changing standards and assist our clients with necessary changes. In addition to helping clients implement new standards, we also help them adapt to changes within the existing standards.

Additionally, several Eide Bailly professionals are placed on committees that have input into how new standards are written. This enables us to be involved from the beginning and influence the final outcome. Our clients benefit from our strong understanding of the standards and how they may affect their organization.

To this end, in addition to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* that will be implemented during the proposed engagement, the following GAAP changes are expected:

| Statement | Title | Implementation Fiscal Year Ended June 30 th |
|----------------|---|--|
| GASB-65 | <i>Items Previously Reported as Assets and Liabilities</i> | 2014 |
| GASB-66 | <i>Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62</i> | 2014, but likely on an “as needed” basis |
| GASB-67 | <i>Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25</i> | 2014 |
| GASB-68 | <i>Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27</i> | 2015 |
| GASB-69 | <i>Government Combinations and Disposals of Government Operations</i> | 2015, but likely on an “as needed” basis |
| GASB-70 | <i>Accounting and Financial Reporting for Non-exchange Financial Guarantees</i> | 2014, but likely on an “as needed” basis |
| GASB-71 | <i>Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68</i> | 2015 |

Projects in the midst of due-process:

| Statement | Title | Implementation Fiscal Year Ended June 30th |
|------------------------|---|---|
| Concepts | <i>Conceptual Framework –</i> | 2014, will have no effect on the State’s financial reports. |
| Statement No. 6 | <i>Measurement</i> | |
| TBD | <i>Fair Value Measurement and Application</i> | 2016 as slated to become a final standard by March of 2015 |
| TBD | <i>Fiduciary Responsibilities</i> | 2016 as slated to become a final standard by June of 2015 |
| TBD | <i>GAAP Hierarchy – Reexamination</i> | 2016 as slated to become a final standard by June of 2015. |
| TBD | <i>Other Postemployment Benefit Accounting and Financial Reporting—Employer</i> | 2016 as slated to become a final standard by June of 2015 |
| TBD | <i>Other Postemployment Benefit Accounting and Financial Reporting—Plan</i> | 2016 as slated to become a final standard by June of 2015 |
| TBD | <i>Other Postemployment Benefit Accounting and Financial Reporting—Pensions Not Within Statement 68 Scope</i> | 2016 as slated to become a final standard by June of 2015, but may not have an effect on State’s financial reports as irrevocable trusts are used |

Up to ten additional projects may be added to the current GASB agenda at a meeting in early March occurring at the National Association of State Comptroller’s conference in Reno. We will be in attendance so that we can inform our clients of results as soon as possible to start the planning process for change.

Several of these projects are worth additional comment beyond the previously discussed pension standards changes:

- *Leases* – the project may result in all leases greater than one year in length being reported as assets on the lessee’s financial reports along with a liability for the present value of payments due the lessor. The project is controversial and may result in a lengthier due process. Discussions are taking place at the National Association of State Comptroller’s meeting in Reno and throughout 2014. If implemented as tentatively discussed by the Board, the project may have a significant effect on the State of Nevada’s CAFR.
- *Tax Abatement Disclosures* – the project may result in tax “expenditures” and abatements being reported on the financial reports. The project is in the initial phases of research.

In addition, the Board may add to the current agenda a *Reexamination of the Financial Reporting Model* at the National Association of State Comptroller’s conference. The project is researching ways to modernize the overall financial reporting process. The project is currently in the pre-agenda research phase. The goal may be to implement a replacement for the current financial reporting model by 2020. Eide Bailly is heavily involved in this

project as GASAC members and observers of the GASB. We have already been talking to our clients about this potential project and have provided direct feedback to the GASB on our client's thoughts. We believe that a report similarly to what the State of Nevada already produces in its landmark "*A Report to Our Citizens*" is a partial solution to the problems of the current financial reporting model. Eide Bailly encourages this type of reporting for all of our clients as we are leaders in the AGA. We are also in the final stages of publishing additional practices for Executive Officer Centric – Reporting. Under Eric Berman's leadership of the AGA Financial Management Standards Board, they have tentatively entered into an agreement with *Governing Magazine* and the Volcker Alliance (founded by ex-federal reserve chairman Paul Volcker) to expand the use of reporting similar to what is seen in the *Report to Our Citizens* nationwide to Citizens and executive decision-makers.

Industry Involvement

Eide Bailly governmental professionals are well-positioned in organizations associated with governmental entities. We are members of the AICPA Governmental Audit Quality Center, whose primary purpose is to promote the importance of quality government audits. We have also held leadership roles in the GFOA at both the national and local levels.

Several members of our Firmwide government team, including Lealan Miller, Kim Higgins and Ross Youngberg are members of the GFOA's Special Review Committee for the Certificate of Excellence for Achievement in Financial Reporting. Because we know how important achieving the GFOA Certificate of Excellence for Achievement in Financial Reporting is to clients, we work with them to achieve this certification. Specific ways we have worked with our clients include the following:

- Review GFOA checklist as part of the audit process and ensure that all issues from the checklist have been addressed in the audit
- Frame our audit report so that it is GFOA-compliant
- Review any comments related to deficiencies and corrections received from the GFOA and help clients to make the necessary adjustments to fix the identified issues

Through these involvements, we stay abreast of and have input into new issues in governmental accounting. Your service team is very knowledgeable in emerging issues and how we can help the State with these issues. Below is a summary list of some of our government audits and who have been awarded and currently maintain the GFOA's Certificate of Achievement for Excellence in Financial Reporting:

GFOA Certificate for Excellence in Financial Reporting Clients

- | | | |
|------------------------------|---|-------------------------------|
| • Ada County, ID | • Jefferson County, CO | • City of Sioux Falls, SD |
| • Douglas County, CO | • Weber County, UT | • Ogden City, UT |
| • City of Billings, MT | • City of Moorhead, MN | • City of Fargo, ND |
| • City of Deephaven, MN | • Town of Buckeye, AZ | • City of Boise, ID |
| • City of Flagstaff, AZ | • City of White Bear Lake, MN | • Washington State Lottery |
| • City of Salt Lake City, UT | • Public Employees Retirement System of Idaho | • Omaha Housing Authority, NE |

In addition to those clients previously listed, we have provided a list below of a few more governmental clients Eide Bailly currently serves:

| Governmental Clients | | |
|------------------------|---------------------------|------------------|
| Benton County | City of Lafayette | Deschutes County |
| Burke County | City of Louisville | Dickinson County |
| City Of Aberdeen | City of Mandan | Dubuque County |
| City of Ashton | City of McCall | Elbert County |
| City of Big Stone City | City of Meridian | Garden City |
| City of Bismarck | City Of Milbank | Jefferson County |
| City of Bowdle | City of Minot | Linn County |
| City of Britton | City of Nampa | Louisa County |
| City of Caldwell | City of Pierre | McKenzie County |
| City of Commerce City | City of Steamboat Springs | Mountrail County |
| City of Del City | City of Surprise | Pinal County |
| City of Dickinson | City of Thornton | Slope County |
| City of Dunseith | City of Waubay | Summit County |
| City of Grants Pass | City of Williston | Williams County |
| City of Ipswich | Delaware County | |

You can feel confident that Eide Bailly has the quality reputation and experience required to serve as your professional services firm.

Unprecedented Government Industry Thought Leadership Experience

Our team members are truly engaged in this industry and are well positioned in organizations associated with governmental entities. We are leaders in the Governmental Accounting Standards Advisory Council (GASAC), the AICPA's Governmental Audit Quality Center, State and Local Government Expert Panel and PCPS Technical Committee, local and national boards of the AGA, including the Financial Management Standards Board, and the review committee for the GFOA's Certificate of Excellence for Achievement in Financial Reporting. Due to our leadership positions, including the vice-chairmanship of the GASAC, the State will have access to information not available from other accounting firms.

A number of partners at Eide Bailly are nationally recognized state and local government thought leaders who present at dozens of venues annually, nationwide. These presentations include the following entities: California CPA's, AGA, National Association of Housing and Redevelopment Officials (NAHRO), Iowa State Society of CPA's, Idaho Society of CPA's, Utah Society of CPA's, Massachusetts Society of CPAs and Colorado GFOA. We also provide training for state and local agencies. Some of these agencies include Controllers' and Auditor's offices of the State of Tennessee, State of Montana, Commonwealth of Massachusetts, State of Texas as well as the State of Nevada.

Eric Berman is the author for the entire Governmental Library for Commerce Clearinghouse Wolters Kluwer (CCH). This library serves as the interpretative reference on governmental GAAP, governmental best practices and governmental audits for governments, auditors and educators nationwide.

Passing Our Experience onto You

Another source of added value that Eide Bailly brings to its clients is industry thought leadership media. The main forum through which Eide Bailly provides this thought leadership to our state and local government clients is Eide Bailly *Government Insights*. These email-blasts and newsletters were established to serve as a strategic resource for government management seeking to achieve high standards of accountability, transparency, and performance. The *Insights* are a forum for ideas, a place to share leading best practices, and a source of thought leadership as a catalyst to help governments address difficult challenges and emerging issues. This thought leadership includes white papers, articles, and other publications and webcasts focusing on financial reporting, audit and operational topics that are on demand for viewing at your convenience. Some representative examples of thought leadership available on demand at <http://www.eidebailly.com/industries/government> include:

- The New “Super-Circular” and What You Need to Know Now
- The New 2013 Data Collection Form
- Preparing for the New Pension Standards
- An Inside Look at GASAC and GASB
- The New GASB Statements (60 through 65)
- Health Care Reform
- Accounting in the Cloud
- Computer Forensic Technology: A Personal Look at Recovering the Truth
- Arbitrage Rebate and Verification
- GASB going electronic

We have many opportunities during the year for continuing professional education (CPE) for our clients at minimal or no cost. **This CPE at discounted rates is included as part of our proposed contract.** In fact, we train and peer review other firms nationwide, including perhaps your current provider.

Because we are committed to the governmental industry, we provide our clients, potential future clients, non-clients and our own professionals with specific, ongoing training related to governmental issues. This investment ensures not only our people, but the public sector in general stays current on the unique challenges and opportunities that are present so that as many people as possible are in the best position to address these issues.

Eide Bailly offers a number of general and industry-specific publications to our clients and business friends. These publications are a reflection of our skilled knowledge base and are designed to provide you with insight into various aspects of business. We have included three of our most recent Governmental Insights Newsletters as additional attachments in Appendix D.

Our clients are truly the best critics of our service. Listed below are several governmental clients performed in the past five (5) years that have similarities to State. We encourage you to contact these clients to learn more about their Eide Bailly experiences.

| Similar Engagements | | | | | |
|---------------------|--|-------------------------------------|---|-------------|---|
| Client Name | Scope of Work | Date | Project Partners | Total Hours | Number of Major Programs and total federal awards audited |
| Salt Lake City | CAFR/ Single Audit | 2005-Present | Paul Skeen, Ross Youngberg (consulting) | 2,800 | 5-8 Major programs \$32M - \$36M |
| Principal Contact | | Teresa Beckstrand; ph. 801.535.6416 | | | |
| Jefferson County | CAFR/ Single Audit | 2005-Present | Kim Higgins | 2,500 | 10-20 Major programs audited \$75M-\$100M |
| Principal Contact | | Andrea Amundson; ph. 303.271.8529 | | | |
| Douglas County | CAFR/ Single Audit | 2008-Present | Kim Higgins | 1,400 | 8-15 Major programs audited \$10M-\$50M |
| Principal Contact | | Andrew Copeland; ph. 303.663.6175 | | | |
| City of Boise | CAFR/ Single Audit /Trust Audit | 1995-Present | Lealan Miller | 1,100 | 5-10 Major programs audited \$10M-\$50M |
| Principal Contact | | Jim McMahon; ph. 208.384.3798 | | | |
| City of Thornton | CAFR/ Financial Statement/ Single Audit | 2007-Present | Kim Higgins | 1,000 | 1-5 Major programs audited \$2M-\$15M |
| Principal Contact | | Chuck Seest; ph. 303. 538.7545 | | | |

Continuing Professional Education of our Team

We are committed to the governmental industry and we provide our professionals with specific, ongoing training related to governmental issues. This investment ensures our people stay current on the unique challenges and opportunities within the government sector so they are in the best position to help clients address these issues.

Firmwide, our continuing professional education program requires all professional staff obtain education that exceeds the requirements of the AICPA and where applicable, Government Auditing Standards. The Firm places a strong emphasis on lifelong learning and recognizes the importance of developing our professionals to best serve our clients. This past year we provided our client service professionals with an average of 53 hours of professional education, compared with the 40-hour accounting industry requirement.

Please see Appendix C for a listing of Relevant CPE obtained in the last three years by each member of your engagement team.

Federal Award Audits

Firmwide, Eide Bailly audits more than \$5 billion in federal expenditures, which provides us with extensive experience in single audits. Single audits include an audit of both the financial statements and the federal awards. We also assist in the preparation of the data collection form and prepare the reporting package for submission to the federal clearinghouse.

Your management staff has spent a significant amount of time working within the Governmental industry and auditing entities with federal awards. We have provided a breakdown estimate of the percentages of time by each individual below:

| Federal Award Audit Experience in Last 3 Years | | | |
|--|--------------------|----------------|--------------------|
| | Percentage of Time | | Percentage of Time |
| Eric Berman | 20% | Susann Hartwig | 99% |
| Lealan Miller | 65% | Paul Kane | 33% |
| Kimberley Higgins | 95% | Brad Berls | 65% |
| Ross Youngberg | 33% | Ryan Tesch | 33% |
| | | Aly Steele | 75% |

5. Specific Audit Approach

We have read and understand the required services as outlined in the RFP issued by the State.

Overall Strategy: Our “No Surprises” Approach to the State of Nevada’s Audit

We understand that the State of Nevada wants to work with a trusted auditor—people who will work to ensure that you experience no surprises during the audit. The State of Nevada can depend on Eide Bailly for open, honest, and frequent communication to keep you well informed and deliver a timely audit with no surprises. One of Eide Bailly’s most strategic advantages is to have open communication with our clients. The entire team thrives in an open environment and we firmly believe this is the best way to identify issues, develop strategy, and provide value. Our team understands the importance of responsiveness and timeliness as it relates to significant deliverables, and with the simple things, like returning a phone call. Our team is built to make responsiveness and timeliness a given. Moreover, our quality control processes include requirements for timely communication of Eide Bailly activity including status, reporting, and planning.

We will meet with the State’s leadership team and state agencies to confirm the preferred method of communicating with all relevant parties. “Surprises” are rarely good. Therefore, our communication is clear, timely, and complete. At Eide Bailly, our goal is to understand and exceed your service expectations. Ongoing dialogue is a key component of our success in meeting this objective. You can be sure that when you have questions or seek explanations, your team will be prompt and responsive in providing you with answers.

Our commitment to the State of Nevada is simple: open, forthright, collaborative and continual two-way communication for an ahead of schedule audit. Where others would be distracted with transition, we will be focused on refining our approach to be as efficient as possible.

Our Logical Sequence of Events and Tasks

Our audit approach, whether for the Comprehensive Annual Financial Report (CAFR) or the federal compliance report in accordance with OMB Circular A-133 (A-133), is centered on the proven core concepts of *Planning, Control Evaluation, Testing and Completion*. We will tailor each of our steps to your calendar to ensure the timely completion of our audit deliverables. Based upon our experience and feedback from our largest engagements, we have found that a segment or an agency/department focused approach is most efficient when faced with decentralized environment such as the State of Nevada. Our segment approach is designed to be minimally disruptive to the individual agency/department and their staff. It is developed to be consistent with the State of Nevada’s business processes and will be led by the core team of partners, managers and staff who are familiar with your operations.

The State of Nevada is a classic “group audit” by definition. So this collaborative nature and approach is not only with State officials but other audit firms that provide audit reports on information contained within the CAFR or A-133 report. A large part of the planning, control evaluation, testing and completion phases will be interacting with these firms in a systematic approach.

Our strategy for tracking progress

Our strategy is simple. We want to track progress throughout our engagement by providing up to date information to decision-makers through spreadsheet tools. These tools will be part of an open two-way communication between auditor and client. To that end, we will continue the strategy of regular status meetings to ensure that the State is properly apprised of the audit progress. Status meetings will take many forms and will include:

- Kick-off meeting with the Comptroller's Office and Legislative Council Bureau – Audit Division each year to share Eide Bailly's overall audit strategy.
- Entrance conferences with selected departments to confirm our audit objectives and client responsibilities as managed through our tailored prepared by client or PBC list.
- Status meetings at least by conference call, webinar or video conference with the Comptroller's Office (minimum of monthly with more frequent meetings as audit work progresses).
- Individual department / agency meetings scheduled as frequently as needed. In most cases, there are standing status meetings with the audit liaisons at each department / agency and our managers and staff.
- Exit conferences with all departments to confirm audit results and obtain responses to audit findings and comments, along with setting a firm schedule of delivery of adjudicated audit results to the Comptroller.
- Decision-maker presentations to share audit results and conclusions.

a.) Proposed Segmentation of the Engagements

We understand your requested timeline and are committed to meeting your deadlines. The following table identifies the structure of our audit and the timing of each section. This schedule can be modified depending on the specific needs of the State.

| 1. Engagement Timeline - Audit of State's Comprehensive Annual Financial Report | |
|--|---|
| Activity | Timing |
| Planning | April/May |
| Interim Work | June |
| Fieldwork | September/October |
| Exit Conference | Last day of Fieldwork |
| Final Report | No later than the second Friday in December |

| 2. Engagement Timeline – Audit of Schedule of Expenditure of Federal Awards | |
|--|---|
| Activity | Timing |
| Planning | April/May |
| Interim Work | June |
| Fieldwork | September/October |
| Exit Conference | Last day of Fieldwork |
| Final Report | No later than the second Friday in December |

3. Engagement Timeline – Internal Control Review and Analysis

| Activity | Timing |
|-----------------|---|
| Planning | April/May |
| Interim Work | June |
| Fieldwork | September/October |
| Exit Conference | Last day of Fieldwork |
| Final Report | No later than the second Friday in December |

These will all be accomplished in collaboration, coordination and timely assistance from the Legislative Counsel Bureau–Audit Division, the State Comptroller, and other audit firms, State Departments and Component Units.

b) Type and extent of analytical procedures to be used in the engagement

Eide Bailly will apply analytical procedures throughout general planning to improve our understanding of your operations and to identify audit areas for increased attention. These will be applied to assist in planning the nature, timing and extent of other procedures. They will be applied to all balance sheet, revenue/receipt and expense/expenditure areas. These procedures include, but are not limited to, the comparison of current year to prior year and budget amounts. Areas that show results different from those anticipated or planned will be further investigated to determine the validity of the variance.

During the year end audit fieldwork we use analytical procedures to test whether errors affecting account balances or classes of transactions have occurred by comparing the recorded amount with an independently developed expectation of that amount. We develop the expectation in such a way that a significant difference between the expectation and the recorded amount is indicative of a financial statement misstatement, unless we can obtain and corroborate explanations for the difference. Analytical procedures are a natural extension of our understanding of your business because the key factors that influence your business may be expected to affect the financial data.

In the audit reporting phase we perform a final analytical review at the financial statement level as the last step to ensure that we have gained a comprehensive understanding of the financial statements during the audit engagement and to determine whether the financial statements are appropriately presented and contain appropriate disclosures. Such final analytical procedures highlight and explain significant changes from the previous year and ensure that such changes are consistent with the knowledge of your business and our audit evidence. These procedures typically consider trends based on several previous years instead of comparison only with the prior period.

Eide Bailly software will be used to the fullest extent possible in the analytical review, sampling and account analysis areas. We may ask your personnel to provide certain electronic data files, if available, on which we will use our data extraction software.

c.) Level of Staff and Number of Hours for Each Segment

During fieldwork, Eide Bailly segregates the audit steps for each significant audit area. Based on our reviews of the prior year's audit report and discussions with your personnel, we anticipate the following to be a realistic summary of audit areas and the hours necessary to complete the work by staff level.

| Audit of State's Comprehensive Annual Financial Report | | | | | |
|--|------------|------------|-------------------|--------------------|------------|
| Audit Area | Partner | Manager | Supervisory Staff | Staff and Clerical | Total |
| Planning | 7 | 7 | 9 | 12 | 35 |
| Pre-Work | 7 | 7 | 9 | 12 | 35 |
| Interim Work | 28 | 28 | 35 | 49 | 140 |
| Fieldwork | 88 | 88 | 110 | 154 | 440 |
| Exit Conference | 3 | 3 | 4 | 5 | 15 |
| Final Report | 7 | 7 | 9 | 12 | 35 |
| Total | 140 | 140 | 176 | 244 | 700 |

The ultimate deliverable are whether or not the basic financial statements of the State of Nevada are presented in accordance with GAAP. To this end, our team is fully trained and understands governmental accounting and auditing at the highest levels *before they arrive*.

We use an electronic sampling approach to balances and transactions that are required under professional standards. Many of the transactions may be tested at interim dates and in coordination with internal control structure testing, compliance with laws and regulations, provisions of contracts or grant agreements and other items that may have a material effect on the financial statements.

Eide Bailly is paperless and have tools available to us to connect to your systems to extract data, minimizing back and forth between staff and our audit team. We also use standardized programs and checklists based on a standardized process: Planning, Preparing, Conducting, Reporting, and Ongoing Communication.

We know that the recent GAAP pronouncements on defined benefit pensions and the soon to be released AICPA guidance on auditing the balances and transactions related to pensions will have a profound effect on our GAAP testing as they will be material numbers and disclosure. Furthermore, the State of Nevada may have a special funding situation with other entities. Eide Bailly is working with the AICPA to develop these standards and in fact, we have already presented what may be best practice schedules in sessions where Comptroller's office and the Nevada Public Employees Retirement System personnel and decision-makers have been in attendance. We are ready to work with the State of Nevada to have a successful implementation of the standards through communication, coordination and transparency.

Other areas of focus will differ annually based upon risk and standards. However, the State should expect audit procedures related to, but not limited to:

- Cash and investments
- Receivables
- Capital assets
- Payroll and payables
- Debts
- Restrictions of net position
- Revenues and expenditures
- Presentation and disclosure.
- Restatements and changes (which will occur for the foreseeable future due to implementation of the defined benefit pension standards.)

Determine and report on the supplementary information and required supplementary information included in the Comprehensive Annual Financial Report

The audit and GAAP standards related to supplementary information and required supplementary information seemingly change annually. The focus of our procedures and testing will likely be as follows, but not limited to:

Supplementary Information

- Combining statements and schedules

Required Supplementary Information

- Management's discussion and analysis
- Budgetary comparison information
- Notes to budgetary comparison information
- Schedules required as a cost-sharing employer in accordance with GASB Statement No. 68 (*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*), including 10-year schedules containing the net pension liability and certain related ratios and schedules of statutorily / contractually required contributions, contributions to the pension plan and related ratios.
- Additional schedules required as the State Legislators are members in the Legislators' Retirement System (a single-employer public employee's retirement system,) as well as the Judicial Retirement System (an agent-multiple employer system,) including sources of changes in the net pension liability, components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability and the net pension liability as a percentage of covered-employee payroll. Additional notes will be required for the schedules explaining factors that have significantly affected the trends.

Determine and report whether the State of Nevada has complied with laws and regulations that may have a material effect on the financial statements.

Compliance with laws and regulations are a central theme of demonstrating accountability. As part of our planning process, we will inquire and document all the aspects of laws and regulations that may have a material effect on the financial statements. This extends beyond the annual operating budget to procurement, revenue recognition, allowable investments, presentation and disclosure. Similarly to above, we will obtain an understanding, document our understanding, conclude on the adequacy of controls, test established controls and test for compliance.

| Audit of the Schedule of Expenditure of Federal Awards | | | | | |
|---|----------------|----------------|--------------------------|---------------------------|--------------|
| Audit Area | Partner | Manager | Supervisory Staff | Staff and Clerical | Total |
| Planning | 13 | 13 | 16 | 23 | 65 |
| Pre-Work | 13 | 13 | 16 | 23 | 65 |
| Interim Work | 52 | 52 | 65 | 91 | 260 |
| Fieldwork | 164 | 164 | 205 | 287 | 820 |
| Exit Conference | 5 | 5 | 7 | 9 | 26 |
| Final Report | 13 | 13 | 16 | 22 | 64 |
| Total | 260 | 260 | 325 | 455 | 1,300 |

The Schedule of Expenditures of Federal Awards (SEFA) presentation is ultimately management's responsibility. It is the auditor's responsibility to formulate an opinion on whether the SEFA is fairly presented in all material respects in relation to the financial statements taken as a whole. To accomplish this, we will:

- Confirm and test that the information contained in the SEFA was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
- Confirm that the period covered by the SEFA is the same as that covered by the financial statements.
- Test for compliance in reporting, especially with the forthcoming changes contained in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* being implemented throughout 2014. This will include completeness and valuation.
- Obtain an understanding of the internal controls over the preparation of the SEFA, including the accuracy of the Catalog of Federal Domestic Assistance (CFDA) numbers. If numbers are not entirely accurate, the required Data Collection Form will be rejected.
- Perform the following procedures to determine whether the SEFA is fairly stated in all material respects in relation to the financial statements as a whole:
 - Obtain a copy of an interim SEFA during planning and have the SEFA updated monthly to determine if any new programs or clusters need to be added.
 - Inquire of management regarding the criteria used to prepare the SEFA (i.e., criteria established by OMB Circular A-133 and the basis of accounting, such as the cash or accrual basis).
 - Inquire of management and document any significant assumptions or interpretations that underlie the measurement and presentation of the information.
 - Reviewing compliance with the form and content specifications contained in OMB Circular A-133 (to be amended by the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.)

- Inquire and document if the methods of presentation and preparation have changed since prior years.
- Reviewing and comparing disclosures to AICPA and OMB specifications.
- Testing the mathematical accuracy of the SEFA.
- Comparing the SEFA to the financial statements. To perform this, it is our Firm's policy to receive a reconciliation of the SEFA to the financial statements from management. (It is also required in the Single Audit Act of 1996, as amended.)
- Performing analytical procedures on the SEFA in comparison to other information obtained as part of the audit and prior year information.
- Additional procedures and inquiry may be performed as conditions warrant and representations will be required from management on the SEFA.


| Internal Control review and analysis (Single Audit Procedures also Performed) | | | | | |
|--|----------------|----------------|--------------------------|---------------------------|--------------|
| Audit Area | Partner | Manager | Supervisory Staff | Staff and Clerical | Total |
| Planning | 15 | 15 | 19 | 26 | 75 |
| Pre-Work | 15 | 15 | 19 | 26 | 75 |
| Interim Work | 60 | 60 | 75 | 105 | 300 |
| Fieldwork | 189 | 189 | 236 | 331 | 945 |
| Exit Conference | 6 | 6 | 7 | 11 | 30 |
| Final Report | 15 | 15 | 19 | 26 | 75 |
| Total | 300 | 300 | 375 | 525 | 1,500 |

d. Internal Controls Approach

To test the state's internal controls as part of the examination of the basic financial statements, we have developed a robust, tailored approach for the State of Nevada as follows:

1. **We Will Obtain an Understanding.** We will obtain an understanding of the procedures and controls in place with regard to the State's accounting system and internal control structure performing the following:
 - Interviewing key department / program personnel responsible for the particular control or aspect of the system.
 - Performing a walk-through of a sample of transactions through the system to determine the operation of the system and controls.
 - Reviewing existing department-prepared system documentation and manuals, if applicable.

Our understanding of the control environment will be reviewed with the COSO Internal Control Structure in mind, as well as those required by OMB Circular A-133. By keeping those in mind, we can cross-purpose much of this testing. We will focus our understanding and future testing on the five components of the COSO structure, control environment, risk assessment, control activities, information and communications, and monitoring.

- 
2. **Documenting Our Understanding.** After completing the initial phases, we will document the processes and controls identified through the use of narratives. The narratives will be presented to departmental personnel for review and concurrence. The documentation will be then electronically stored and archived to be reviewed in following years for any change, no matter how small. We then use the narratives to focus on procedures and controls relative to the compliance requirements being tested.
 3. **Conclude on the Adequacy of the System Design.** This is the most subjective of the steps in our process. Based on the information obtained and documented in the initial phases, a conclusion is reached as to whether the effectiveness of the design of the internal controls is sufficient to ensure compliance. If the design of the controls is considered sufficient, testing may be streamlined. If the controls are not sufficient, the significant deficiency is documented.
 4. **Test Established Controls.** If the design of the internal control structure is considered adequate, we are required to obtain evidence about the effectiveness of the controls. The evidence will be obtained from interviews; observations; inspections of documents, records, and reports; and/or performance of control procedures.
 5. **Test for Compliance with related Single Audit Requirements as well as compliance with laws and regulations, grants and contracts.** This step tests for actual compliance with federal regulations, laws, grant agreements and contracts. Again, this is performed in a cross-purpose test. Even if internal controls are determined to be adequate and functioning properly in the first phases, instances of noncompliance may need to be included in our single audit report.

Determining and reporting on compliance with laws, regulations, and the provisions of contracts or grant agreements which have a direct and material effect on each major program.

We will work closely with the State of Nevada to obtain accurate and complete information early in the process. Selection of major programs is the first step in kicking off the single audit each year.

We will begin by identifying Type A programs. Like all States, the threshold for Type A programs for the State of Nevada has been federal expenditures of approximately \$14.4 million for each federal program or cluster of federal programs. We expect the threshold to apply for the foreseeable future. Next we determine which Type A programs are considered high or low risk. High or low risk determination is based on several factors including past audit results, any remaining amount of ARRA funding, whether a program is deemed high risk by OMB (such as Medicaid) as well as a variety of judgmental factors such as complexity of the program and staff turnover to highlight a few.

If any Type A program is assessed as low risk, the auditor must perform risk assessments of Type B programs. Under OMB Circular A-133, there are two options the auditor can follow. It is our Firm's policy to replace one high risk B for each low risk A. The resulting programs selected to be audited are referred to as major programs. In your RFR instructions, you indicated that the State expects to have 23 major programs with the number possibly decreasing with the reduction in ARRA expenditures as well as pending adjustments due to the implementation of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Our Firm's Single Audit Approach

We have developed a tailored approach to meet the requirements of the Single Audit Act. As a result of our extensive experience performing single audits, our comprehensive approach has been reviewed by the federal Inspector General community and been peer reviewed.

Compliance Requirements

The *current* Compliance Supplement identified the following 14 types of compliance requirements that the auditor's opinion on compliance will address for your major programs:

- Activities allowed or not allowed
- Allowable costs/cost principles
- Cash management
- Davis-Bacon Act
- Eligibility
- Equipment and real property management
- Matching level of effort, earmarking
- Period of availability of federal funds
- Procurement and suspension and debarment
- Program income
- Real property acquisition/relocation assistance
- Reporting
- Subrecipient monitoring
- Special tests and provisions

These will likely change under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. However, we will not know the extent of the changes until after the 2014 *Compliance Supplement* is released showing initial guidance and 2015 *Compliance Supplement* confirms the guidance. What we do know from our committees that we serve on is that the audit will focus more on testing for fraud, waste and abuse rather than the previous compliance requirements.

However, we will perform similar testing as we have in other areas of the audit and to increase efficiency, most of these tests can be run in parallel to other testing. These tests include obtaining an understanding, documenting our understanding, concluding on the adequacy of controls, testing established controls and testing for compliance.

Determining and reporting on the implantation status of the recommendations presented in the Single Audit Report of the State of Nevada for the prior year.

Part of initial planning with the State will include inquiry about the status of prior year findings. This will become especially important as the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is implemented. Federal grant awards will become more competitive in the future as one of the many factors in obtaining a federal grant award will be the timely resolution of prior year findings. We will then test management's assertion that they have remediated the prior year finding as part of our audit process.

Our approach to findings is flexible and structured in a way that helps us anticipate and quickly deal with problems that can arise in the performance of an independent audit. A cornerstone of our approach is the proper training of our staff, the transfer of institutional knowledge and the constant communication maintained with the throughout the process with the State.

Our audit methodology for evaluating the design and effectiveness of internal control will incorporate the objectives, components and factors identified by the COSO Report. Our responsibility with respect to internal control will include:

- Assistance in developing or updating an annual internal control questionnaire sent to all departments (this will assist the State in performing a risk assessment – a cornerstone of the updated COSO);
- Review of the responses to the internal control questionnaire in order to assess risk;
- Determination of departmental compliance with applicable NRS's;
- Assistance in revising current methodology for evaluating and testing internal control plans and risk assessments in audited departments; and
- Assistance in developing strategies to promote internal control throughout the State of Nevada.

We understand the importance of resolving federal program findings on a timely basis. To this end, communication of federal findings will be presented in such a way that managers and staff without accounting backgrounds will be able to understand findings and implement corrective action plans. Our collaborative approach is not to have a pre-defined "checklist" or score sheet of findings that need to be obtained as it serves no one to have findings perpetuate for years. We also believe in and have embraced the *Cooperative Audit Resolution and Oversight Initiative* (CAROI) that has been in place in the federal government since 2003 and has been strengthened in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

In addition, engagement personnel will participate in executive level briefings (or other meetings as appropriate) with departments on internal control. Our team understands what it means to serve government and recognizes that your accessibility to our most experienced partners and staff is of paramount importance to the success of the engagement. When the State of Nevada's executives have questions or have issues they would like addressed, we will respond promptly.

Any other objective or reporting requirements as defined by regulations developed pursuant to the Single Audit Act Amendments of 1996, as amended

The Single Audit Act is in the midst of change due to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. We will keep you informed of these changes, train departmental staff and make sure that the State receives a quality audit on a timely basis.

As can be seen, our streamlined engagement approach is based on two key assumptions:

- Observations we believe will help the State achieve its objectives will be shared. We will also be pleased to respond to inquiries you may have about financial or other business matters.
- The assistance to be provided by your personnel, including the preparation of schedules and analyses of accounts, will be discussed with the finance department. The timely completion of this work will assist us in performing our work efficiently.

e.) Management of Subcontractors

We do not plan to use Subcontractors to staff this engagement. However, we will have access to local professionals for any consulting needs. To this end, we have access to Lauren Sankovich to work with our team. She is a partner with Muckel Anderson, CPAs located in Reno, NV, and a member of Eide Bailly's Practicewise network. Lauren has more than 15 years of experience in public accounting with a concentration on audit, tax and litigation support/forensic accounting. Her audit, accounting and consulting experience has been with local corporations, not-for-profits, employee benefit plans, governments, construction, and homeowners' associations. Lauren's specialty is an excellent resource for the State and its agencies especially dealing NRS 354.624.

f.) Extent of manager and partner on-site participation

At Eide Bailly, we promise you a better overall experience. While we recognize that multiple firms are capable of accomplishing the objectives of an audit, Eide Bailly appreciates that every situation and every organization are different and we tailor our approach based on the needs of each governmental client.

Eide Bailly values its business relationships and demonstrates this through our partner and manager involvement. Our senior level professionals are involved with our clients and accessible throughout the year. They do not delegate all tasks to staff, but rather stay involved onsite during fieldwork as well as stay connected throughout the year. This approach delivers the greatest benefit to our clients in that we are able to stay abreast of changes in, and updates to, our client's operating environment and partner with them to achieve optimal results.

Additionally, our clients experience a communication approach that stands apart in both style and frequency. Because we recognize that effective communication is critical throughout the entire audit process, our service approach is one where communication begins with planning and continues throughout the year. We take a collaborative communication approach with our clients and include them in the process as our peers. Our clients offer a wealth of knowledge and information about their organization, and communicating with them as a business partner ultimately produces the best outcome.

During the course of our auditing services, we will hold periodic meetings with your management. This continuous communication ensures you are fully informed, and provides us with timely information that will enable us to best serve your organization.

Prior to beginning the engagement, we will discuss with management:

- The engagement timeline
- The audit approach and process
- Additional considerations that may affect scope, schedules and work papers to be prepared by your personnel

Other Audit Procedures Information

Audit Strategy

As discussed, Eide Bailly's strategy for approaching the audit is to deliver value by remaining true to practices that have worked well for our clients in the past:

- Hire only talented individuals with a passion for client service.
- Treat our employee's right and provide educational and professional advancement opportunities to minimize turnover.
- Assign highly qualified professionals with Government and Single Audit experience.
- Maintain stability on audit teams from year to year to enhance our relationship with our clients, make the best use of their time, and to deliver consistent service.

These core practices are often cited by our clients as the reasons they chose to be and remain as, Eide Bailly clients.

Client Responsibilities

The following represents the type of information we request during the audit process:

- Reconciliations of detailed subsidiary ledgers to the general ledger
- Analysis of account balances
- Provide documentation to support balances and transactions
- Preparation of confirmations and internal control and other questionnaires
- Prepare financial statements

Audit Objectives

The primary objective of our audit procedures is to enable us to issue an opinion on the State's financial statements.

- A. Our audit procedures are conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* and will include tests of accounting records and other procedures considered necessary to enable the expression of such an opinion.
- B. Our audit procedures are designed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement using accounting principles generally accepted in the United States of America.
- C. The audit procedures include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit procedures also include discussions with management, an assessment of the quality of the accounting principles used and significant estimates made, as well as evaluating the overall consistency of the financial statements and related disclosures.



Using Information Technology Auditors

As part of any financial audit, Eide Bailly is required under AU-C Section 315 (among others) to obtain a sufficient understanding of the accounting system and technology environment in order to plan the audit. It is our philosophy to not only meet but also exceed this requirement by involving Eide Bailly's dedicated technology specialists to participate in every audit.

Our IT auditors are involved with many types of technology engagements. Such projects can include technology assessments, strategic technology planning, security audits, process reengineering, independent system acquisitions, policy and procedures development, Sarbanes-Oxley compliance, operational review, staff performance assessments, and alternatives analysis. As such, our staff is well seasoned in the practical business implications of technology and can use this knowledge to best serve our clients by understanding the many distinct aspects of the general and application controls that are involved throughout an IT control environment.

Our IT methodology is based on AICPA guidelines, the internal controls framework prescribed by COSO, and the best practices for technology controls as defined by COBIT. When auditing the technology environment, Eide Bailly evaluates both the general technology controls and specific application controls that are in effect. This requires our IT auditors to consider how the accounting systems, infrastructure, processes and people work individually and together to ensure that financial records are being appropriately processed and reported. As such, our team must work with IT staff to assess how the relevant systems and technology environment are administered and supported, and with accounting staff to evaluate how financial data is processed and system controls are maintained to enforce segregation of duties.

To this end, once we gain assurance on the State of Nevada's data information warehouse as a repository of the entirety of transactions supporting the official books and records of the State, our sampling can be highly streamlined, therefore saving your departments countless hours of information gathering.

Management Letter Reporting and Communications

There are many ways to say the same thing. We understand that our job is to communicate information to you, regardless of its nature. To build a better client experience, we focus on employing communication styles that are collaborative rather than combative. By keeping our communication positive, friendly and open, we believe we can create positive discussions with our clients. As we identify issues during the audit, we focus on communicating information as early as possible, which results in concluding the audits without springing "surprises" on our clients at the end of the process. By keeping the lines of communication open at all times, and properly planning the audit, we are able to keep the process moving in an efficient manner.

J. Conflict of Interest

Eide Bailly has not, nor has any staff listed in this proposal had, a contractual relationship with the State of Nevada.

IV. Statement of Work

B. Scope of Work

We understand the Scope of Work to be:

1. To perform the State's Single Audit for fiscal years 2014, 2015, 2016 and 2017. The contract will be issued for a one-year period starting with the Single Audit for fiscal year 2014, and shall automatically renew for up to three additional one-year renewals, for fiscal years 2015, 2016 and 2017, unless the Legislative Auditor provides written notice of termination to the contractor at least sixty (60) days prior to the expiration of the then-current term.
2. To complete the financial statement audit of the State of Nevada Basic Financial Statements and a compliance examination of the State's federal awards. The contractor is expected to perform the audit in accordance with Government Auditing Standards issued by the U.S. Government Accountability Office, the Single Audit Act of 1996, as amended and applicable OMB circulars, audit standards, and audit guides. The audit will include the requirements and deliverables in section II/P.
3. To maintain confidentiality of all information, records and data obtained for the purpose of the audit. All information obtained during the audit may only be used for the purpose of conducting the audit and may not be used for any other purpose. Additionally, the contractor shall require its employees and other persons enlisted by the contractor to assist with the review to be bound by all confidentiality requirements.

C. Work Plan and Methodology

1. Work Plan

The work plan we anticipate using for the State consists of five major components: Planning, Preparing, Conducting, Reporting, and Ongoing Communication. This plan will be applicable for all years of the engagement.

Planning – April/May

Note that in the initial year, we will work with your existing contractor to perform procedures required by professional standards as part of the conversion. We will make this conversion as seamless as possible to the State of Nevada and offer to meet with your departments by holding a "Town Hall" meeting/open forum to discuss strategy, audit philosophy and deliverables. We believe that by holding this meeting, communication and understanding will increase and anxiety over change will decrease. We envision this meeting to occur within 30 days of contract signing and be webcast for those who cannot make the meeting.

We encourage a similar meeting to occur annually to discuss audit strategy, risks, transition to new fiscal year operational procedures and other important topics with your fiscal officers. We will be more than happy to participate in such a meeting.

During this phase, we determine the timing of the various procedures, complete logistical arrangements, arrange for assistance to be provided by personnel from the State, and prepare the audit work programs. We believe the planning component is important to the process as it helps properly address changes and concerns prior to commencement of the audit fieldwork. For this reason, we spend a significant amount of our time in the planning

phase. We will also complete a risk analysis, develop a better understanding of the State, perform preliminary review procedures, and assess fraud risk factors in accordance with audit standards. In addition, we will perform selected compliance testing and fraud risk documentation.

The following outline summarizes the elements of the planning phase.

1. Assess Risk

- a. The partners and manager review and identify estimates to determine areas of risk in relation to the financial statements. For the State, the estimates related to the actuarial present value of accumulated plan benefits, the fair value of alternative investments and the proper classification for GASB 40 disclosures are likely to be identified as relatively high-risk areas.
- b. Management override of internal control can significantly impact the financial reporting process. We consider this in our planning and timing of procedures for the State.

2. Identify Issues

- a. During the planning phase, we will also have pre-engagement planning discussions with the State's management to discuss accounting issues, changes in the financial statements, and other issues affecting the audit process.
- b. Our audit team will review interim financial statements. This review provides us with information necessary to help plan our audit and develop questions.

3. Document Systems


Through discussions held with personnel from the State and the completion of various questionnaires, we develop an understanding of your financial reporting process and internal controls. We reassess the procedures and controls annually and appropriately plan the audit to address any concerns. We address any concerns identified in connection with this review in our letter of comments to the Board of Directors and Audit Committee.

4. Consideration of Fraud

"Auditors have the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." Eide Bailly's audit approach has historically addressed many of these issues in accordance with our internal policies. The recent changes have primarily required us to change our documentation policies regarding fraud risk factors and our response to those factors.

5. Tailor Audit Approach

After considering the above factors, we design audit procedures to address changes and difficult areas. Examples include using data extraction software to analyze various accounts and transactions.



Also, annually, we will have a “kick off” meeting with the component auditors of the State of Nevada. We encourage the State Comptroller and the Legislative Audit Bureau to be in attendance. Similarly to the “Town Hall” meeting mentioned above, this meeting will discuss audit strategy, documentation and deliverables as required under professional standards for group engagement auditors.

Planning/Internal Control – May - June

During this phase, we will review the internal control systems for the State and review board minutes. We will also review agreements entered into during the current year. In addition, we will perform some preliminary substantive procedures.

The following outline summarizes the elements of the preparing phase:

- 1. Communicate Expectations**
We will set report delivery time frames for both drafts and final copies of the financial statements and letter to the Audit Committee and/or Board of Directors.
- 2. Conduct Preliminary Analytical Review**
Our audit team will review interim financial statements to identify significant or unusual variances from the prior year and from the budget. This information will be used to formulate expectations and will also be used in the fraud risk analysis.
- 3. Tailor Data and Schedule Requests**
We will coordinate information requests and timing of our onsite work with management and make arrangements to meet with personnel from the State involved in the audit.
- 4. Select Samples and Set Scopes**
We will begin making sample selections from preliminary financial information to distribute time requirements of personnel from the State during the audit process.
- 5. IT Auditors**
We will evaluate both the general technology controls and specific application controls that are in effect. This requires our IT auditors to consider how the accounting systems, information warehouse, infrastructure, processes and people work individually and together to ensure that financial records are being appropriately processed and reported.
- 6. Single Audit**
During the planning phase of the audit process we will also perform our audit planning relating to single audit programs. This process includes establishing an understanding with the State of Nevada, initial year audit considerations, determining the major programs, identifying applicable compliance requirements,

gaining an in depth understanding of major programs, assessing the risk of material noncompliance and developing an efficient audit approach

Once major programs have been determine and applicable compliances have been identified we will gain an understanding of the controls over the compliance areas, identify significant controls and test those controls to ascertain they are in place. We will also perform compliance testing so we are able to opine on the State of Nevada's compliance with major programs. As part of our process we consider what steps that can be perform to achieve maximum efficiency.

- Planning the financial statement audit and the Circular A-133 compliance audit at the same time,
- If internal controls for a compliance requirement is common to more than one major program the transactions of those programs can be combined into one population selecting samples sizes for internal control tests, and
- Taking advantage of a low assessed level of control risk of noncompliance by reducing the amount of substantive testing of compliance.

Conducting / Fieldwork – June and September - October

This phase of the audit includes the primary portion of the substantive testing of the financial statements. This testing includes confirming certain accounts and transactions, vouching selected transactions to source documents, analyzing account balances, making inquiries of management and others, and conducting an analytical review of various account balances and the financial statements.

The following outline summarizes the elements of the conducting phase planned for our audit of the State:

1. Risk-Based Approach

During fieldwork, we continually reevaluate the risk factors identified during the Planning and Preparing Stages. As we will have a government partner and a manager on site, we are able to quickly respond to changes and make the necessary modifications in our audit approach.

2. Tests of Balances and Transactions

- a. Utilize computer assisted auditing tools in sampling accounts receivable and account payable transactions, in the review of general journal entries, and the identification of significant or unusual transactions in specific accounts.
- b. Vouch to source documents for selected items.
- c. Review activity subsequent to year-end (to substantiate cut-off as well as substantiate liabilities).
- d. Confirm balances with external sources, such as financial institutions, investment managers and actuaries.
- e. Determine proper risk classifications for the investments.

3. Compliance

We review federal and state statutes to ensure they are being met.

4. Review Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and of the possibility that future events affecting them may differ from those expected.

5. Final Analytical Procedures

We will compare financial statement line items for the current, preceding period and budget amount, analyze the results, and inquire of management and others within the State regarding significant changes. Also, we will consider whether sufficient audit evidence has been obtained in response to unusual or unexpected balances or relationships. We will also consider whether responses to inquiries throughout the audit about analytical relationships have been vague or implausible or have produced evidence that is inconsistent with other evidential matter accumulated during the audit.

6. Review of Working Papers and Financial Statements

The partners and managers will review the working papers. We believe it is important to complete the majority of the working paper reviews in the field to limit the number of phone calls back to your staff and reduce interruptions. In addition to the reviews conducted by these individuals, the financial statements will be reviewed by a partner not otherwise associated with the audit of the State to obtain a "second opinion" on the completeness and adequacy of financial statement disclosures and audit procedures.

7. Hold Exit Conference with Audit Committee and Management to Discuss Findings and Reports.

This meeting generally occurs on the last day of fieldwork.


Reporting: October to the second week of December

We will issue the audit report and letter of comments to the Board of Directors, and will present these reports to the Audit Committee and the Board at their regularly scheduled meeting. The presentation will include ratios and other financial indicators comparing to the State and benchmarks. Our comments will address the State's significant accounting policies, management's judgments and estimates related to the financial statements, and other items related to the conduct of the audit. If our audit procedures disclose the existence of reportable conditions or other matters that we feel should be communicated, we will report those items to the Audit Committee and the Board of Directors.

If requested, Eide Bailly also provides reports to our clients in Adobe Acrobat Electronic Print Files, which are electronically signed.

Ongoing Communication

Eide Bailly obtains interim financial statements and Board minutes from our clients throughout the year for review. We will analyze significant changes and identify areas to further tailor our audit plans and to keep us up-to-date with continuing changes at the State. We will also compare the interim results, annualized for comparative purposes, to



year-end results for the past few years to identify potential issues in the financial reporting process and report them to you for timely consideration.

As part of our ongoing communication, we are available to participate periodically at your Audit Committee or Board of Directors meetings, and any other meetings, at the Board's request. The fee for this service is outside the scope of the proposed audit fees.

2. Methodology

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Eide Bailly values its business relationships and demonstrates this through our partner and manager involvement. Our senior level professionals are involved with our clients and accessible throughout the year. They do not delegate all tasks to staff, but rather stay involved onsite during fieldwork as well as stay connected throughout the year. This approach delivers the greatest benefit to our clients in that we are able to stay abreast of changes in, and updates to, our client's operating environment and partner with them to achieve optimal results.

Additionally, our clients experience a communication approach that stands apart in both style and frequency. Because we recognize that effective communication is critical throughout the entire audit process, our service approach is one where communication begins with planning and continues throughout the year. We take a collaborative communication approach with our clients and include them in the process as our peers. Our clients offer a wealth of knowledge and information about their organization, and communicating with them as a business partner ultimately produces the best outcome.

During the course of our auditing services, we will hold periodic meetings with your management. This continuous communication ensures you are fully informed, and provides us with timely information that will enable us to best serve your organization. Prior to beginning the engagement, we will discuss with management:

- The engagement timeline
- The audit approach and process
- Additional considerations that may affect scope, schedules and work papers to be prepared by your personnel

D. Deliverables

A summary of projected dates for each deliverable is below:

1. *Progress Reports* – The Legislative Auditor is responsible for monitoring contractor performance. The contractor will provide periodic reports on the progress of the audit to the Legislative Auditor. These reports will be provided to the Legislative Auditor no later than 30 days after quarter end. We also encourage at least a quarterly (if not a monthly) meeting, conference call, webinar or video conference to

facilitate communication and streamline the audit process. It is also a proper forum to ask questions and exchange ideas.

2. *Opinion on the State of Nevada's Comprehensive Annual Financial Report* – We project this to be no later than the second Friday in December.
3. *Opinion Solely on the State of Nevada's Basic Financial Statements* – We project this to be no later than the second Friday in December.
4. *Report on Compliance and on Internal Control Over Financial Reporting* – We project this to be no later than the second Friday in December.
5. *Draft Single Audit Report and draft Data Collection Form* – We project this to be no later than the second Friday in December.
6. *Each year's Single Audit Report* – We project this to be no later than the second Friday in December.
7. *Presentation* – On an agreed upon date as required by the Audit Subcommittee

E. Product Expectations

We understand the report each year is proving information on the State of Nevada's financial status, therefore, we assure the information presented and the conclusions made will be accurate and reliable.

Please refer to our references listed in **Section I – Contractor Capabilities, Page 20** for further confirmation on our ability to provide quality services to large government entities.

F. Anticipated Project Calendar

The project will follow the dates as outlined in the Work Plan previously described, and will proceed no later than the dates outlined in section II/P of the RFP issued by the State.

G Working Papers

We understand that all working papers from the audit are confidential. Eide Bailly shall only release working papers when subpoenaed by a court or when requested by the Legislative Auditor, and may make working papers available for inspection by an authorized representative of any other governmental entity for a matter officially before him. The auditee, Comptroller General of the United States, Nevada Legislative Auditor, cognizant federal agency or its designee, or any other duly authorized representative shall have access to any books, documents, papers, and records of the contractor which are pertinent to the contract, for the purpose of making examinations, and photocopies when deemed necessary. The reports are not distributable as a public document until the final reports are presented to the Audit Subcommittee or released by the State Controller. Until such time as the final reports are released, the reports should not be provided to anyone not stipulated in this RFP.


We also understand that working papers may be destroyed 4 years after the final written reports are issued, payment for those years have been made, and all other pending matters are closed.

H. Contractor Responsibilities

1. Eric Berman will lead the service team as the primary Project Manager for the audits with the State. He will maintain contact with the Legislative Auditor or his designee. Eric has experience in performing the audits as described in Government Auditing Standards. He will oversee all activities for Eide Bailly and will process all communications with the cognizant federal agency through the Legislative Auditor. Eide Bailly will notify the Legislative Auditor prior to any substitutions of the Project Manager.

We understand and agree to the following terms detailing the Contractor Responsibilities:

2. The Contractor will be responsible for becoming familiar with appropriate federal program compliance and regulation standards.
3. The contractor will also be responsible for identifying and documenting major programs using a risk-based approach. Risk-based criteria will be used in each year covered by this contract to identify major programs.
4. The contractor will annually develop a compliance examination program in accordance with applicable OMB circulars.
5. The contractor will be responsible for personnel, supplies, and equipment.
6. The contractor will assume responsibility for all services offered in its proposal whether or not he produced them.
7. The contractor will be responsible for all material errors and omissions in performance of the contract. If an audit is rejected by the Federal Government, the contractor will be responsible for making all necessary corrections at no additional cost to the Legislative Auditor.
8. In accordance with NRS 218G.350(3), the contractor will have the same rights of access to records and documents as the Legislative Auditor. The work of the contractor is to be completed in strict confidence and the contractor shall not disclose the contents of the examination, except to the Legislative Auditor, or as otherwise provided above, before it is presented to the Audit Subcommittee.
9. The contractor will obtain any private legal services considered necessary.
10. The contractor will report, in writing, immediately to the Legislative Auditor whenever it appears, in the opinion of the project manager, that there may have occurred any violations of penal statutes; any instances of misfeasance, malfeasance or nonfeasance by a state officer or employee; or any shortage in the accounts of any official or employee of a state agency.
11. The contractor shall deliver the final opinions on the financial statements and copies of the draft and final Single Audit Reports in accordance with section II/P.
12. The contractor will hold exit conferences and obtain the auditees' responses for any findings resulting from the examination of the financial statements and federal financial assistance programs. The contractor will comment on any recommendation the auditee rejects. The contractor will notify the Legislative Auditor prior to scheduling all exit conferences.
13. The contractor will be available to answer questions on the preparation of the workpapers and issues raised in the workpapers; will assist federal auditors in reviewing the workpapers in conjunction with a specific program audit and will assist federal auditors when performing a review of the contractor's work; without charging additional fees in addition to the contract award amount after issuance of the final report.

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14. The contractor will submit a progress report at least quarterly or with each billing. The progress report will include a statement of the work completed to date, what work remains to be done, the hours incurred this reporting period and to date, any concerns or problems encountered, and whether the examination is proceeding on schedule for a timely completion.
 15. The contractor will complete all necessary portions of the Data Collection Form and process the form in the manner prescribed by federal authorities. The contractor will also provide the Legislative Auditor a proper version of the form in accordance with section II/P/10.
 16. The contractor will provide an annual accounting of the hours expended on the financial statement audit and the federal program compliance audit by April 30th of each year. The federal program compliance accounting should identify the program reviewed, including CFDA number and program name, applicable state agency and department, and audit hours.

I. Auditee Responsibilities

We understand the Auditee will be informed by the Legislative Auditor of its responsibilities, pursuant to NRS 218G.350, for the following items:

- a. The auditee will provide the contractor the same rights of access to books, accounts, records, files, correspondence, or other documents as are provided the Legislative Auditor.
- b. The auditee will prepare the State of Nevada Basic Financial Statements, the State's Comprehensive Annual Financial Report, and the combining and individual fund and individual account group statements and schedules.
- c. The auditee will prepare the Schedule of Expenditures of Federal Awards.
- d. The auditee will follow up and take corrective action on audit findings, including preparing a summary schedule of prior audit findings, identifying each prior findings status, and the corrective action plan for audit findings included in the current year's report.
- e. The auditee will transmit the electronic reporting package, which will include the financial statements, Schedule of Expenditures of Federal Awards, corrective action plan, and auditor's reports to the Federal Clearinghouse.

Eide Bailly will notify the Legislative Auditor of any delays in receipt of information.

J. Legislative Auditor's Responsibilities

We understand the Legislative Auditor is responsible for monitoring the performance of the contractor and for authorizing payments to the contractor upon verification of work performed. The Legislative Auditor will provide prior audit reports to the contractor; shall review and provide written acceptance of each fiscal year's report and provide payment to the contractor; and will perform a desk review of contractor's final reports in accordance with the guidelines developed by the Council of the Inspectors General on Integrity and Efficiency. The Legislative

Auditor will perform a field review of the contractor's working papers for the year under audit. Also, the Legislative Auditor or his representative will attend all entrance and exit conferences held with the auditee, and will provide the auditee with completed Single Audit Reports, including sufficient information for the reporting package to be filed.

K. Legislative Audit Subcommittee's Responsibilities

We understand the Legislative Audit Subcommittee shall select a contractor from the list of qualified candidates submitted by the Legislative Auditor. Such selection will be made at an Audit Subcommittee meeting in late April or early May 2014.

L. Legislative Counsel Bureau's Responsibilities

We understand the Legislative Counsel Bureau shall prepare a written agreement between the Bureau and the contractor. The Legislative Counsel Bureau shall also make the payments to the contractor after authorization by the Legislative Auditor.

M. Future Federal Direction May Have Impact on Single Audit Completion and Coverage

We understand the U.S. Office of Management and Budget (OMB) issues guidance documents which may significantly impact the completion of the Single Audit in any given year. Changes could impact major program determinations, high and low-risk selections; percentage of coverage requirements; and various other compliance testing requirements. We have taken into account of the impact of current guidance documents and plan our audit approach accordingly.

We also understand should future guidance documents result in a material change in the extent of work the auditor is required to perform, the Legislative Auditor reserves the right to renegotiate the terms of the contract.

Appendix A – Team Profiles



Eric S. Berman, MSA, CGMA, CPA

Partner

208.424.3524 | eberman@eidebailly.com

Knowledge and Experience

- Trusted advisor to government agencies across the U.S., helping them to address GASB Standards, NCGA Statements and AICPA Statements of Position.
- Uses his 24 years of experience in Governmental accounting, auditing and controllership to guide his federal, state and local governmental clients.
- Nationally recognized speaker, author and thought leader on financial reporting for state and local governments.
- Assists clients in achieving the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting.
- Author of the 2011, 2012, 2013 and 2014 Governmental GAAP Guide and the Governmental GAAP Practice Manual. Also, author of the bi-monthly Governmental GAAP Update Service and the Knowledge Based Audits – State and Local Government Audit Guide and Tools.
- Served as Deputy Comptroller of the Commonwealth of Massachusetts for 11 years.
- Held the position of Chief Financial Officer of the Massachusetts Water Pollution Abatement Trust for 5 years.
- Awarded the Commonwealth of Massachusetts Manuel Carballo Award for Public Service in 2003.
- Awarded the President's award from the National Association of State Auditors, Comptrollers and Treasurers.
- Two-time President's award recipient from the Association of Government Accountants.

Professional Memberships

- Represents the Association of Government Accountants (AGA) as the Vice Chairman of the Government Accounting Standards Advisory Council (GASAC) to GASB
- AGA's Financial Management Standards Board, Chair
- California Society of Certified Public Accountants – Governmental Accounting and Audit Committee
- American Institute of Certified Public Accountants (AICPA) –Governmental Performance and Accountability Committee, former chair
- AICPA's State and Local Government Expert Panel, former member
- Massachusetts Society of Certified Public Accountants – Governmental Accounting and Auditing Committee, former chair

Designations & Licensures

- Certified Public Accountant
- Chartered Global Management Accountant

Education

- Master of Science, Accountancy – Bentley University
- Bachelor of Science, Broadcast Journalism – Boston University



Lealan Miller, CGFM, CGMA, CPA

Partner, Director of Government Services
208.383.4756 | lmiller@eidebailly.com

Knowledge and Experience

- More than 23 years public accounting experience specializing in serving the financial needs of state and local government clients.
- Partner in charge of financial audits and single audits of numerous state and local entities.
- Reviews and provides technical assistance to local governments in preparing Comprehensive Annual Financial Reports which receive the GFOA certificate.
- Serves as an instructor for various training sessions, including governmental accounting, financial accounting and auditing updates, fraud and auditing standards.
- Oversees coordination of firm-wide single audit training and annual audit updates.

Professional Memberships and Industry Involvement

- American Institute of Certified Public Accountants (AICPA)
- AICPA State and Local Government Expert Panel 2010-2013
- Eide Bailly Director of Government Services
- Idaho Society of Certified Public Accountants, past Treasurer
- Association of Government Accountants past local chapter president
- GFOA special report review committee
- Recognized contributor to the AICPA's 2013, 2012, 2011 "Government Auditing Standards and A-133 Audit Guide"
- Recognized contribution to the AICPA's 2011 "State and Local Governmental Developments Audit Risk Alert"
- Recognized contributor to the AICPA's 2012 and 2011 "State and Local Government Audit Guide"
- Starting in 2014 appointed as the representative of the Association of Government Accountants (AGA) as a member of the Government Accounting Standards Advisory Council (GASAC) to GASB

Designations & Licensures

- Certified Public Accountant
- Certified Government Financial Manager
- Chartered Global Management Accountant

Education

- Master of Science, Accounting - California State University, Sacramento
- Bachelor of Administration, Accounting - Idaho State University, Pocatello



Kimberley K. Higgins, CPA

Partner

303.539.5905 | khiggins@eidebailly.com

Knowledge and Experience

- More than 30 years public accounting experience serving a variety of clients, including governmental and quasi-governmental entities and non-profit organizations.
- Performs audits of some of the largest Colorado counties and cities, as well as State organizations.
- Conducts audits in accordance with GAGAS (the yellow book) and OMB Circular A-133 for governmental, non-profit, and for-profit organizations.
- Serves on the Firm's committees and marketing committees for governmental accounting and auditing, college and universities.
- Serves on local and national conference planning committees and speaks and trains on governmental and non-profit topics.

Professional Memberships

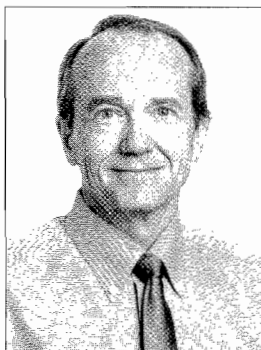
- Colorado Society of Certified Public Accountants - Governmental Issues Committee
- American Institute of Certified Public Accountants
- CGFOA
- Government Finance Officers Association (SRC)
- Special District Association of Colorado
- Colorado Counties, Inc.
- Colorado Municipal League

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Science, Accounting - Murray State University, Kentucky
- Associate of Arts - University of Kentucky, Lexington



Ross L. Youngberg, CPA

Partner

801.456.5453 | ryoungberg@eidebailly.com

Knowledge and Experience

- More than 37 years public accounting experience providing services to a variety of industries, including non-profit organizations, government entities, privately-held companies and publicly held companies.
- Provides consulting services to small and medium-size entities in the areas of accounting, financial reporting and operations.
- Conducts audits on more than 50 non-profit and government organizations.
- Extensive knowledge in assisting smaller entities meet the demands of financial reporting while maintaining the independence standards required in their profession.
- Serves as peer reviewer of other CPA firms' accounting and reporting practices to ensure they meet the rigorous peer review standards of the AICPA.

Professional Memberships

- American Institute of Certified Public Accountants
- Utah Association of Certified Public Accountants, State and Local Government Committee, Former Chair

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Science, Accounting – University of Utah



Susann R. Hartwig, CPA

Senior Manager

303.539.5902 | shartwig@eidebailly.com

Knowledge and Experience

- More than 20 years of public accounting experience providing services to a variety of industries, including non-profit and government entities, and specializing in single audits.
- Serves on the Firm's Colorado governmental industry and marketing committees.
- Reviews and provides technical assistance to local governments in preparing Comprehensive Annual Financial Reports, which receive the GFOA certificate.
- Performs audits of some of the largest Colorado counties and cities, as well as State organizations.

Professional Memberships

- American Institute of Certified Public Accountants
- Colorado Society of Certified Public Accountants
- Government Finance Officers Association

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Science, Business Administration - University of Colorado, Denver



Paul S. Kane, CPA

Senior Manager

303.459.6758 | pkane@eidebailly.com

Knowledge and Experience

- More than 10 years public accounting experience providing services to a variety of industries, including construction and real estate, local governments, including cities and counties.
- Experience with A-133 single audits, including working with a variety of federal grants and agencies.

Professional Memberships

- American Institute of Certified Public Accountants
- Colorado Society of Certified Public Accountants
- Construction Financial Management Association

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Science, Accounting – University of Colorado, Denver



Brad A. Berls, CPA

Manager

208.383.4711 | bberls@eidebailly.com

Knowledge and Experience

- More than nine years public accounting experience providing a variety of services, including audits, reviews and compilations.
- Works with a variety of clients including manufacturers, non-profit organizations, government entities and employee benefit plans.

Professional Memberships

- Idaho Society of Certified Public Accountants
- American Institute of Certified Public Accountants

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Business Administration, Accounting and Finance - Idaho State University, Pocatello



Ryan Tesch, CPA

Manager

801.456.5479 | rtesch@eidebailly.com

Knowledge and Experience

- More than nine years of public accounting experience providing services to a variety of industries, including non-profit and government entities, and specializing in single audits.

Professional Memberships

- American Institute of Certified Public Accountants
- Utah Society of Certified Public Accountants

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Arts, Accounting – University of Utah, Salt Lake City
- Master of Accountancy – University of Utah, Salt Lake City



Aly Steele, CPA

Manager

208.383.4782 | asteeler@eidebailly.com

Knowledge and Experience

- More than five years public accounting experience serving a variety of industries including healthcare entities, service organizations, non-profit organizations, governmental entities, for-profit entities and retirement plans.

Professional Memberships

- American Institute of Certified Public Accountants
- Idaho Society of Certified Public Accountants

Designations & Licensures

- Certified Public Accountant

Education

- Bachelor of Science in Business, Finance - University of Idaho, Moscow



Appendix B – Peer Review



System Review Report

To the Partners of
Eide Bailly LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Eide Bailly LLP (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*, audits of employee benefit plans, and audits performed under FDICIA.

In our opinion, the system of quality control for the accounting and auditing practice of Eide Bailly LLP applicable to non-SEC issuers in effect for the year ended July 31, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Eide Bailly LLP has received a peer review rating of *pass*.

Cherry Bekaert & Holland, LLP

Cherry, Bekaert & Holland, L.L.P.
November 21, 2011



Appendix C – Relevant CPE Reports for Service Team

Eric Berman, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|----------------------|------|---------------|
| 2011 | | | |
| Audit Update – presenter | State of Maine | 2011 | 8 |
| Auditing Policies/Procedures | Brown Armstrong | 2011 | 8 |
| Auditing / Ethics – presenter | Brown Armstrong | 2011 | 8 |
| GAAP Audit Update – presenter | State of Tennessee | 2011 | 16 |
| GASB Update – presenter | Eide Bailly | 2011 | 8 |
| GASB Update – presenter | Strothman & Company | 2011 | 8 |
| GASB Update – presenter | State of Maine | 2011 | 8 |
| GASB 54 / GAAP Bootcamp – presenter | Brown Armstrong | 2011 | 8 |
| GASB 54 Implementation | Tulare County, CA | 2011 | 8 |
| Government for Not for Profit Conference | AICPA | 2011 | 25 |
| Governmental Accounting and Auditing Conference | CA Society of CPAs | 2011 | 8 |
| 2012 | | | |
| GAAP Audit Update – presenter | State of Tennessee | 2012 | 16 |
| 2012 KBA Audit Tools (Author) | Wolters Kluwer – CCH | 2012 | 8 |
| GASB Update – presenter | AGA | 2012 | 2 |
| Governmental Accounting and Auditing Conference | CA Society of CPAs | 2012 | 8 |
| Governmental Accounting and Auditing Committee Meeting | CA Society of CPAs | 2012 | 4 |
| Governmental GAAP Update (Author) | Wolters Kluwer – CCH | 2012 | 80 |
| 2013 | | | |
| Spidell's 2012/2013 Fall Federal and California Tax Update Seminar | Spidell Publishing | 2013 | 8 |
| New GASB Pension Standards – An Auditor's Perspective | AICPA | 2013 | 2 |
| Governmental Accounting & Auditing Committee | CalCPA Education | 2013 | 3 |
| GASB Update | Brown Armstrong | 2013 | 8 |
| Audit Update, Single Audit and Ethics | Brown Armstrong | 2013 | 8 |
| 2013 AICPA Not-for-Profit Industry Conference | AICPA | 2013 | 16.3 |
| KPMG Government Institute Webcast: 2013 Single Audit Issues | KPMG | 2013 | 1.5 |
| Pension Challenge: Critical Issues to Implementing New GASB Pension Std | NASACT | 2013 | 2 |
| NASACT Annual Conference | NASACT | 2013 | 11.3 |
| Governmental GAAP Guide Publication | CCH | 2013 | 40 |

Lealan Miller, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|--|---------------------------|------------|---------------|
| 2011 | | | |
| Single Audit Training | Eide Bailly | 11/22/2011 | 6 |
| 2011 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2011 | 8 |
| Yellow Book Update | Eide Bailly | 8/25/2011 | 6 |
| Governmental Update | Eide Bailly | 7/19/2011 | 12 |
| AGA 2011 Professional Development Conference | AGA | 7/13/2011 | 9.5 |
| Governmental Industry Update | Eide Bailly LLP | 7/8/2011 | 6 |
| Governmental Update - Boise | Eide Bailly LLP | 6/23/2011 | 8 |
| Intermediate Single Audit Training | Eide Bailly LLP | 6/3/2011 | 6 |
| Beginner Single Audit Training | Eide Bailly LLP | 6/3/2011 | 6 |
| GASB 54: Fund Balance & Governmental Fund Type Definitions | Eide Bailly LLP | 4/28/2011 | 4 |
| Professional Development Conference | AGA ID Centennial Chapter | 4/20/2011 | 6 |
| 2012 | | | |
| 2012 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2012 | 14 |
| HUD for Financial Institutions | Eide Bailly | 9/14/2012 | 4 |
| PDC 2012 Training To solve Today's Fiscal Challenges | AGA | 8/1/2012 | 6.5 |
| Govt Training - Best Practices/Efficiencies | Eide Bailly | 7/11/2012 | 8 |
| Governmental Update - Boise | Eide Bailly LLP | 6/29/2012 | 8 |
| 2013 | | | |
| 2013 Partner Meeting Roundtable: Single Audit Update & Discussion of Firm's Single Audit Templates | Eide Bailly | 11/6/2013 | 3 |
| AICPA National Gov Accounting & Auditing Update Conference (GAAC) West | AICPA | 9/17/2013 | 12 |
| HUD for Financial Institutions | Eide Bailly | 9/5/2013 | 4 |
| PDC 2013 Big Challenger Bigger Thinking | AGA | 7/17/2013 | 2.5 |
| Governmental Update – Phoenix | Eide Bailly | 5/30/2013 | 4 |
| 17th Annual Governmental GAAP Update | State Controllers Office | 2/5/2013 | 2 |
| Professional Development Conference | AGA Northern NV Chapter | 1/11/2013 | 2 |

Kimberley K. Higgins, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|--------------------|------------|---------------|
| 2011 | | | |
| Ethics: BAN&K Advisory Services LLC: You Are the Audit Partner | AICPA | 1/21/2011 | 1 |
| Ethics: Pointer Electronics, Inc: You Are the Audit Partner | AICPA | 1/21/2011 | 1 |
| GASB 54: Fund Balance & Governmental Fund Type Definitions | Eide Bailly LLP | 4/28/2011 | 4 |
| Governmental Update - Denver | Eide Bailly LLP | 6/24/2011 | 8 |
| Governmental Industry Update | Eide Bailly LLP | 7/8/2011 | 2 |
| Audit Department Training - Golden | Eide Bailly | 9/30/2011 | 4 |
| 2011 Governmental Conference | CO Society of CPAs | 10/26/2011 | 4 |
| Ethics: Incisive lasers Corporation - You Are the Outside Counselor | AICPA | 11/15/2011 | 1 |
| Ethics: Precious Mining Inc. - You Are the Audit Committee Chair | AICPA | 11/15/2011 | 1 |
| 2012 | | | |
| Intermediate Single Audit | Eide Bailly | 5/3/2012 | 2 |
| Govt Training - AICPA/Compliance Auditing Update | Eide Bailly | 7/10/2012 | 4.5 |
| Govt Training - Best Practices/Efficiencies | Eide Bailly | 7/11/2012 | 8 |
| 2012 Summer Seminar - Colorado | Eide Bailly | 7/24/2012 | 8 |
| Audit Efficiency - Eide Bailly Approach - Denver | Eide Bailly | 8/27/2012 | 8 |
| Audit Reengineering - Colorado | Eide Bailly | 8/28/2012 | 4 |
| 2012 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2012 | 17.5 |
| Social Security Webinar | Eide Bailly | 9/27/2012 | 1 |
| 2012 Partner Meeting Roundtables | Eide Bailly | 11/7/2012 | 7 |
| 2013 | | | |
| Non-Profit Training -- Colorado -- Audit Track | Eide Bailly | 7/2/2013 | 13 |
| Governmental Update -- Denver | Eide Bailly | 7/9/2013 | 8 |
| 2013 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/17/2013 | 17.5 |
| Updates in GASB and Implementing the Defined Benefit Pension | Eide Bailly | 12/10/2013 | 4 |

Ross Youngberg, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|-----------------------------|------------|---------------|
| 2011 | | | |
| National Government and Non-Profit Training Program | AICPA | 10/26/2011 | 23 |
| 2012 | | | |
| National Government and Non-Profit Training Program | AICPA | 10/24/2012 | 24 |
| 2013 | | | |
| Single Audit and Yellow Book Deficiencies: Sampling in Single Audit Environment | AICPA | 1/16/2013 | 2 |
| Single Audit and Yellow Book Deficiencies: Allowable Costs and Abuse | AICPA | 2/28/2013 | 1 |
| Single Audit and Yellow Book Deficiencies: Fraud Risk Factors and Audit Sample | AICPA | 3/1/2013 | 1 |
| Single Audit and Yellow Book Deficiencies: Engagement Letters, Yellow Book CPE | AICPA | 3/2/2013 | 2 |
| Single Audit and Yellow Book Deficiencies: Documentation, Representation Letter, Reporting Issues | AICPA | 3/9/2013 | 1 |
| Single Audit and Yellow Book Deficiencies: Draft Findings, Control Deficiencies, SEFA Issues | AICPA | 3/23/2013 | 1 |
| Single Audit and Yellow Book Deficiencies: Single/Program-Specific Audit and A-133 determination | AICPA | 4/1/2013 | 2 |
| Utah State Auditor Update | Utah State Auditor's Office | 5/2/2013 | 6 |
| AICPA National Government Accounting and Audit Update | AICPA | 10/23/2013 | 25 |

Susann Hartwig, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|-------------|-----------|---------------|
| 2011 | | | |
| Governmental Update - Denver | Eide Bailly | 6/24/2011 | 8 |
| Governmental Update | Eide Bailly | 7/19/2011 | 12 |
| 2011 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2011 | 16 |
| 2012 | | | |
| Governmental Update - Denver | Eide Bailly | 6/28/2012 | 8 |
| Govt Training - Best Practices/Efficiencies | Eide Bailly | 7/11/2012 | 8 |
| 2012 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2012 | 17.5 |
| 2013 | | | |
| Governmental Update - Denver | Eide Bailly | 7/9/2013 | 8 |
| Governmental & Nonprofit Update: AICPA/Compliance Auditing Update | Eide Bailly | 7/31/2013 | 5 |
| Governmental & Nonprofit Update: Best Practices/Efficiencies in Government Auditing & Internal Update | Eide Bailly | 8/1/2013 | 8 |
| 2013 AICPA National Governmental A&A Update Conference (GAAC) West | AICPA | 9/18/2013 | 17.5 |

Paul Kane, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|--|----------------------------|-----------|---------------|
| 2011 | | | |
| Intermediate Single Audit Training | Eide Bailly | 6/3/2011 | 2 |
| Governmental Update – Denver | Eide Bailly | 6/24/2011 | 8 |
| 2011 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2011 | 14 |
| 2012 | | | |
| Governmental Update - Denver | Eide Bailly | 6/28/2012 | 8 |
| Govt Training - GASB Update | Eide Bailly | 7/10/2012 | 4.5 |
| 2012 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/20/2012 | 14.5 |
| Training Seminar for Auditors of Cty Human Services Dept | Neal D. Christensen CPA | 11/2/2012 | 7 |
| 2013 | | | |
| Beginning Single Audit | Eide Bailly | 5/3/2013 | 2 |
| Intermediate Single Audit | Eide Bailly | 5/3/2013 | 2 |
| 2013 AICPA National Governmental A&A Update (GAAC) West Conference | AICPA | 9/17/2013 | 17.5 |

Brad Berls, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|-----------------|------------|---------------|
| 2011 | | | |
| Intermediate Single Audit Training | Eide Bailly LLP | 6/3/2011 | 2 |
| Advanced Financial Reporting | GFOA | 6/24/2011 | 20 |
| Single Audit Training | Eide Bailly | 11/22/2011 | 2 |
| 2012 | | | |
| Governmental Update - Boise | Eide Bailly LLP | 6/29/2012 | 8 |
| Govt Training - AICPA/Compliance Auditing Update | Eide Bailly | 7/10/2012 | 4.5 |
| Govt Training - Best Practices/Efficiencies | Eide Bailly | 7/11/2012 | 8 |
| Intermediate Single Audit | Eide Bailly | 10/18/2012 | 6 |
| 2013 | | | |
| Intermediate Single Audit | Eide Bailly | 5/3/2013 | 6 |
| Beginning Single Audit | Eide Bailly | 5/9/2013 | 6 |
| Governmental Update – Boise | Eide Bailly | 6/4/2013 | 8 |
| Governmental & Nonprofit Update: AICPA/Compliance Auditing Update | Eide Bailly | 7/31/2013 | 5 |
| Governmental & Nonprofit Update: Best Practices/Efficiencies in Government Auditing & Internal Update | Eide Bailly | 8/1/2013 | 8 |

Ryan Tesch, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|--|-----------------------------|-----------|---------------|
| 2011 | | | |
| HBM Training - Deferred Taxes, GAAS Update, VIEs, Hot Topics, Fair Value Reporting | HBM | 1/6/2011 | 2.5 |
| HBM Training - A&A Update & GASB 54 | HBM | 4/28/2011 | 2 |
| AICPA National Conference on Employee Benefit Plans | AICPA | 5/2/2011 | 8.5 |
| Utah State Auditor's Office Annual Government Auditing Update | Utah State Auditor's Office | 5/5/2011 | 4 |
| UACPA State and Local Government Conference | UACPA | 5/6/2011 | 8 |
| 2012 | | | |
| Annual Governmental Auditing Update | Utah State Auditor's Office | 5/3/2013 | 4 |
| 2012 State & Local Gov. Conf. | UACPA | 5/4/2012 | 6.5 |
| 2012 Acct. & Auditing Conference | UACPA | 6/8/2012 | 8 |
| HBM In-House Training | Hansen, Barnett & Maxwell | 6/21/2012 | 1 |
| 2013 | | | |
| Utah State Auditor's Govt Update | Utah State Auditor's Office | 5/2/2013 | 8 |
| UACPA State & Local Govt Update | UACPA | 5/8/2013 | 8 |

Aly Steele, CPA – Relevant CPE Courses

| Program | Sponsor | Date | Total Credits |
|---|-----------------|------------|---------------|
| 2011 | | | |
| Intermediate Single Audit Training | Eide Bailly LLP | 6/3/2011 | 2 |
| Beginner Single Audit Training | Eide Bailly LLP | 6/3/2011 | 2 |
| EDUFEX - Level III | Eide Bailly LLP | 6/9/2011 | 8 |
| ID Chapter HFMA Fall Meeting | ID Chapter HFMA | 10/4/2011 | 2 |
| 2012 | | | |
| Governmental Update - Boise | Eide Bailly LLP | 6/29/2012 | 8 |
| Intermediate Single Audit | Eide Bailly | 10/18/2012 | 2 |
| 2013 | | | |
| Intermediate Single Audit | Eide Bailly | 5/3/2013 | 2 |
| Intermediate Governmental Industry Update | Eide Bailly | 5/9/2013 | 2 |
| HCNN – GASB Update | Eide Bailly | 7/19/2013 | 1 |

Appendix D – Government Insight Newsletters

Governments need to prepare for new pension plan standards

By Eric Berman, CPA, CGMA

The new defined benefit pension plan standards for governments—GASB-67 and 68—contain some of the most sweeping changes in financial reporting and operations since the late 1990's. Knowing the facts and having a plan in place will help your government avoid pitfalls and implement these new standards successfully.

Major Changes

There are four major changes for governments in implementing GASB-67 and 68:

- The Net Pension Liability attributable to your government will now be presented on your "balance sheet." Net Pension Liability is the total value of your government's assets held in trust for pensions, less your government's total actuarially accrued liability on any given day, based on your government's plan provisions as of the day that an actuary measures your government's liability.
- Your government's annual pension expense will have no relationship to your annual contributions. However, your contributions will still be determined by an actuary.
- If you are a member of PERA, financial information will be allocated to your government based on a historical view of your government's contributions. Defined contribution plans will also have disclosure

changes. OPEB disclosure will likely change in the future in a similar fashion.

- Notes disclosure and required supplementary information will greatly

expand in your annual financial report, regardless of type of government or type of plan.

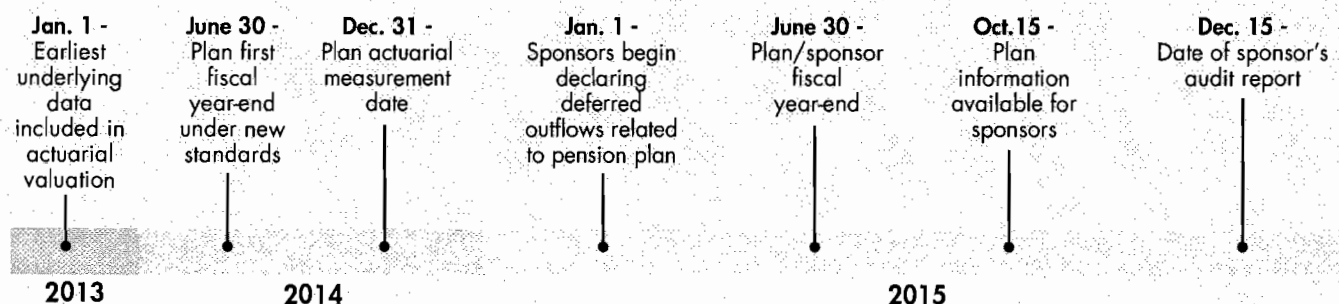
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Knowing the facts and having a plan in place will help your government avoid pitfalls and implement these new standards successfully.



Sample Implementation Timeline for the New Standards



Continued from front

Create a Task Force

Forming a task force is good first step in making sure implementation goes smoothly. These people will create a comprehensive plan, facilitate communication between decision-makers and keep implementation on schedule. The task force should include:

- The plan's chief accounting decision- maker
- The plan's actuary
- The plan's sponsors
- The sponsor's auditors
- Other interested parties

Next Steps

Successful implementation also will require several steps from your government.

- **Understand the effect on your government.** It's a good idea to meet with your auditors to ensure you understand the effects of the standard on your government.
- **Develop a plan.** Setting goals, timelines and who is in charge and accountable is a key step.
- **Perform a "dry run."** This will allow you to see if there is any need for additional information, strategizing and timing.
- **Set up a communication strategy.** Make sure all decision-makers are informed about the strategy, and your government is ready if it needs to brief rating agencies and the media.
- **Understand that your audit will change.** New information will be required to be presented in your annual financial report, which will necessitate a change in audit strategy and schedules provided to your auditors. Also, some of this information may need to be obtained from other sources, including a PERA, an actuary or investment custodians. Your government cannot afford to wait for PERA information, it needs to plan for the change.

CONTACT



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GOVERNMENT INSIGHTS



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JANUARY 9, 2014

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New 2013 Data Collection Form Now Available

After many months of deliberation and due process, the Office of Management and Budget has released the 2013 Data Collection Form.

It is applicable for audit periods ending in 2013, 2014 and 2015. Additionally, the Federal Audit Clearinghouse has launched a new Internet Data Entry System that will bring other changes to the submission process.

It is important for both auditees and auditors to understand the changes to help ensure a smooth transition and implementation. To assist you with gaining this understanding, we are leveraging our membership with the AICPA's Governmental Audit Quality Center (GAQC) to provide you with the following question and answer (Q & A) document: [Questions and Answers for Auditees: The New 2013 Data Collection Form and Federal Audit Clearinghouse \(FAC\) Web Site](#)

Additionally, you may want to take a look at the GAQC's [Auditee Resource Center](#) which includes information, practice aids, tools and other resources that should be of interest and benefit to auditees.

If you have any questions, please do not hesitate to contact us.

ABOUT US

Eide Bailly is a top 25 CPA firm in the nation, serving more than 400 governmental clients across the United States.

Government Insights is published on an as-needed basis to keep our clients, prospects and business friends informed on news impacting the governmental industry.

This publication is produced and published by Eide Bailly and distributed with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns as the contents of the publication are intended for general informational purposes only. Readers are urged not to act upon the information contained in this publication without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and information for publication can be submitted to your Eide Bailly representative. To request reprints of this publication, send a written request to RequestReprints@eidebailly.com.
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GOVERNMENT INSIGHTS

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FEBRUARY 6, 2014

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**Director of Governmental
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Lealan Miller
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ABOUT US

Eide Bailly is a top 25 CPA firm in the nation, serving more than 400 governmental clients across the United States.

Government Insights is published on an as-needed basis to keep our clients, prospects and business friends informed on news impacting the governmental industry.

The New "Super-Circular" - What You Need to Know Now

By: Eric Berman

At the end of December, the White House Office of Management and Budget (OMB) and the United States Chief Financial Officers Council - Council on Financial Assistance Reform (COFAR) announced seemingly sweeping reforms of federal grant operations.

The goal of the reform is to streamline and improve administration of federal grant operations from application to 'close-out,' modernize and improve cost accounting and focus the single audit to where there is the most need for improvement.

The reforms are being implemented throughout 2014, initially by federal agencies which must publish procedural guidance no later than December 26, 2014. Audits will be affected by the reforms for years beginning on or after December 26, 2014. That means for a December 31st entity, the first audit period that the reforms will be effective will be as of January 1, 2015 through December 31, 2015. For a June 30th fiscal year end, the audit period will be from July 1, 2015 through June 30, 2016.

Administration of Federal Grants

Some of the initial policies and regulatory guidance provided by federal agencies will likely be in conflict of interest policies. When applying for a federal grant, state and local governments, non-profit entities and government contractors will have new disclosure with regard to all violations of federal law, including fraud, bribery and gratuity violations potentially affecting a federal award.

A new type of federal award is established by the reforms entitled "fixed amount awards." These fixed amount grants will have accountability provisions established in the award language. The accountability will consist of performance milestones and results that must be reported to the federal agencies. Any changes in the project funded by a fixed award will require further approval from the federal agency.

For the majority of grants - competitive grants - federal agencies will be required to post notices of all grant opportunities on <http://www.grants.gov>. Thus, much of the political influence on competitive grants may be removed. Grant opportunities must be publicized for a minimum of 60 days unless determined by a federal agency head to be of such a need that only a 30-day exposure is necessary.

Applying for a new grant will be streamlined as the federal government will move toward a uniform application similar to applying for admission to a college or university. The review of the application will also be streamlined and more transparent, taking into account audit risk. This review process is already in place for research and development grants and now will be in place for all competitive grants. The potential recipient may have to show that they are financially stable, have quality accounting and financial reporting systems and have had strong performance with federal money in the past, as well as other factors. Therefore, if an entity has a number of audit findings related to the administration of a grant being applied for, the findings will be a negative in receiving future grants.

Direct and indirect recipients of federal funds must comply with grant award provisions and will remain subject to testing for effective internal controls. Direct recipients of grants will still be responsible for monitoring sub-recipients.

Cost Accounting Provisions

Cost Accounting and cost recovery (also known as federal participation or receipt of federal funds) provisions are also being streamlined. Property and equipment purchased from a federal award will now have a \$5,000 threshold to require depreciation. Therefore, most personal computers and similar technology that is used as part of a federal program may likely be expensed starting on January 1, 2015. However, the recipient must have a consistent policy of capitalization. Shared services, strategic sourcing and non-competitive micro-purchasing (e.g. p-cards) are encouraged in the new provisions.

Other provisions are changing with regard to indirect rate setting and cost recovery. Starting on December 26, 2014, negotiated rates must be accepted by all federal agencies unless exempted by statute. For example, a rate negotiated with the U.S. Department of Health and Human Services must also be accepted by the Department of Justice.

There is also a relaxing of certain policies. For example, providers of required training for the administration of federal awards must make available 'family friendly' provisions, including child care services. There are provisions to allow for pilot tests of relaxed time and attendance recording to prove maintenance of effort. The costs of an audit even for a non-federal entity will now be allowable as long as the costs are included in an indirect cost pool. Fringe benefits will now be allowable costs on a GAAP basis, rather than a cash basis. This will be very important as entities implement the new defined benefit pension standards as well as the forthcoming changes to the defined benefit health care standards.

Finally, indirect rates for new grantees will receive a 10% overhead rate. The 10% rate may continue indefinitely. This will be a great enhancement for many small recipients that need to fund administrative costs. For grantees with negotiated rates, the current rate may continue for four years (until December 26, 2018 or as directed in the grant award.) However, any future negotiation

will require more paperwork to substantiate the rate.

Audit Provisions

The greatest focus of the "super-circular" changes has been to the audit provisions. First and foremost, the threshold for a single audit will rise to \$750,000 in federal expenditures in any year. The OMB estimates that 5,000 entities nationwide, out of 45,000 current single audits, may no longer be subjected to a federal single audit upon implementation. The major program and risk assessment determination will also change slightly.

Also of great importance, starting in 2014, audit submissions of financial reports attached to the data collection form must be a text-based Adobe portable document file (PDF) that is unlocked and unencrypted. Personally identifiable information must not be included in the submission. Tribal governments, however, have certain exemptions to this rule with regard to confidential business information. Auditees will now be subject to the cooperative audit resolution process with federal agencies. Federal agencies will engage auditees to remediate findings on a more streamlined basis and to reduce questioned costs. The questioned cost reporting threshold will also rise from the current \$10,000 to \$25,000.

Next Steps

- **When you are applying for a federal grant, make sure your entity is aware of the administrative responsibilities for compliance.** This includes maintaining records, bank accounts and other provisions of the grant detailed in the grant application.
- **Develop the skills and knowledge necessary for operating and reporting in accordance with the award.** Ensure that your personnel have the proper training to comply with the federal award provisions.
- **If your entity is passing federal funds to another entity, the federal award provisions must also be adhered to by the recipient entity.** Sub-recipient monitoring procedures will need to be enhanced to give assurance that the federal award provisions are complied with by all sub-recipients.
- **Make sure that costs are charged to federal awards in accordance with the new provisions.** Some formerly unallowable costs have been reformed while others are no longer allowable. Changes will need to be understood by program management.
- **There will be further changes detailed within the forthcoming Compliance Supplement.** The auditing of federal awards may focus more on fraud, waste and abuse rather than the traditional so-called cross-cutters. These changes will be released during the spring of 2014 and implemented during 2015 audits.

If you have questions or would like to learn more, please contact Eric Berman.

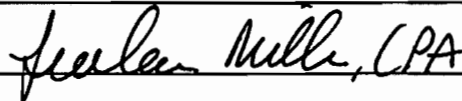
Eide Bailly LLP

This Cost Bid is submitted as part of a proposal in response to the solicitation from the State of Nevada (the State).

**Cost Proposal
State of Nevada Single Audit RFP**

Name of Firm: Eide Bailly LLP

Name of Subcontractor(s): NA

Signature of Firm / Subcontractor(s): 

| | Annual Total Cost |
|-------------------------|--------------------------|
| Fiscal Year 2014 | \$ 337,500 |
| Fiscal Year 2015 | \$ 347,700 |
| Fiscal Year 2016 | \$ 358,200 |
| Fiscal Year 2017 | \$ 369,000 |

The above rates include all travel and accommodations expenses associated with travel, and all other out-of-pocket expenses, including background checks, required to perform this audit. It also includes all costs and expenses associate with Eide Bailly's attendance at, and participation at, any public meetings held following the submission of the final reports, to present, explain, and/or discuss the reports. We understand all mentioned costs will be at our expense. As mentioned in our proposal, the rates also include access to free or discounted continuing professional education during the course of the contract from Eide Bailly LLP to State of Nevada personnel and free access to *Government Insights*, email "blast" notifications of changes to standards and practices and other communications.

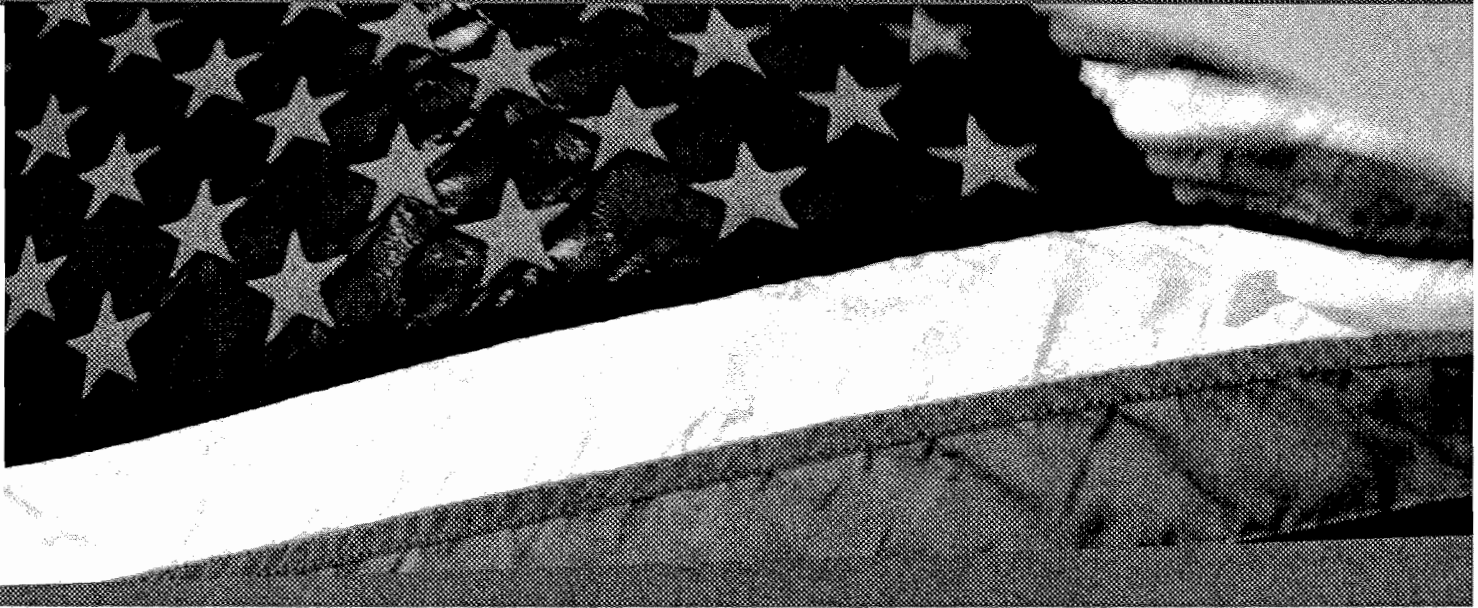
Reasoning for Cost Changes Between Contract Years:

Our fees are based on the complexity of the engagement and the experience level of the personnel necessary to serve on your engagement. We expect and approximate 3% inflationary adjustment each year based on the assumption that the scope of the engagement is similar to the current year. If significant changes in operations or conditions increase the scope of the audit, Eide Bailly will obtain your agreement to fees before the engagement would commence.

As mentioned in our technical proposal (section IV, M), there is a likelihood of changes to the OMB issues guidance documents due to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Significant changes to these OMB A-133 (Single Audit) guidelines will have an effect on our audit approach. We have planned for the expected changes in our price proposal, but will discuss any significant changes with the State. Again, if significant changes in operations or conditions increase the scope of the audit, Eide Bailly will obtain your agreement to fees before the engagement would commence.

**AWARDING OF CONTRACT FOR
SINGLE AUDIT
FOR THE STATE OF NEVADA
FOR FISCAL YEARS 2014 THROUGH 2017**

**Proposal From
CliftonLarsonAllen, LLP**



February 28, 2014

**TECHNICAL PROPOSAL to Provide
Professional Auditing Services to:**

The State of Nevada

Proposal to the State of Nevada

Legislative Counsel Bureau – Audit Division
Request for Proposal – Single Audit of the
State of Nevada

Prepared by:

CliftonLarsonAllen LLP

370 Interlocken Blvd., Suite 500
Broomfield, CO 80021

Paul Niedermuller, CPA, Principal

paul.niedermuller@CLAconnect.com

main 303-466-8822 | fax 303-466-9797



CliftonLarsonAllen LLP
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Broomfield, CO 80021
303-466-8822 | fax 303-466-9797
www.cliftonlarsonallen.com

B. TRANSMITTAL LETTER

February 28, 2014

Mr. Paul V. Townsend, Legislative Auditor
State of Nevada
401 South Carson Street
Carson City, Nevada 89701-4747

Re: Request for Proposal – Single Audit of the State of Nevada

Dear Mr. Townsend:

CliftonLarsonAllen LLP (CLA) would like to thank you for inviting us to propose our services to you. We gladly welcome the opportunity to share our approach to helping the State of Nevada (the State) meet your financial goals and satisfy your compliance obligations. The enclosed proposal responds to your request to perform the State's Single Audit for the fiscal years ending June 30, 2014, 2015, 2016, and 2017.

Understanding of Your Needs:

We understand the contract, if chosen as your service provider, would cover the following:

- Financial statement audit of the State of Nevada's Basic Financial Statements
- Compliance examination of the State's federal awards

Our proposal addresses your need for compliance, but we have also considered your broader objectives. From our view, compliance services can be either regulatory routines or powerful tools to improve operations, reduce waste, and tighten controls. Our work together will provide you with insights on future opportunities and ultimately translate into a release of resources that can be devoted to enhancing the State's financial objectives. Our approach to serving you is always shaped by this greater goal.

Benefits of Choosing CLA:

CLA is among the top ten largest accounting firms in the United States. Our public sector team has one of the largest governmental practices in the nation and currently audit and provide consulting services to some of the largest governmental entities nationwide, including serving as the current auditor of the Nevada State Public Employees' Retirement System (PERS). We are confident that our extensive experience serving similar government entities, bolstered by our client-oriented philosophy and depth of resources, will make CLA the best qualified candidate to fulfill the scope of the engagement. Our public sector team members are well versed in governmental accounting and compliance issues related to state agencies, universities, counties, cities and school districts, as well as clients similar to the State. In today's competitive environment, we understand the

State has a wide selection of CPA firms when it comes to choosing your service provider. In the following pages, we hope to demonstrate why CLA is your best choice. The following are some of the key benefits of choosing CLA as your service provider:

- ***Commitment to the public sector industry.*** Our professionals are immersed in your industry. Those selected to serve you are not just accounting practitioners; they have significant exposure, training, and knowledge in providing accounting, auditing and other management services to governmental organizations. With a national client base of more than 5,900 public sector entities, the firm has established this industry as one of our core industry sectors. Every member of your engagement team, including the principals, managers and senior associates are 100% dedicated to serving public sector clients. That is our passion.
- ***Commitment to service beyond an audit report.*** Our experience with serving governmental clients provides us with resources and knowledge necessary to help the State stay ahead of the curve. Our staff has the knowledge to provide superior audit services, and the depth of experience to be your trusted advisor in all financial matters. This includes providing valuable feedback to management and those charged with governance, including recommendations to improve internal controls and operations, and to provide best practices based on our experience with other states.
- ***Commitment to timely communications.*** CLA is committed to timely communications with our clients, as we believe this is one of the most critical components of a successful audit. Our approach to timely communication includes the following:
 - Every successful engagement begins with a detailed planning meeting to include the audit team and key members of the State involved with the audit process. We will collaboratively build a comprehensive timeline, milestones, and deliverable dates.
 - Given the required level of involvement of various staff members throughout the State, the comprehensive game plan described above will also incorporate scheduled site visits, specific document request lists, and primary contacts for each key audit area.
 - We will submit written quarterly progress reports to ensure all levels of State management are aware of the audit's status, obstacles, and other pertinent information.
 - During fieldwork, your engagement team will hold weekly status meetings to update you on the progress of the engagement, ensure that milestones of the agreed upon timeline are being achieved, and answer any questions you may have. In every audit, we strive for "no surprises."
 - We will hold an exit conference near the completion of the audit. The primary goal is to review results of the audit and discuss any potential findings and recommendations. In addition, we use this opportunity to identify parts of the audit process that worked well and those that can be improved upon the following year.
 - We commit to perform the work within the time period as outlined in this proposal, and believe open and continuous communication is critical to this objective.
- ***Commitment to providing the RIGHT resources.*** We believe our dedication to serving public sector entities, as well as our experience performing engagements of similar size and scope prove our capability to serve the State. However, such opportunities are truly unique within the public sector industry. Accordingly, serving the State of Nevada would be a priority of both your engagement team and of CLA at a national level. We are committed to serving the State with our best resources and providing the outstanding client



service you deserve. As you will see throughout this proposal, we plan to assign the right individuals for the right tasks.

CLA is dedicated and able to provide engagement team members with specific experience relevant to the most critical financial and compliance components of the State's audit. We believe this makes CLA uniquely qualified to serve as the State's auditors.

- **Commitment to the State of Nevada.** We understand the prospect of selecting a new audit firm, and one that is located outside of the State, is likely to raise certain concerns. However, we believe our commitment to the State, and unique ability to serve the State, makes CLA the best option, as highlighted below:
 - You receive the depth of knowledge from our firm's national resources while at the same time, the convenience and familiarity with the local staff from our Denver area offices.
 - Prior to submitting our proposal, members of your engagement team visited Carson City to participate in pension related training for Nevada auditors, and to meet with the State Controller. We felt it was necessary to get a better understanding of the State, its structure and its audit process, in order to ensure our proposal would be as accurate as possible. Further, we felt it was important to confirm the State and CLA would be a "good fit" should we be selected.
 - While CLA is not located within the State of Nevada, your engagement team members would spend a significant number of weeks throughout the year on site in Carson City and other locations. Most importantly, this travel is necessary to effectively collaborate with the State's management team during the audit. However, it will also contribute to the State's tourism efforts, as a result of direct spending, sales and gaming taxes, etc. Our travel costs are never charged back to the State.
 - Senior members of your engagement team, including the principals and managers, will be actively involved in this engagement to ensure the State will be served with a high degree of accuracy and professionalism. We will be readily available to you, not only during the audit, but throughout each year to assist in answering your questions.

This proposal is a firm and irrevocable offer for 90 days, as well as for the four year period of the engagement if selected as your service provider. We commit to provide the services required by the Legislative Auditor, as requested in the State's request for proposal. Please refer all questions regarding this proposal to me by phone at 303-466-8822, or by email at paul.niedermuller@CLAconnect.com. As a principal, I am authorized to make representations and contractually bind the firm.

Sincerely,

CliftonLarsonAllen LLP



Paul Niedermuller, CPA
Principal

To ensure compliance imposed by IRS Circular 230, any U.S. federal tax advice contained in this communication (including attachments) is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed by governmental tax authorities.



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Appendices:

- A. Engagement Team Resumes



D. EXECUTIVE SUMMARY

We understand the State of Nevada is seeking an independent public accounting firm interested in conducting the statewide Single Audit, which includes the financial statement audit of the State of Nevada's Basic Financial Statements and the compliance examination of the State's federal awards, for fiscal years ending June 30, 2014, 2015, 2016 and 2017. We trust that you will agree that CLA is the best choice you can make. Please refer to the *Contractor Identifying Information* section on page 3 for specific information on the firm, as well as contact information.

We understand you have a wide selection of CPA firms when it comes to choosing your accounting firm. We would like to emphasize the fact that CLA hopes to be far more than your accounting firm – we hope to be your trusted advisor by providing the following benefits we believe are our strengths to the audit engagement:

High Quality Audits

As one of the leading national public accounting firms, CLA has developed a very strong and proven audit approach, as shown in our detailed *Audit Approach* section of the proposal on page 27. CLA, a member of the Center for Public Company Audit Firms of the AICPA, is required to have an unrelated firm perform an extensive peer review of its quality controls, policies and procedures every three years. CLA has successfully passed all ten independent peer reviews and has received a "no comments" report during its most recent review in 2013. In addition, the firm is registered with the Public Company Accounting Oversight Board (PCAOB). We hold ourselves to very high standards. When you hire CLA, you can be assured that your work is performed with the highest level of quality.

Ability to Meet Your Needs

While we realize the State is truly unique, there is nothing like extensive industry experience to qualify a firm for an engagement. Please refer to the *Contractor Capabilities* section on page 15 and the listing of *similar clients* on page 21 for detailed experience of the firm. Because CLA has been serving municipal governments for over 60 years, we understand the environment in which the State operates. Our professionals are forward-thinking and proactive, and they are committed to assisting the State in overcoming current challenges, as well as potential challenges in the future. CLA has the ability and experience to meet all requirements as outlined in the State's RFP. Our professionals would bring a fresh perspective to providing the State's financial audit and compliance services as a result of deep industry specialization and passion to surpass our clients' expectations.

Value

We have performed extensive Financial Statement Audits and Single Audits for other states and related agencies. CLA is currently engaged to perform the Financial Statement Audit and Single Audit of the State of Kansas, the State of South Carolina, the State of New Mexico, and numerous State of Colorado entities, as noted in the *Contractor Capabilities* section on page 15 and the listing of *similar clients* on page 21. Because of this experience, we know the effort and resources it takes to complete the State's Financial Statement Audit and Single Audit. Our proposed hours as noted in the *Project Staffing and Organization* section on page 7 and in the

Cost Proposal provided under separate cover are a result of our experience in providing thorough, high-quality audits of States in an effective, efficient manner.

The Engagement Team

Assembling the right team of professionals to serve the State is one of our primary goals, and as you review the credentials of the team in the detailed proposal, we hope you will agree with us that you will be served by a highly qualified engagement team. Please refer to the *Project Staffing and Organization* section on page 7 for an overview of the engagement team members and their experience. As a national firm, we have significant bench strength and the capacity to properly plan, supervise and carry out the requested audit services. We have matched the appropriate talent and industry experience of our professionals to the needs of the State.

Services Beyond the Audit Report

We provide additional services and benefits beyond just the required audit deliverables. The following services and characteristics are examples we can assist the State in other ways beyond issuing audit opinions, which are all at no additional cost to the State:

- Ability to quickly identify the State's issues and willingness to candidly communicate them to you.
- Onsite educational sessions for State professionals.
- Working sessions to discuss implications of new auditing standards, laws, or regulations that impact the State's financial reporting and audit.
- Continuous principal and manager contact beyond the audit engagement.
- Access to national firm resources while experiencing the interaction and knowledge from our Colorado office professionals.

Fair Fees

Our goal is to provide the State with high quality service at a fair fee for these services with no surprises. Our time and fee estimates reflect our knowledge and extensive experience with audit services for governmental agencies similar to the State. We are confident we can provide you the in-depth service the State needs to accomplish a fully completed and detailed audit. CLA has worked with many federal agencies to accomplish successful audits, and we have not encountered any issues with the amount of time it takes to provide our services. CLA will serve the State in a timely, efficient and cost-effective manner. As requested in the State's RFP, our fee proposal may be found under separate cover.



E. CONTRACTOR IDENTIFYING INFORMATION

1. Name and Address

Name of Firm: CliftonLarsonAllen LLP
Address: 370 Interlocken Blvd., Suite 500
Broomfield, CO 80021
Phone: 303-466-8822

2. Type of Entity

Partnership

3. Length of Time in Existence

Established on January 2, 2012, as the nation's newest top 10 accounting firm, CliftonLarsonAllen (CLA) is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago.

4. Name and Location of Offices

We currently have 3,600 professionals, operating from more than 90 locations across the United States (all 90 locations can be provided upon request). Our company headquarters are in Minneapolis, MN. The State would be served from our Southwest Region with offices in the following locations:

- Phoenix, AZ
- Tucson, AZ
- Broomfield, CO
- Colorado Springs, CO
- Greenwood Village, CO
- Albuquerque, NM

5. Location of Office for Engagement

The State's engagement would be performed from our Colorado office locations shown below:

370 Interlocken Blvd., Suite 500
Broomfield, CO 80021
Main: 303-466-8822

8390 E. Crescent Pkwy., Suite 600
Greenwood Village, CO 80111
Main: 303-779-5710

6. Primary Contact Information

Name: Paul Niedermuller
Title: Principal
Direct: 303-439-6053
Fax: 303-466-9797
Address: 370 Interlocken Blvd., Suite 500, Broomfield, CO 80021



7. Firm's Federal Employer Identification Number

41-0746749

8. Financial Stability of the Firm

CLA is one of the nation's top 10 certified public accounting and consulting firms. CLA is governed by a board of directors made up of general principals elected by the principals and managed by a management team based Minneapolis, MN. We are a national professional services firm built around three entities – a public accounting and consulting firm, a wealth advisory firm and an outsourcing firm – highly integrated and seamless in the delivery of our services and capabilities to you.

The unique structure of CLA will provide the State with the resources and services of a large national firm and the hands-on, timely service of a local firm. Nationally, CLA currently serves more than 41,000 clients. We believe this depth of industry experience, along with our financial stability, is critical to the success of CLA's relationship with the State.

As stated above, CLA has been in business for many years and we take pride in the fact that we operate in a fiscally responsible manner. Through strategic planning and responsible fiscal actions in both good and bad economic times, we have built a solid fiscal foundation for CLA. We proactively plan for fiscal challenges and continuously monitor both revenues and costs to identify and effect adjustments needed to achieve the desired alignment and maintenance of appropriate financial reserves. While recent turmoil in certain economic sectors has created challenging conditions for all businesses, CLA remains, and will continue to be, financially strong.

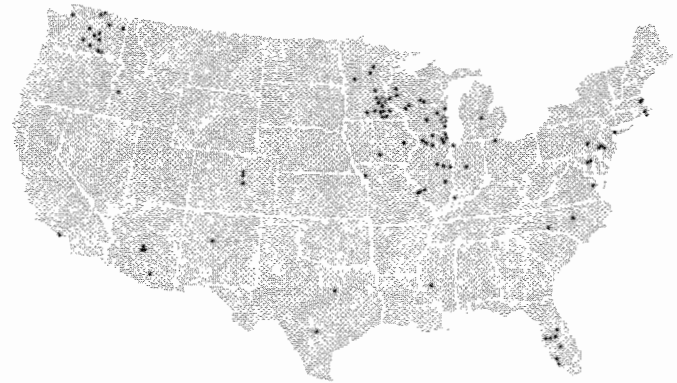
Our financial commitment to providing audit services is significant. With the number of clients in your industry that we currently perform audits for, along with the dedicated staff for this area of our practice, we are committed both financially and operationally to continuing this area of our practice.

F. TECHNICAL INFORMATION

CLA understands the purpose of our technical proposal is to demonstrate our qualifications, competence, and capacity to perform the requested services. Our response has been prepared simply and economically, and provides a concise description of CLA's qualifications to satisfy the requirements of this Request for Proposal.

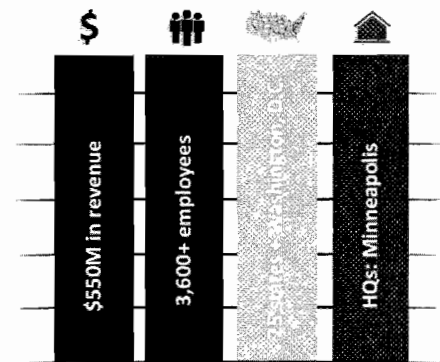
Overview of the Firm

CLA's 3,600 people are dedicated to helping businesses, governments, nonprofits, and the individuals who own and lead them. From offices coast to coast, our professionals practice in specific industries to deliver audit, tax, consulting, and outsourcing capabilities best aligned with our clients' needs. Integrated wealth advisory services address their personal financial goals, and our international resources help organizations successfully enter and compete in all markets, foreign and domestic. For more information, visit CLAconnect.com. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC.



Our Governmental Services Team

CLA has one of the largest governmental audit and consulting practices in the country, serving over 5,900 governmental and nonprofit engagements nationwide. The State will be served by members of our firm's Denver area governmental services team, comprised of professionals dedicated to serving governmental clients. Public sector clients represents approximately one-third of all firm-wide revenue, and each of the members of the government services team is thoroughly versed in the issues critical to complex governmental entities such as the State. Specifically, members of your proposed engagement team have effectively completed audits of numerous governmental clients.



We provide services in assurance, tax, advice and consultation on government contract compliance, entrepreneurial business services, information technology consulting, valuation and forensic, financial, special district and employee benefit plan services. These services have been provided to organizations very similar to the State, in both size and revenue across the nation.

The single-most important factor in our firm's success over the years has been our uncompromising commitment to the highest standards of quality and professionalism. Providing quality service to our clients is our sole focus, and we have developed review procedures and communications to foster high standards of performance.

The firm's operating philosophy differs from many other large CPA firms. We are dedicated to the public sector practice. We serve our clients through close personal involvement by all our principals, senior managers, and experienced professional staff. The public sector industry is a primary focus of our firm, therefore giving us considerable depth of experience and knowledge.

Throughout the Southwest region, a majority of our professionals are dedicated primarily to serving our public sector clients with audit, accounting and management services. In our Colorado offices, we have 19 principals, 32 managers, approximately 75 senior associates and associates and over 20 administrative staff. Our public sector staff consists of six principals, five managers and 28 other professionals including senior associates and associates. We also work collaboratively with other regional office professionals as needed to provide the best resources to our clients.

For the State's audit, we anticipate assigning 11 professionals from our governmental team. One principal, two managers, two senior associates and six associates will be on-site performing the audit. Another principal will also be assigned to perform the unassociated review of the financial statements and work papers and will be available for consultation.

We do not anticipate using any subcontractors during this engagement. CLA is not a joint venture or consortium.

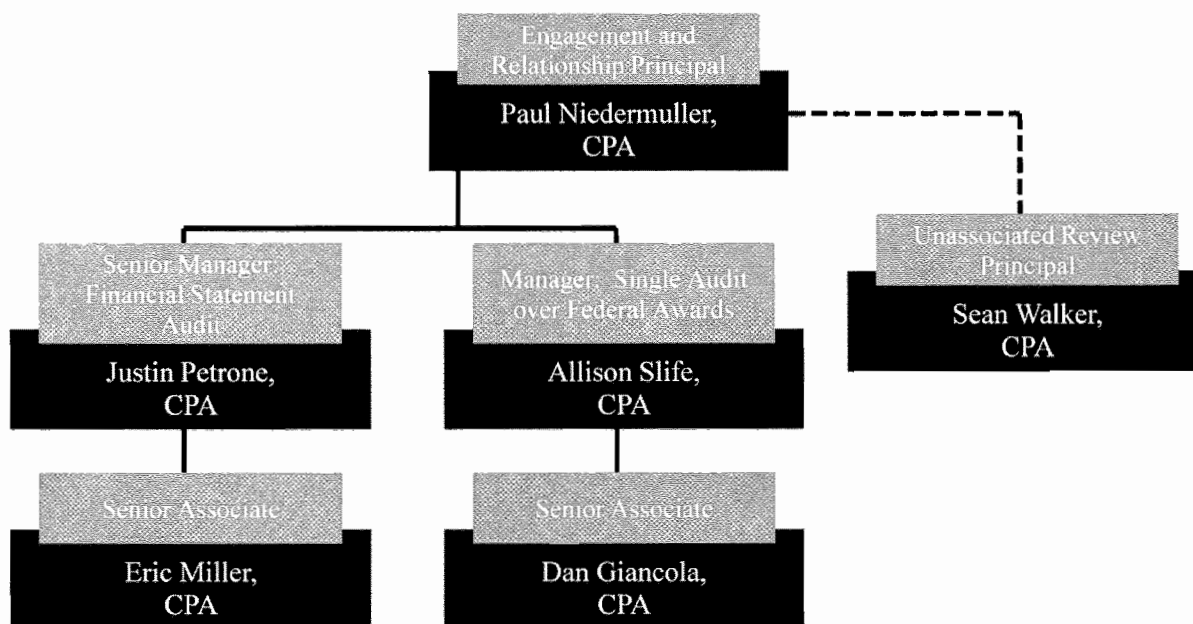


G. PROJECT STAFFING AND ORGANIZATION

1. Staffing

An experienced engagement team has been aligned to provide the most value to your organization. The team members have performed numerous engagements of this nature and will commit the resources necessary to provide top quality service throughout the engagement. Following is an organizational chart of our proposed management team members:

Engagement Team Organizational Chart



Engagement Team Qualifications and Experience

Following are brief biographies of our proposed engagement team. Detailed resumes are available in **Appendix A** of this proposal.

Paul Niedermuller, CPA, Engagement Principal

Paul will be the engagement and relationship principal and responsible for the approval of the audit plan, principal level review and approval of the required deliverables. He will be available throughout the year to answer questions. Paul serves as the Southwest regional leader for CLA's national Public Sector Group, bringing unique perspective and insight to the State's audit engagement team. Paul is licensed to practice as a certified public accountant.

Paul has been in public accounting for 16 years and all of his experience has been with governmental and nonprofit clients, where the majority have required Single Audits. He was a partner with a firm in California and joined CLA in

2006. His experience with government organizations include the State of Kansas, Colorado College, the University of Colorado, CollegeInvest, College Assist, Wyoming Department of Transportation, Colorado Water Conservation Board and Department of Healthcare Policy and Financing, Colorado Department of Natural Resources, Arapahoe County, Boulder County, City and County of Broomfield, City of Golden, City of Greeley, Town of Estes Park, Jefferson County School District, Adams 12 Five Star Schools, Academy School District 20, Poudre School District, Brighton 27j School District, and Academy Charter School.

Paul is a member of the Colorado Government Finance Officer's Association (CGFOA), Colorado Society of Certified Public Accountants, and the American Institute of Certified Public Accountants. Paul is a National Instructor in CLA's firm-wide training program. His instruction is focused on governmental accounting, audit methodology, and Single Audit requirements.

Sean Walker, CPA, CGFM, CGMS, Unassociated Review Principal

Sean is the national managing principal of the state and local government group. He has been serving public sector clients since 1999. Sean is licensed to practice as a certified public accountant.

Sean specializes in providing accounting, financial auditing and consulting to municipalities, utilities, counties, and tribal governments. He is the Chairman of the firm's Public Sector Quality and Learning and Development Committee. Sean is involved in the government industry on a national basis. He is a frequent speaker on government accounting, auditing, and Single Audits for professional associations around the country.

Sean is a member of the American Institute of CPAs, the National Grant Management Association, Association of Government Accountants, Government Financial Officers Association, Wisconsin Government Finance Officers Association, Illinois Government Finance Officers Association, Association of Local Governmental Auditors, and the Information Systems Audit and Control Association.

Justin Petrone, CPA, Senior Manager

Justin will be responsible for managing the overall financial statement audit process and supervising certain audit procedures. He will be onsite on a regular basis to proactively work with State management on any issues that may come up during the audit. Justin is licensed to practice as a certified public accountant.

Justin has over 12 years of auditing experience. His areas of experience include auditing, accounting, and federal grant financial and compliance audits. His recent experience includes primarily audits of state and local governments, including the State of Kansas, Colorado Department of Labor and Employment, Colorado Lottery, the Colorado Division of Gaming, Arapahoe County, City of Golden, City of Greeley, Town of Erie, Town of Estes Park, Denver Public Schools, Adams 12 Five Star Schools, Academy School District 20, and Urban Drainage and Flood Control District. In addition, Justin has experience performing internal audits for counties, Single Audits for various local governments, as well as audits and consulting projects for special districts.

Justin is a member of the Government Finance Officers' Association (GFOA), the Colorado Government Finance Officer's Association (CGFOA), and the American Institute of Certified Public Accountants (AICPA).

Allison Slife, CPA, Manager

Allison will be responsible for managing the overall Single Audit relating to the State's federal awards and supervising certain audit procedures. She will work on an ongoing basis with the State staff to resolve any issues and questions that come up during the audit. Allison is licensed to practice as a certified public accountant.

Allison has seven years of auditing experience, with the majority of engagements requiring Single Audits. Her experience primarily includes serving state and local governments, the majority of which require Single Audits, including the State of Kansas, Colorado Department of Natural Resources, Colorado Department of Labor and Employment, Wyoming Department of Transportation, Adams County, Boulder County,, Cherry Creek School District, Poudre School District, Brighton 27j School District, Fitzsimons Redevelopment Authority, Cunningham Fire Protection District, and Eagle Ridge Academy.

Allison is a member of the Colorado Government Finance Officer's Association (CGFOA), Colorado Society of Certified Public Accountants (CSCPA), and the American Institute of Certified Public Accountants (AICPA).

Eric Miller, CPA, Senior Associate

Eric will serve as one of the senior associates on the engagement, and be onsite during daily fieldwork. Eric will be responsible for day-to-day management and supervision of CLA staff, and will serve as the daily liaison between the State and the engagement team. Eric is licensed to practice as a certified public accountant in Colorado.

Eric has 3 years of public sector audit experience, and currently works on a variety of public sector engagements, including the State of Kansas, Boulder County, Northern Colorado Water Conservancy Board, Parker Water and Sanitation District, Town of Erie, Town of Estes Park, University of Colorado, Poudre School District, and Academy School District 20, with the majority of engagements requiring Single Audits.

Eric is a member of the Colorado Society of Certified Public Accountants (CSCPA), and the American Institute of Certified Public Accountants (AICPA).

Dan Giancola, CPA, Senior Associate

Dan will serve as one of the senior associates on the engagement, and be onsite during daily fieldwork. Dan will be responsible for day-to-day management and supervision of CLA staff, and will serve as the daily liaison between the State and the engagement team. Dan is licensed to practice as a certified public accountant.

Dan has three years of public sector audit experience, and works on a variety of public sector engagements, including the State of Kansas, Colorado Department of Transportation, University of Colorado, Oregon University System, Colorado College, Adams County, Adams 12 Five Star Schools, Academy Charter School, West Metro Fire District, Park County (Wyoming). Dan also has expertise working with State Revolving Funds on both a financial statement and single audit level for the following states: California, South Carolina, Tennessee, and New Hampshire.

Dan has also developed a specialization in compliance requirements with respect to OMB Circular A-133 based on the number of engagements he is responsible for that require a Single Audit. He is a member of the American Institute of Certified Public Accountants.

Associates

Our associates currently have between one to three years of experience. Given the volume of public sector clients served from our Denver-area offices, most of this experience has been devoted to public sector audits.

Hours

The total number of hours for each type of employee that will be involved in performing the work under contract is as follows:

| Financial Statement Audit of the State of Nevada's Comprehensive Annual Financial Report (CAFR) and Internal Control Review and Analysis | Hours |
|---|--------------|
| Principal | 280 |
| Senior Manager | 335 |
| Manager | 230 |
| Senior Associate | 525 |
| Associate | 1,440 |
| Total for Financial Statement Audit | 2,810 |

| Compliance Examination of the State's Federal Awards | Hours |
|---|--------------|
| Principal | 230 |
| Senior Manager | 115 |
| Manager | 276 |
| Senior Associate | 529 |
| Associate | 1,150 |
| Total for Compliance Examination | 2,300 |

We affirm our firm's ability to meet the required deadlines outlined in the request for proposal. Paul Niedermuller is responsible for the overall audit process and is the project manager.

2. Notices of Changes to Anticipated Staffing

We are committed to providing continuity throughout this engagement. It is our policy to maintain the same staff throughout an engagement, ensuring maximum efficiency and keeping the learning curve low. We are also flexible in exploring alternative solutions to non-mandatory rotation policies.



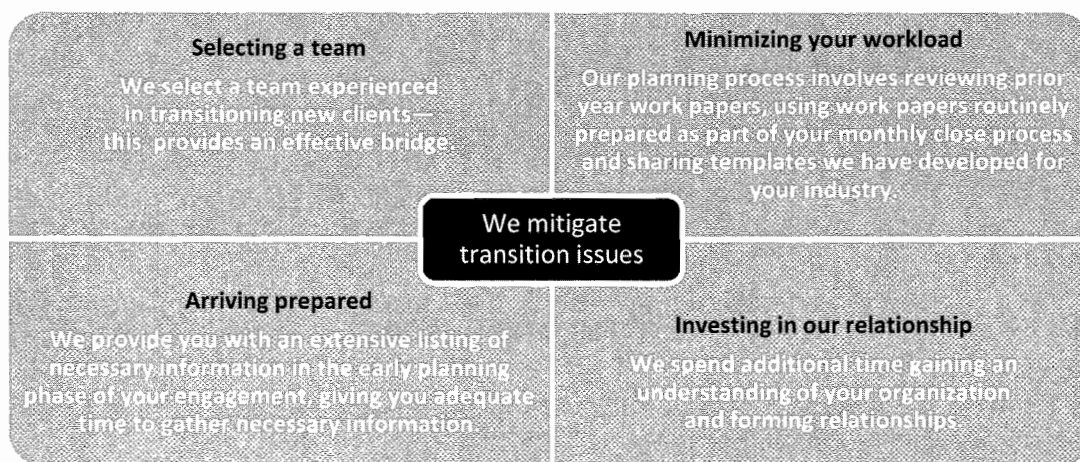
In any business, however, turnover is inevitable. When it happens, we will provide summaries of suggested replacements and will discuss re-assignments prior to finalizing. We have an adequate number of qualified staff members to provide the State with top service over the term of the engagement.

CLA is committed to maintaining high staff retention rates, which we believe are a strong indicator of service quality. Continuity results in increased efficiency and quality because staff assigned to the engagement will not have to go through a “learning curve” with annual engagements or each new project. Client staff spends less time orienting the engagement team, and more time working toward goals. With a solid, steady engagement team, each year brings the additional benefits of trust and familiarity. High retention rates also indicate that our staff members have the resources they need to perform their tasks and a positive work/life balance.

Transition Plan

As you are evaluating the responses to your request for proposal, we believe that you are likely asking yourself the following: How can we minimize the disruption that occurs with a change in auditor. We believe that two areas merit consideration: how will the new audit firm get “up to speed” as quickly as possible, and how effective will the new audit firm be in communicating its findings and other observations. We’ve certainly spent considerable time developing our plans in these two key areas: auditor transition and proactive client communications.

An area of concern that is commonly encountered during transition to new engagements is the start-up time required to familiarize ourselves with your operations. As shown in the figure below, we mitigate transition issues.



We Mitigate Transition Issues. *Transition issues are minimized through our use of thoughtful information requests and our staff's experience. This experience allows a thorough understanding of your field, so transitional time is focused on getting to know the unique culture, personnel, and control environment specific to the State.*

Upon appointment as auditors, we will initiate a planning meeting with the appropriate management of the State. This meeting will take place shortly after we are notified about your selection. The purpose of the meeting will be to:

- Review our approach and roles, and solicit comments and concerns
- Schedule work
- Establish key meeting and reporting dates

- Review the audit requirements

Management may be concerned about the potential disruption of its personnel during the transition period while the new firm becomes familiar with your operations. We have addressed this concern by structuring our transition process to gain a thorough understanding of your operations. That process has been successfully applied for numerous organizations in the past.

Our approach to transition includes:

- Use of review of prior auditor's work papers as a way to gather pertinent historical accounting information and documents to limit your team's time in producing them for us
- A well-structured, experienced engagement team
- More intensive involvement by principals and managers in the transition year, especially in the walk through meetings where we obtain an understanding of your internal control processes
- Careful and complete communications at all levels of the team to resolve issues and concerns

All transition activities will involve the on-site participation of the audit service team in order to:

- Focus our efforts only upon relevant matters
- Avoid unnecessary efforts by your personnel
- Make the audit process more responsive

We recognize changing accounting firms presents an opportunity as well as a challenge. Our service approach effectively minimizes the impact of client transition issues.

Communications Plan

We believe that the most critical success factor in completing an effective and efficient audit is communication between the auditor and auditee. Transparency in communicating is required by both the auditee and the auditor. CLA is committed to a "no surprises" approach to communication. That is, we will let you know early and often about the status of the audit. The following is a broad overview of our approach to communications in the first year.

1. **Execute a successful transition plan** – we have outlined our auditor transition plan above. By using experienced state and local government professionals in reviewing the prior auditor work papers as well as participating in the walkthrough meetings, it will allow us to form a base of knowledge to make our communications to you much more precise.
2. **Development of a detailed "Prepared by Client" (PBC) listing** – we will develop a detailed PBC list in order for both the State and CLA to understand what documents are needed for the completion of the audit. We will seek to minimize the number of audit only requests by leveraging your existing documentation. Each PBC request will contain the following elements:
 - a. Name of the document needed
 - b. Date by which the document is needed
 - c. Name of State personnel responsible for delivering the document to CLA
3. **Holding an entrance conference** – at this entrance conference, we would request that the State invite key personnel involved in executing the audit to attend. At this meeting we will discuss our overall audit

approach, key progress dates that must be achieved, communications protocol and other important matters so that both the State and the auditor understand how the audit will be executed and key dates to be met. We anticipate that many of the State personnel that attend this meeting will also be involved in the status meetings discussed below.

4. **Development and execution of a findings protocol** – the nature of auditing is that the auditor may identify deficiencies in internal control and adjustments to your trial balance. In both of these situations, the auditor must develop a finding that is delivered to management. It is imperative that both the State and CLA agree as to the facts of a potential deficiency. Accordingly, we request that the State will designate a single point of contact that will be responsible for coordinating and communicating management’s response to deficiencies identified during the audit. That way, both the State and CLA can be assured that there is agreement as to the facts of a finding.
5. **Delivery of progress reports** – We will deliver the required progress reports to the Legislative Auditor at least quarterly or with each billing from the date of the award until the final report has been delivered to the Legislative Auditor. The progress reports will include a statement of examination work completed to date, what remains to be done, hours incurred for the reporting period, the total to date, and whether the examination is proceeding on schedule for a timely completion. These reports will be provided in writing, but we meet in person at the State’s request to discuss the reports.
6. **Regular, recurring status meetings** – We are committed to holding regular, recurring status meetings to discuss audit progress. In these status meetings we will discuss:
 - a. What we have accomplished during the past week, including a discussion of our percentage of completion of that particular audit phase
 - b. What we plan to accomplish during the following week so that you can plan the allocation of your resources appropriately
 - c. Delays encountered during the audit – we will discuss the status of any outstanding PBC items developed in (2) above. We will also discuss any delays in obtaining meetings or other communications with the various parties associated with the audit.
 - d. Disclose potential audit report issues – We will provide you with a listing of all of our potential audit report issues that have been developed in (4) above.
7. **Providing draft audit reports** – We will provide you with a draft of our audit reports to be issued, in accordance with the timelines outlined in the request for proposal. If we have been successful in steps (4) and (5), you will already be aware of the findings in the report; thus, the review of the draft reports should be an affirmation of what has already been communicated.
8. **Hold an exit briefing** – immediately upon finalization of the draft reports, we would request an exit briefing, similar to the entrance conference. At this meeting, we will summarize the results of our audit, including a detailed discussion of our audit findings and timetable for final issuance of the report. We will also begin to lay the foundation for the next year’s audit by discussing lessons learned from the first year audit and obtaining validation on the start dates for the next year’s audit.

H. CONTRACTOR SERVICES OVERVIEW/OBJECTIVES

We understand the objectives of the examination for each fiscal year are to meet the below items through performance of the financial statement audit of the State of Nevada's Basic Financial Statements and the compliance examination of the State's federal awards.

1. *Determine and report whether the Basic Financial Statements of the State of Nevada are presented fairly in conformity with generally accepted accounting principles.*
2. *Determine and report on the supplementary information and required supplementary information included in the Comprehensive Annual Financial Report.*
3. *Determine and report whether the assessment of the internal control structure made as part of the examination of the Basic Financial Statements disclosed any significant deficiencies or material weaknesses in the State's accounting system.*
4. *Determine and report whether the State of Nevada has complied with laws and regulations that may have a material effect on the financial statements.*
5. *Determine and report whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole.*
6. *Determine and report on compliance with laws, regulations and provisions of contracts or grant agreements which have a direct and material effect on each material program.*
7. *Determine and report on the implementation status of the recommendations presented in the Single Audit Report of the State of Nevada for the prior year.*
8. *Any other objectives or reporting requirements as defined by regulations developed pursuant to the Single Audit Act Amendments of 1996.*

Your engagement team understands the above objectives as they are consistent with other audits we perform under Generally Accepted Auditing Standards (GAAS), Government Auditing Standards (GAS), and OMB Circular A-133 requirements.

I. CONTRACTOR CAPABILITIES

Experience with Other Governmental Entities

Government organizations are a dynamic, unique area of accounting, and require constant attention and monitoring. Our knowledge of your industry is crucial to offering actionable solutions. As a firm with many years of experience, we possess an exhaustive understanding of your challenges and are able to respond promptly and effectively to help meet them. Today we provide audit and consulting services to more than 5,900 state and local government and nonprofit organizations nationwide. Just as important, we have a long history of service to public entities and our commitment to quality service and meeting statutory deadlines is key.

Not only does CLA understand the technical aspects of providing you with a quality audit, we know that the audit has some critical timelines to adhere to, and we commit to meeting the State's deadlines.

The core team assigned to the State is identified further in our proposal and encompasses significant knowledge and experience to provide promised continuity at all levels. They will continue to work with you and your staff to foster consistent communication, timely delivery of your audit needs and exemplary customer service. They will also work with you and your staff on a proactive and collaborative basis, as needed, to address areas of concern, such as accounting for complex and unique transactions the State may enter into. It is our priority to help the State achieve its goals.

Your engagement team is an experienced engagement team that has been aligned to provide the most value to your organization. The team members have performed numerous engagements of this nature and will commit the resources necessary to give you top quality service throughout the engagement. The table below highlights our experience in providing audit and accounting services to state and local governmental entities nationwide.

| State | States & State Agencies | Counties | Municipalities | Higher Education | Housing Authorities | School Districts | Benefits/Pension |
|----------------------|-------------------------|----------|----------------|------------------|---------------------|------------------|------------------|
| Alabama | X | | | | X | | |
| Alaska | X | | | | | | |
| Arizona | X | X | X | X | | X | |
| Arkansas | X | | | X | | | X |
| California | X | X | X | X | X | X | X |
| Colorado | X | X | X | X | X | X | |
| Delaware | X | X | X | X | | | X |
| District of Columbia | X | | | | X | | |
| Florida | X | X | X | X | X | X | X |
| Georgia | X | | | | | | |
| Illinois | X | X | X | X | X | X | |
| Indiana | X | | X | | | | X |
| Iowa | X | X | X | X | X | X | |
| Kansas | X | | | | | | |
| Louisiana | X | X | | | | | |
| Maryland | X | X | X | X | X | X | X |

| State | States & State Agencies | Counties | Municipalities | Higher Education | Housing Authorities | School Districts | Benefits/ Pension |
|----------------|-------------------------|----------|----------------|------------------|---------------------|------------------|-------------------|
| Massachusetts | | | | X | | | |
| Michigan | X | | | | | | |
| Minnesota | | X | X | X | X | X | |
| Mississippi | X | | X | | | | |
| Missouri | | X | X | X | | X | |
| Nevada | X | | | | X | | X |
| New Hampshire | X | | | | | | |
| New Jersey | X | X | | X | X | | |
| New Mexico | X | X | X | | X | | X |
| New York | | | | | | | X |
| North Carolina | X | | | X | X | | |
| North Dakota | X | | | | | | X |
| Ohio | X | X | X | | | | X |
| Oklahoma | X | | | | | | |
| Oregon | X | | X | X | | | |
| Pennsylvania | X | X | X | X | X | X | X |
| Rhode Island | X | | | | | | |
| South Carolina | X | | | | | | |
| Tennessee | X | | | | | | |
| Texas | X | | X | X | X | X | X |
| Vermont | X | | | X | | | |
| Virginia | X | X | X | X | X | X | X |
| Washington | X | | | | | | X |
| West Virginia | X | | | X | | | |
| Wisconsin | X | X | X | X | X | X | X |

In addition, we are the current auditor of the Nevada State Public Employees' Retirement System (PERS).

1. Business Organization

Name of Firm: CliftonLarsonAllen LLP
Address: 370 Interlocken Blvd., Suite 500
 Broomfield, CO 80021
Primary Contact: Paul Niedermuller, Principal
Email: paul.niedermuller@CLAconnect.com
Direct: 303-439-6053

Please direct any questions regarding our proposal response to Paul Niedermuller at the phone number or email listed above.



2. Peer Review

CliftonLarsonAllen (CLA) was formed in January 2012 through the merger of Clifton Gunderson and LarsonAllen. Both firms received external quality control reviews every three years and have continued to do so as CLA. CLA received an unqualified opinion in the most recent external quality (peer) review. Attached on the following pages are CLA's most recent external quality (peer) review reports.

The Public Company Accounting Oversight Board (PCAOB) conducts inspections of CLA's quality control procedures relating to audits of public companies, while the remainder of our assurance practice is peer reviewed under American Institute of Certified Public Accountants (AICPA) guidelines. Our most recent PCAOB review did not identify any instances of deficiencies or potential deficiencies in our systems, policies, procedures, or practices, or in the conduct of our firm. Our most recent peer review, expressed an unqualified (i.e., clean) opinion and a "pass" rating, which is the most positive report a firm can receive. We are proud of this accomplishment and its strong evidence of our commitment to technical excellence.

In addition to our external peer review, we have undertaken an intensive internal quality control program to determine that professional standards are maintained in our work. This program is designed to provide reasonable assurance that our personnel will be competent and objective and will exercise due professional care. Included in that program are the following:

- A quality control manual that dictates the quality control standards and policies of our firm. In many cases, these standards exceed the requirements of professional and governmental guidelines. To monitor our adherence to policies and procedures, and to foster quality and accuracy in our services, each office must have a regular internal examination performed by professionals from other firm offices.
- Quality control standards as prescribed by the AICPA. A principal-in-charge is involved in the planning, fieldwork, and post-fieldwork review. In addition, a second appropriately experienced professional performs a risk-based review of the audit prior to issuance of the reports.
- An annual internal inspection program to monitor compliance with CLA's quality control standards. Work papers from a representative sample of engagements are reviewed and improvements to our audit process are made, if necessary, based on the results of the internal inspection review.
- Strict adherence to the AICPA's rules of professional conduct, which specifically includes maintaining client confidentiality. Privacy and trust are implicit in the accounting profession, and CLA strives to maintain the utmost level of trust and confidentiality.
- A requirement that all Single Audit engagements be reviewed by a designated Single Audit reviewer, thereby ensuring the standards set forth in OMB Circular A-133 are accurately maintained.





Peer Review Program
Administered by the National Peer Review Committee

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

December 12, 2013

Gordon A Viere, CPA
CliftonLarsonAllen LLP
220 S 6th St Ste 300
Minneapolis, MN 55402

Dear Mr. Viere:

It is my pleasure to notify you that on December 12, 2013 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is January 31, 2017. This is the date by which all review documents should be completed and submitted to the administering entity. If your due date falls between January and April, you can arrange to have your review a few months earlier to avoid having a review during tax season.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Betty Jo Charles
Chair, National Peer Review Committee
nprc@aicpa.org 919 402-4502

cc: Catherine Marie Schweigel Samuel Edward Johnson

Firm Number: 10012475

Review Number 348767

Letter ID: 847869

T: 1 919 402 4502 | F: 1 919 402 4876 | nprc@aicpa.org



System Review Report

To the Principals of CliftonLarsonAllen LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of CliftonLarsonAllen LLP (the firm) applicable to non-SEC issuers in effect for the year ended July 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations [Service Organizations Control (SOC) 1 and 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of CliftonLarsonAllen LLP applicable to non-SEC issuers in effect for the year ended July 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. CliftonLarsonAllen LLP has received a peer review rating of *pass*.



Cherry Bekaert LLP
November 12, 2013

3. Independence

CLA and all professionals assigned to this engagement are independent of the State and its component units as defined by auditing standards generally accepted in the United States of America and the U.S. Government Accountability Office's *Government Auditing Standards* (1994). We have not performed any non-audit services for the State of Nevada in the past three years.

CLA has detailed procedures in our Audit & Accounting Manual to foster compliance with independence requirements and to avoid other conflicts of interest. Our policies are extensive and designed to meet the requirements of the AICPA, the U.S. Securities and Exchange Commission (SEC), the PCAOB, state licensing agencies and *Government Auditing Standards*. Some of the key elements of our policies include:

- Independence training for all professionals.
- Annual written representations of independence from all personnel who perform client services.
- Extensive client and engagement acceptance and continuance policies.
- Separate sections in our manual specific to independence over *Government Auditing Standards* engagements.
- Requirements for confirming independence of outside accounting firms and independent contractors.
- Maintenance of a firm-wide client list and a restricted entities list.

4. Experience of the Firm

Leaders in Performing Single Audits

CLA is committed to working with entities with federal programs requiring Single Audits in accordance with OMB Circular A-133. Nearly all of our local governmental assurance clients require a Single Audit. **Of all practicing firms in the United States, our firm currently submits the most Single Audits to the Federal Data Clearinghouse annually.** Our commitment to the industry is second to none. CLA has a national presence with Federal Inspector Generals through participation with the Single Audit Roundtable meetings in Washington, D.C. and involvement with Government Audit Quality Center's (GAQC) Executive Committee.

The principal, managers and staff members assigned to your audit have performed hundreds of Single Audits and have received specialized training in governmental accounting, auditing and financial reporting. In addition, they receive training on the compliance requirements of OMB Circular A-133 and the use of the related compliance supplements.

Thought Leadership and Industry Information

CLA goes beyond the numbers and offers value-added solutions. Rest assured, you will hear from us throughout the year. We send periodic email publications and host webcasts to keep clients and friends of the firm informed of relevant industry updates. Further, we have an extensive resource library on our website that includes white papers and articles representing some of our latest thinking on topics relevant to your industry.



Significant Clients Ranked by Total Hours

Organization **State of Kansas**
Scope of Work: Financial Statement Audit and Single Audit
Dates: 2013 – Current
Engagement principal: Paul Niedermuller, Sean Walker
Total hours: 10,000+
Number of major
programs and total
federal awards
audited: 29 major program clusters audited by predecessor auditor, \$5.5 billion in total federal
awards (fiscal year 2012)
Contact: Julie Pennington, CPA, CIA, CFE, Financial-Compliance Audit Manager
Phone: 785-296-5817

Organization **State of Colorado (OSA)**
Scope of Work: Financial and compliance audits of various state agencies, including the University of
Colorado, Colorado Department of Natural Resources, Colorado Department of Labor
and Employment, State Internet Portal Authority, Colorado Department of
Transportation, Colorado Division of Gaming
Dates: 2001 – Current
Engagement principal: Paul Niedermuller, Mark Elmshauser
Total hours: 7,300+
Number of major
programs and total
federal awards
audited: 5 major program clusters audited, \$9.1 billion in total federal awards (fiscal year 2012)
Contact: Dianne Ray, CO State Auditor
Phone: 303-869-2800

Organization **Boulder County, Colorado**
Scope of Work: Financial Statement Audit and Single Audit
Dates: 2005 – Current
Engagement principal: Paul Niedermuller, Mark Elmshauser
Total hours: 2,300
Number of major
programs and total
federal awards
audited: 5 major program clusters audited, \$50 million in total federal awards (fiscal year 2013)
Contact: Bob Lamb, Finance Division Manager
Phone: 303-441-3497

Organization **Arapahoe County, Colorado**
Scope of Work: Financial Statement Audit and Single Audit
Dates: 2011 – Current
Engagement principal: Paul Niedermuller
Total hours: 1,845
Number of major
programs and total
federal awards
audited: 7 major program clusters audited, \$60 million in total federal awards (fiscal year 2013)
Contact: Steve Oliver, Accounting Manager
Phone: 303-795-4468

Organization **Wyoming Department of Transportation**
Scope of Work: Financial Statement Audit and Single Audit
Dates: 2011 – Current
Engagement principal: Paul Niedermuller
Total hours: 1,000
Number of major
programs and total
federal awards
audited: 5 major program clusters audited, \$346 million in total federal awards (fiscal year 2013)
Contact: David Stearns, Financial Services Administrator
Phone: 307-777-4024

Continuing Professional Education of the Engagement Team

CLA is committed to making sure our staff remains current on all accounting and auditing standards. All of our professional staff, both CPAs and non-CPAs, are required to attend a minimum of 40 hours per year of continuing education courses which are paid for by our firm. All supervisory personnel have completed in excess of 24 hours of qualified government continuing education courses every two years.

This education is obtained by attending various courses such as our internal assurance conference held annually in Minneapolis, Minnesota, or virtually, where we cover all significant changes in auditing pronouncements, accounting principles, independence requirements, Single Audit requirements and other government related matters. This conference is supplemented with other government related courses provided through the Government Finance Officers Association (GFOA), Colorado Government Finance Officers Association (CGFOA), the American Institute of Certified Public Accountants (AICPA) and the Colorado Society of Certified Public Accountants (CSCPA) where we concentrate on education specific to governmental auditing and Single Audits.

Below is a CPE summary for the last three year for the professional staff proposed in our proposal.

Paul Niedermuller

Hours

2011

| | |
|------------------------------------|-----------|
| Annual Assurance Update – Internal | 18 |
| CG Annual Assurance Conference | 14 |
| Independence & Ethics | 6 |
| Governmental Accounting | <u>35</u> |
| Total | <u>73</u> |

2012

| | |
|---|-------------|
| Auditors of County Human Services Departments | 7 |
| State & Local Government Conference | 11 |
| CAFR Review/GASB Update | 12 |
| CLA Audit Methodology | 8 |
| Intermediate Governmental Accounting | 8 |
| A Single Audit Update | 1.5 |
| Student Financial Aid – Advanced | 6 |
| A&A Update | 2 |
| Mountains & Moguls: Emerging Retirement Plan Policies | <u>3</u> |
| Total | <u>58.5</u> |

2013

| | |
|-----------------------------------|-------------|
| Colorado Rules & Regulations | 2 |
| Assurance GoFileRoom | 4 |
| PSG Fraud Update | 3.5 |
| Independence Update | 2 |
| GASB Update | 6 |
| Advanced Governmental Accounting | 16 |
| Public Sector Industry Conference | 20 |
| PSG Pre-Conference | 4 |
| Student Financial Aid | 7 |
| Assurance Quarterly Update | 2 |
| GASB 67 & 68 Pension Reporting | <u>9</u> |
| Total | <u>75.5</u> |

Sean Walker

Hours

2011

| | |
|--|------|
| Assurance Services Conference | 15 |
| Reporting Implications of Intergovernmental Financial Dependency | 2 |
| National Advanced Accounting and Auditing Technical Symposium | 22 |
| LEAD: Train-the-Trainer | 14.5 |
| LEAD: New Partner Orientation | 8 |
| Single Audit Merger Training | 6 |
| Clear & Concise Communications | 6 |
| CGMS Grandfathered Provisional Certification | 26 |



| | |
|---|-------------|
| Identifying Tax Consulting Services Opportunities | 2 |
| Assurance Services Merger & Integration | <u>16.5</u> |
| Total | <u>118</u> |

2012

| | |
|--|-------------|
| Assurance EACF & Quality Control Policies & Procedures | 2 |
| Leadership Breakfast | 1 |
| Joint State and Local Government & Nonprofit Update | 14 |
| State & Local Government Conference | 11 |
| Single Audit Binder Training | 4.5 |
| Ethics | 4 |
| AICPA Governmental Accounting and Auditing Update | 22.5 |
| Audit Methodology | 9 |
| SSL: Operational Excellence | 4 |
| A Single Audit Update | 4.5 |
| GFOA Annual Conference | <u>9</u> |
| Total | <u>85.5</u> |

2013

| | |
|--|--------------|
| Assurance: Review Responsibilities, Procedures & GFR | 1 |
| Forensic Data Analysis Using IDEA | 16 |
| Single Audit Roundtable | 6 |
| AICPA National Governmental Accounting & Auditing Update | 18.5 |
| Public Sector Industry Conference | 23 |
| PSG Pre-Conference | 8 |
| Ethics Violations in Single Audits | 2 |
| GFOA Annual Conference | 10 |
| Not-for-Profit Accounting Conference | 5 |
| New Partner Orientation | 16.5 |
| Spring Conference | 8 |
| Government Training Academy | 8.5 |
| New GASB Pension Standards | <u>4</u> |
| Total | <u>126.5</u> |

Justin Petrone

Hours

2011

| | |
|--------------------------------|-------------|
| CG Annual Assurance Conference | 15 |
| Independence & Ethics | 14 |
| Governmental Accounting | <u>49.5</u> |
| Total | <u>78.5</u> |

2012

| | |
|--|---|
| Training for Auditors of County Human Services Departments | 7 |
| State & Local Government | 9 |
| Audit Methodology | 8 |
| Trainer: Intermediate Governmental Accounting (CGFOA) | 8 |



| | |
|---|-----------|
| A Single Audit Update | 2 |
| Proposed GASB Pronouncement | 3 |
| Mountains & Moguls: Emerging Retirement Plan Policies | <u>3</u> |
| Total | <u>40</u> |

2013

| | |
|---|-----------|
| HUD Update | 1 |
| Assurance Review | 2 |
| Seminar for Auditors of County Human Services Departments | 7 |
| Assurance: Intro to GoFileRoom | 2 |
| GASB Update Training | 6 |
| Advanced Governmental Accounting | 16 |
| Public Sector Industry Conference | 20 |
| PSG Pre-Conference | 4 |
| GASB 67 and 68 Pension Reporting | <u>3</u> |
| Total | <u>61</u> |

Allison Slife

Hours

2011

| | |
|------------------------------|-------------|
| Staff Level Training III | 6 |
| GROW: Wisdom & Public Sector | 30.5 |
| Making Ethics Count | <u>4</u> |
| Total | <u>40.5</u> |

2012

| | |
|---|-----------|
| A&A Standards Update | 4 |
| Financial Statement Fluency | 2 |
| Challenges for the CFO/Controller | 6 |
| Risk Management in the Public Sector | 2.5 |
| Ethics & Professional Conduct for CO CPAs | 4 |
| Fraud, Prevalence & Detection | 2 |
| Auditors of County Human Services Departments | 7 |
| State & Local Government | 9 |
| The Clarity Auditing Standards & Group Audits | 2 |
| Audit Methodology | 8 |
| Risk Management Update | 1 |
| Government Auditors Roundtable | 2 |
| A Single Audit Update | 1.5 |
| Emerging Retirement Plan Policies | <u>3</u> |
| Total | <u>54</u> |

2013

| | |
|----------------------------|-----|
| Assurance Review | 2 |
| PSG Fraud Update | 3.5 |
| Public Sector Learning Day | 8 |
| GASB Update | 4 |



| | |
|--------------------------------------|-------------|
| Intermediate Governmental Accounting | 8 |
| Public Sector Industry Conference | 16 |
| PSG Pre-Conference | 4 |
| Ethics Violations in Single Audits | <u>2</u> |
| Total | <u>47.5</u> |

| | |
|-------------------------|--------------|
| Eric Miller | Hours |
| <u>2011</u> | |
| Ethics | 8.5 |
| Staff Training | 15.5 |
| Independence and Ethics | <u>2.5</u> |
| Total | <u>26.5</u> |

| | |
|---|------------|
| <u>2012</u> | |
| Assurance Staff 2 Training | 27.5 |
| The Clarity Auditing Standards and Group Audits | 2 |
| State and Local Government Conference | 9 |
| Audit Methodology | 8 |
| CO State Board of Accountancy Statutes, Rules & Regulations | 4 |
| Single Audit Update | <u>1.5</u> |
| Total | <u>52</u> |

| | |
|------------------------|-------------|
| <u>2013</u> | |
| Assurance Review | 4 |
| PSG Fraud Update | 3.5 |
| Public Sector Learning | 8 |
| LEAP: Achieve | 37 |
| Staff Training | <u>52.5</u> |
| Total | <u>105</u> |

| | |
|--------------------------|--------------|
| Dan Giancola | Hours |
| <u>2011</u> | |
| Municipal Bonds Training | 2 |
| Independence and Ethics | 7 |
| Staff Level Training I | 15.5 |
| Sales and Use Tax | 1 |
| Making Ethics Count | <u>4</u> |
| Total | <u>29.5</u> |

| | |
|---|----|
| <u>2012</u> | |
| Assurance Services | 31 |
| Student Financial Aid | 6 |
| Risk Management Update | 1 |
| Audit Methodology | 8 |
| State and Local Government | 9 |
| Auditors of County Human Services Departments | 7 |

| | |
|------------------|-------------|
| Staff 2 Training | <u>27.5</u> |
| Total | <u>89.5</u> |

2013

| | |
|---|-----------|
| Training Seminars for Auditors of County Human Services Departments | 7 |
| Public Sector Local Learning Day | 8 |
| Professional Ethics | <u>8</u> |
| Total | <u>23</u> |

Experience with Federal Awards Audits

Each member of the engagement's management team has spent approximately 80% of their time on federal award audits in the last 3 years.

5. Audit Approach

Work Plan

Our approach emphasizes three key components: 1) continual communication; 2) full utilization of technological tools for an efficient audit; and 3) effective project management to facilitate a commitment to deadlines.

Continual communication will be conducted throughout the year as well as during the conduct of the engagement. As discussed further below, we will conduct regular update meetings with appropriate management staff during preliminary and final fieldwork. We stress the importance of these meetings with management and our team so that your expectations are fully understood, timing and milestones are agreed upon, technical and unique audit issues are dealt with early during the audit process, and management is aware of audit progress. In addition, these meetings are critical in resolving potential audit differences and/or control deficiencies. Timely and substantive communication between the auditor and management is important in order to avoid misunderstandings related to the fact pattern and to identify any possible compensating controls. In addition, this communication eliminates surprises at the end of the audit. Thus, continuous communication is a fundamental element in CLA's work plan.

The audit will be conducted by using a variety of technological tools. Fully utilizing the benefits of these tools creates an efficient and effective audit.

The audit will be coordinated with management and will begin as soon as possible after our appointment as auditors. Our audit services are designed to protect the interests of management by concentrating on high-risk areas. As part of our audit procedures, we will perform transaction sample testing and lead schedule testing based on populations provided to us by management. Based on risk assessment, we will also identify and perform appropriate audit procedures on any other critical or significant audit areas, transaction streams, or account balances. Risk identification is the first step of the audit process, providing the basis upon which the overall plan is developed.

Through careful consideration of risks and their interrelationships, we will develop an audit plan and related procedures that concentrate our efforts on those elements of the State's financial statement and processes that involve the greatest risk.



We expect that the majority of our audit hours will be concentrated in the high-risk audit areas. Our approach is not to overwork every account with extensive substantive testing. While substantive testing remains part of the process, we think out-of-the-box analytically, identify relationships and truly learn about your operations.

Audit Approach

Our approach emphasizes continual communication throughout the year as well as during the conduct of the engagement. We expect to conduct weekly update meetings with appropriate management staff during preliminary and final fieldwork.

Risk identification is the first step of the audit process, providing the basis upon which the overall plan is developed. Through careful consideration of risks and their interrelationships, we will develop an audit plan and related programs that concentrate our efforts on those elements of your financial statements that involve the greatest risk.

Proposed Segmentation of the Engagement

The engagement is segmented into three primary time periods: planning and interim work, substantive fieldwork, and review and delivery. This segmentation of the engagement incorporates the audit of the State's Comprehensive Annual Financial Report (CAFR), the audit of the Schedule of Expenditures of Federal Awards, and the internal control review and analysis. We believe a unified approach is critical to meeting the State's ultimate objectives and deadlines.

During the planning and interim work, we will:

- Meet with key personnel to discuss and create a comprehensive game plan for the audit, to include:
 - A timeline for the audit, through final issuance.
 - Discussion of expected interim work to be performed.
 - A detailed list of all schedules and confirmations to be prepared by the State.
 - Identification of key contacts (both CLA and the State) for each significant audit area and preferred methods of communication.
 - Scheduled site visits for key components of the audit and locations where processes, transaction cycles and supporting documentation are not centralized
 - Key milestones and deadlines throughout the audit process.
- Perform detailed work to gain a thorough understanding of the State's environment utilizing such sources of information as State Policy and Procedure manuals and other State legislation involving the State's environment and operations; internal control policies and procedures; State-developed manuals and programs; organization charts; State bills and resolutions; financial and other management system documentation. Audit steps also include inquiries of management and staff and performing analytical procedures on selected preliminary account balances.
- Perform tests of the internal controls. This consists of inspecting various aspects of selected samples of transactions, such as agreeing amounts to supporting documents, verifying approvals, recalculating amounts, etc. This would also consist of testing information technology internal controls, including the following:

- Application security administration and access controls
- Data/database security administration and access controls
- Server administration and access controls
- Physical environment controls
- Disaster recovery/contingency planning
- Interfaces
- Change management and change control
- Conduct interviews of key personnel concerning their understanding of the potential for fraudulent activity and the controls in place to prevent it.
- Design detailed audit programs that emphasize key areas and issues identified by the planning process.
- Review all work performed by our staff during interim fieldwork as test work is completed. Any proposed adjustments or concerns are communicated to management at weekly status meetings, if not earlier.
- We will request a preliminary schedule of expenditures of federal awards to make a preliminary determination as to which programs will be subject to testing.

During the substantive fieldwork, we will:

- Perform analytical tests over certain significant classes of transactions, including comparisons to budget and prior year balances, ratio analysis and predictive tests of amounts.
- For other significant classes of transactions, perform sampling procedures and vouch to supporting documentation.
- Compare significant asset and liability accounts to confirmations and supporting documentation such as bank reconciliations, invoices, bank statements and agreements.
- Confirm significant sources of revenue and receivables, when applicable, with independent sources.
- Review all work performed by our staff as test work is completed. Any proposed adjustments or concerns are communicated to management at weekly status meetings at the latest.
- Resolve any open items from the planning phase.
- Meet at least weekly with the key financial personnel to discuss results of fieldwork and review significant findings.
- Utilize the following sources of information: State bills and resolutions, financial and other management system documentation.

During the review and delivery we will:

- Read the financial statements for the State and compare to amounts tested during interim and final fieldwork.
- Complete review of any remaining work performed, including an overall review by the engagement principal.
- Perform an unassociated review of the financial statements and audit work papers. This is done by an audit principal not involved in the audit of the State.
- Meet with key State personnel to review a draft of the financial statements and all reports in detail.
- Participate in presentation of financial statements to the Audit Committee.

Project Schedule

We are committed to meeting your specified timelines. To do so, a detailed project management timeline will be developed with management. A summary of a proposed timeline is provided below. This timeline can be adjusted as part of a more detailed collaboration with State personnel. Progress reports will be delivered to the Legislative Auditor at least quarterly or with each billing from the date of the award until the final report has been delivered.

| Activities | May | June | July | Sept | Oct | Nov | Dec | Jan | Feb | Mar |
|---|-----|------|------|------|-----|-----|-----|-----|-----|-----|
| Planning | | | | | | | | | | |
| Preliminary meet/greet/planning meetings | X | X | | | | | | | | |
| Risk assessment/engagement planning | X | X | | | | | | | | |
| Preliminary SEFA and A-133 planning | X | X | X | | | | | | | |
| Identify and resolve accounting issues and concerns | X | X | | | | | | | | |
| Review data processing activities and controls | X | X | | | | | | | | |
| Develop overall audit approach | X | X | X | | | | | | | |
| Provide the State with a comprehensive audit plan, including all milestones through report issuance | X | X | X | | | | | | | |
| Preliminary/Interim Audit Activities | | | | | | | | | | |
| Obtain understanding of internal control environment | X | X | | | | | | | | |
| Identify key controls and perform walkthroughs | X | X | | | | | | | | |
| Conduct test of controls and IT assessment | X | X | | | | | | | | |
| Perform analytical review procedures and preliminary substantive procedures | X | X | | | | | | | | |
| Major program control documentation | X | X | X | | | | | | | |
| Major program preliminary control and compliance testing | X | X | X | | | | | | | |
| Final Audit and Reporting | | | | | | | | | | |
| Perform year-end substantive procedures | | | | | X | X | X | | | |
| Complete OMB Circular A-133 Single Audit work | | | | | X | X | X | X | X | |

| Activities | May | June | July | Sept | Oct | Nov | Dec | Jan | Feb | (YR) |
|---|-----|------|------|------|-----|-----|-----|-----|-----|------|
| Review financial statements and other letters | | | | | | X | X | | | |
| Meetings to review reports on financial statements, management letters, and other documents | | | | | | | X | | | |
| Hold audit exit conference, end of fieldwork | | | | | | | X | | | |
| Issue opinion on the State's CAFR (by third Friday of December) | | | | | | | X | | | |
| Issue opinion solely on the State's Basic Financial Statements (by third Friday of December) | | | | | | | X | | | |
| Issue the Report on Compliance and on Internal Control Over Financial Reporting (by third Friday of December) | | | | | | | X | | | |
| Deliver draft Single Audit Report and draft Data Collection Form (by February 28 th) | | | | | | | | | X | |
| Issue final Single Audit Report and Data Collection Form (by third Friday in March) | | | | | | | | | | X |
| Attendance at public meetings called by the Audit Subcommittee to discuss the final reports, if requested | | | | | | | X | X | X | X |

Sample size and the extent to which statistical sampling is to be used in the engagement

In performing testing controls for the internal control system, our firm has developed guidelines for use of statistical sampling. For statistical sampling, the sample size will vary based on the number of units in the population, our planned reliance on the results of the testing procedures, and the overall precision we determine appropriate for the testing.

In performing substantive tests of balances we may use non-statistical sampling. For non-statistical sampling, the sample size will vary based on the dollar value of the population, our materiality factors and the coverage desired for the testing.

Type and extent of analytical procedures to be used in the engagement

We perform analytical procedures in all three phases of the engagement. Analytical procedures are performed in the planning phase to identify key risk areas based on variances from budget, prior year, and industry standards. After our initial meetings with key financial personnel and staff members, we will develop expectations of variances from prior year and the budget. We then compare these expectations to the actual changes to further investigate differences from expected variances. We also perform analytical review in the

substantive testing phase and complete our use of analytical procedures by using them in the review phase. These types of procedures will include comparisons to budget and prior years, ratio analysis and predictive tests of revenue and expenditure amounts.

Level of staff and number of hours to be assigned to each proposed segment of the engagement

Please see the “Hours” section within G., *Project Staffing and Organization*, for the level of staff and number of hours to be assigned for each proposed segmentation of the engagement, including the audit of the State’s CAFR, audit of the Schedule of Expenditures of Federal Awards, and internal control review and analysis.

Approach to be taken to gain and document an understanding of the State’s internal control structure

We understand changing audit firms would require a new set of auditors to develop an understanding of the State and its internal control and operating structure. We also strive to develop our understanding in the least intrusive manner possible, while still maintaining our professional responsibilities. We would utilize a combination of internal control forms and interviews with key accounting personnel to gain and document our understanding of the State. We will also use as a baseline any existing internal control processes, policies, organizational charts, etc. the State may have already documented. Tests of design and operating effectiveness would then be performed to confirm our understanding.

Approach to be taken in determining laws and regulations that will be subject to audit test work

Due to our experience with governmental entities and governmental audits in general, we are familiar with state and federal laws and regulations. We will update our knowledge of any changes in these laws prior to commencing audit work. We develop specific audit steps to test applicable laws and regulations.

Approach to be taken in drawing audit samples for purposes of tests of compliance

Our approach to drawing audit samples will depend both on the assessment of control risk and determination of accounting control systems in place. For example, if we can determine that only one disbursement system is in place, we will select a sample based on the entire population. If there are several different systems with various controls in place, our approach will be to test each system and select samples for each system where we decide to rely on controls. Our sample size will vary based on the level of assessment of control risk. We utilize some form of random sample selection. Additionally, refer to the “Sample size and extent to which statistical sampling is to be used in the engagement” section above.

Management of subcontractors

No subcontractors will be used during the performance of this engagement.

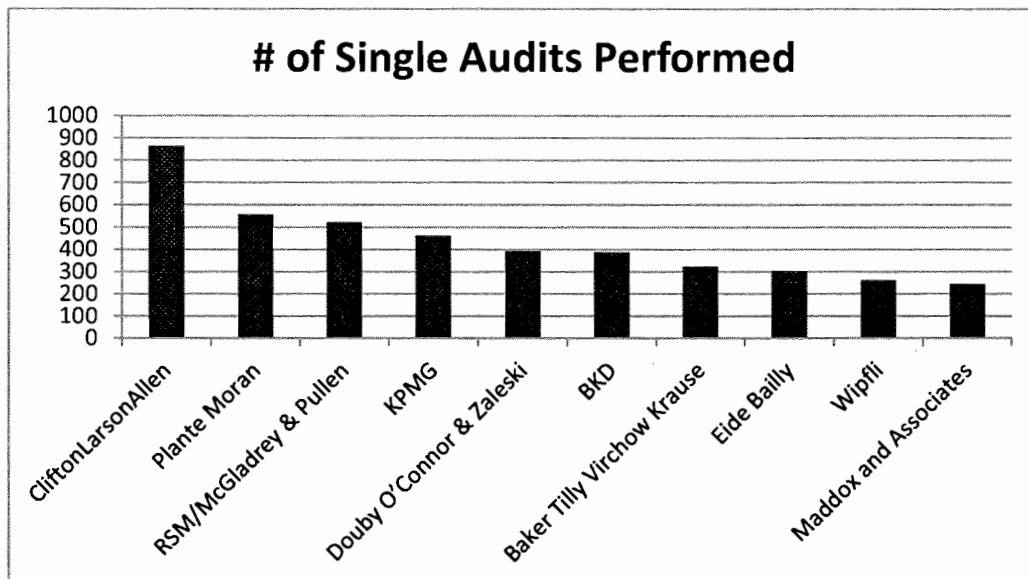
Extent of manager and principal on-site participation

The involvement of manager and principal time is essential in the performance of any audit. We have the available resources to provide extensive on-site participation of the audit process for the State at the manager and principal level. This is further explained in the “Transition Plan” section of G., *Project Staffing and Organization*. We project the on-site participation by the principal and managers to be 50% and 75% on-site, respectively.

SINGLE AUDIT APPROACH

As the nation's leader of providing Single Audits, all of your proposed team members are well versed in OMB Circular A-133. Our approach to the Single Audit testing procedures will be very similar to the approach discussed above. Project management and continuous communication will be essential to a successful audit and will be implemented throughout the Single Audit procedures as during the Financial Statement Audit procedures. During the Planning and Strategy phase, we will determine direct and material compliance requirements related to the major programs under audit. We will update our understanding of the control environment surrounding direct and material compliance requirements and test key controls to ensure they are operating effectively. Compliance procedures will be performed to ensure the State is adhering to federal regulations and results will be reported to management on a timely basis.

Leaders in Performing Single Audits - CLA has become the national leader in providing audit, Single Audit and many other financial services to organizations just like yours. Our client portfolio of government, nonprofit and healthcare institutions represents nearly half of the firm's total revenues. The table below illustrates CLA's experience in serving organizations that receive federal funds and demonstrates our firm's dedication to serving your industry.



*The information for the 10 firms with most Single Audits performed was pulled from the Federal Audit Clearinghouse for audits submitted between December 1, 2011 – November 30, 2012.

ONGOING SUPPORT AND COMMUNICATION

CLA values open lines of communication with our clients. We will be available to State staff throughout the contract period for answering questions or advising on various accounting matters. We will hold regular status meetings with the State to discuss concerns and update the State on the status and progress of the engagement.

We will also be sensitive to our time onsite and schedule our time onsite in advance with the State. We do not want to be intrusive or disruptive to the State's operations and will take every measure we can to implement a cohesive working relationship.

The State will always have access to the managers and principals on the engagement, even when the audit team is not in the field. However, this engagement will have **significant** principal and manager involvement. CLA will communicate engagement team absences with the State in order to arrange the point of contact should a question arise during the period of absence.

Audit Tools and Technology

One of CLA's advantages is access to advanced audit tools and technology. All of our personnel are experienced and utilize the following specialized audit software:

- **Improved Data for Efficient/Effective Auditing (IDEA)** – Our firm utilizes IDEA data extraction software as an essential part of our audit processes. This software allows us to quickly analyze account populations and select samples based on risk factors. Our auditors use the IDEA analysis to identify areas that require more audit scrutiny.
- **FX Engagement** – FX Engagement is our paperless audit product. Our firm has been paperless for over five years. This product allows us to file and save all of our audit work papers in an electronic storage capacity, allowing our firm to save time and resources associated with maintaining and storing paper files. All team members can access all the information within this file regardless of location or time of day. FX Engagement also boasts a trial balance software program, which is utilized to produce financial statements, lead schedules, and which allows us to perform trend analysis utilizing our clients' trial balances.
- **CLA Document Portal** – The CLA document portal is a web-based application used for secure file transfers and continued access between CLA and our clients. The portal can be accessed via CLAconnect.com. The CLA document portal will safely and securely collect, store, manage and distribute sensitive information between our firm and the State. Most importantly, all files are securely stored using FIPS 140-2 validated AES encryption, the U.S. Federal government encryption standard.
- **Audit Program Generator (APG)** – In order to provide an effective approach to all engagements, the firm requires the use of APG, a software program custom-written for CLA. This software package allows the tailoring of audit programs, based on the requirements and risks of your engagement.

APG is an example of a technology tool that is designed to promote audit efficiencies and produces an industry-specific base program that is intended to encourage more thoughtful and specific tailoring. For an engagement to be effective in dealing with the risk of errors and efficient in avoiding riskless work, the engagement team will create a plan – the program – that contains the steps necessary to accomplish the goals of your engagement. Using APG is viewed as a thinking process, not just a documentation process.



ADDITIONAL INFORMATION

License to Practice in Nevada

CLA is licensed to practice public accounting in the state of Nevada. Our license number is PART-0739 and a copy may be provided upon request. All assigned key professional staff are licensed certified public accountants. A majority of states, including Nevada, have adopted mobility legislation – which is a practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her principal place of business without obtaining another license.

All assigned professional staff has complied with governmental qualification standards, including governmental continuing education requirements.

Pending Litigation and Disciplinary Action

CLA has not been suspended or debarred from performing government audits or from other government activity, and has not been the object of any disciplinary action or legal proceedings filed against our firm in the past three years.

Federal or State Desk Reviews or Field Reviews

CLA has been subject to several federal and state desk reviews by state oversight agencies during the past three years. The reports identified no deficiencies. In addition, our government audits are subject to review by each agency's Office of Inspector General, as well as the U.S. Government Accountability Office.

Amendments Acknowledgement

CLA has periodically checked for updates and amendments to the State's Request for Proposal and as of the date of our proposal submittal, we are in receipt of the following documents posted related to the State's RFP: "Questions and Answers" and "Fiscal Year 2013 Letter to Those Charged With Governance."



J. CONFLICT OF INTEREST

There exists no conflict of interest relative to performing the proposed audit between CLA and members of the engagement team, and the State.

K. COST PROPOSAL

In compliance with the State's Request for Proposal, our cost proposal may be found submitted under separate cover in hard copy form via mail delivery to Mr. Paul V. Townsend, Legislative Auditor for the State.



CONCLUSION

Our current and future commitment to serving governmental organizations makes our team uniquely qualified to proactively deliver the highest quality service to the State for a fair fee. We will work side-by-side with your team, striving for continuous improvement. In doing so, we will be vigilant of our professional responsibility to remain independent.

We believe the proposal exemplifies our qualifications and desire to serve the State. We have also provided in our response all of the requirements in the request for proposal.

At CLA, we want to give you more than you expect. In the many years we have been committed to providing professional accounting services, we have learned something valuable: What it takes to exceed our clients' expectations.

You deserve more – more assurance that our advice is among the best in the business and more confidence in our ability to serve your unique needs. As a provider of assurance services to many governmental entities, you can count on us to provide responsive, personalized service backed by years of industry experience. You can count on insight. Insight means first understanding the State, then your accounting needs. Insight is not a characteristic inherent to a CPA firm; it is a quality we earned through years of experience, dedicated service to diverse clients, and an unyielding passion for our clients' success.

CLA would like to be a part of the success of the State. Our hands-on approach to client service, the extensive experience of our staff, our wealth of local and national resources and our responsiveness to client needs can provide you with the insight you need to accomplish your goals.

We truly appreciate the opportunity to present this proposal, and look forward to building a lasting relationship with the State. If you have any questions or require additional information, please contact Paul Niedermuller at 303-466-8822 or by email at paul.niedermuller@CLAconnect.com.



APPENDIX A

Engagement Team Resumes

Paul B. Niedermuller, CPA

CliftonLarsonAllen LLP

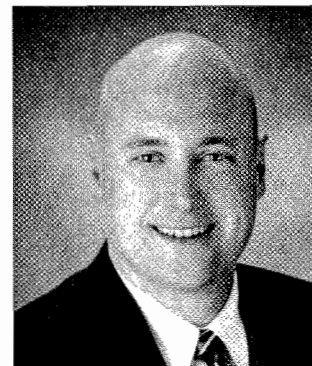
Principal

303-466-8822

Paul.Niedermuller@CLAconnect.com



CliftonLarsonAllen



RELEVANT EXPERIENCE

- Principal in charge of Southwest Region State and Local Practice
- Governmental clients include:
 - State departments
 - Higher education institutions
 - Cities and towns
 - Counties
 - School districts
 - Variety of special districts

AREAS OF SPECIALIZATION

- Government audits
- Nonprofit audits
- Compliance audits
- Federal grant financial and compliance audits

EDUCATION

- Bachelor's of science, business administration, California Polytechnic State University

PROFESSIONAL ORGANIZATIONS

- American Institute of Certified Public Accountants
- Colorado Society of Certified Public Accountants

PROFESSIONAL CERTIFICATIONS

- Certified Public Accountant

EMPLOYMENT HISTORY

- Moss, Levy and Hartzheim, Santa Maria, CA, Partner, 1997 to 2005



Sean M. Walker, CPA, CGFM, CGMS

CliftonLarsonAllen LLP

Principal

608-662-7521

Sean.Walker@CLAconnect.com



EXPERIENCE

- Led the financial or single audits of the organizations listed below:
 - City of Milwaukee
 - Milwaukee County
 - Milwaukee Public Schools
 - Milwaukee Area Technical College
- Consulting technical principal on CliftonLarsonAllen's clients on government accounting and auditing including OMB Circular A-133
- Designated the firm's audit quality principal for the AICPA's Government Audit Quality Center's membership

EDUCATION/PROFESSIONAL INVOLVEMENT

- Bachelor of Business Administration, Accounting, University of Wisconsin Milwaukee
- Master of Business Administration, Concordia University Wisconsin
- American Institute of Certified Public Accountants
- National Grant Management Association
- Association of Government Accountants
- Government Financial Officers Association
- Wisconsin Government Finance Officers Association
- Illinois Government Finance Officers Association
- Association of Local Governmental Auditors
- Public Policy Forum
- Institute of Internal Auditors
- Information Systems Audit and Control Association

PROFESSIONAL CERTIFICATIONS

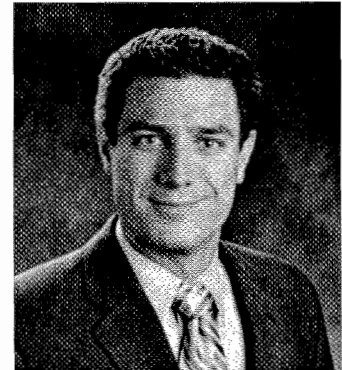
- Certified Public Accountant
- Certified Government Finance Manager (CGFM)
- Certified Grant Management Specialist (CGMS)

NATIONAL APPOINTMENTS

- AICPA Government Audit Quality Center Executive Committee (2013-present)
- AICPA National Governmental Accounting and Auditing Conference Planning Committee (2010-present)
- GFOA Special Review Committee (2011-present)
- AICPA State and Local Government Expert Panel (2008-2012)

Justin Petrone, CPA
CliftonLarsonAllen LLP
Senior Manager

303-466-8822
Justin.Petrone@CLAconnect.com



RELEVANT EXPERIENCE

- Senior Manager in the Colorado offices
- Focused on serving the public sector
- Governmental clients include:
 - State departments
 - Counties
 - Cities and towns
 - School districts
 - Various special districts
- Consulting engagements include:
 - Internal audits
 - Financial condition reviews
 - Revenue and expenditure allocation by business line
 - Financial projections and cash flows
 - Comfort and consent letters

AREAS OF SPECIALIZATION

- Governmental auditing and accounting
- Federal grant financial and compliance audits

EDUCATION

- Bachelor of science, accounting and finance, Indiana University

PROFESSIONAL ORGANIZATIONS

- American Institute of Certified Public Accountants
- Government Finance Officers Association
- Colorado Government Finance Officers Association

PROFESSIONAL CERTIFICATIONS

- Certified Public Accountant
- Certified Construction Industry Financial Professional

EMPLOYMENT HISTORY

- Arthur Andersen, Indianapolis, IN, Audit Associate, 2000 – 2002
- Hoyman Dobson, Melbourne, FL, Audit Manager, 2002 – 2011

Allison Slife, CPA
CliftonLarsonAllen LLP
Manager

303-779-5710
Allison.Slife@CLAconnect.com



CliftonLarsonAllen



RELEVANT EXPERIENCE

- Focused on serving the public sector
- Clients include:
 - State departments
 - School districts
 - Cities
 - Counties
 - Nonprofits

AREAS OF SPECIALIZATION

- Governmental auditing
- Federal grant financial and compliance audits

EDUCATION

- Bachelor's of science, accounting and finance, Xavier University

PROFESSIONAL ORGANIZATIONS

- American Institute of Certified Public Accountants
- Colorado Society of Certified Public Accountants
- Colorado Government Finance Officers Association

PROFESSIONAL CERTIFICATION

- Certified Public Accountant

EMPLOYMENT HISTORY

- KPMG LLP, Cleveland, OH, Audit Associate, 2007-2008



Eric Miller, CPA

CliftonLarsonAllen LLP

Senior Associate



CliftonLarsonAllen

303-466-8822

Eric.Miller@CLAconnect.com

RELEVANT EXPERIENCE

- Senior Associate in the Colorado offices
- Focused on serving the public sector
- Governmental clients include:
 - School districts
 - Cities and towns
 - Counties
 - State departments
- Consulting engagements include:
 - Comfort and consent letters

AREAS OF SPECIALIZATION

- Governmental auditing and accounting
- Federal grant financial and compliance audits

EDUCATION

- Bachelor of arts, accounting, University of St. Thomas, St. Paul, MN

PROFESSIONAL ORGANIZATIONS

- American Institute of Certified Public Accountants
- Colorado Society of Certified Public Accountants

PROFESSIONAL CERTIFICATION

- Certified Public Accountant

EMPLOYMENT HISTORY

- Wilkerson Associates, Audit/Tax Intern, 2005 Tax Season
- Smith, Schafer & Associates, Audit/Tax Intern, 2010 – 2011 Tax Season



Dan Giancola, CPA
CliftonLarsonAllen LLP
Senior Associate



303-779-5710
Dan.Giancola@CLAconnect.com

RELEVANT EXPERIENCE

- Governmental clients include
 - Higher education institutions
 - State departments
 - Counties
 - School districts
 - Fire districts
 - Health and Benefit Trusts
 - Charter schools
 - State revolving funds

AREAS OF SPECIALIZATION

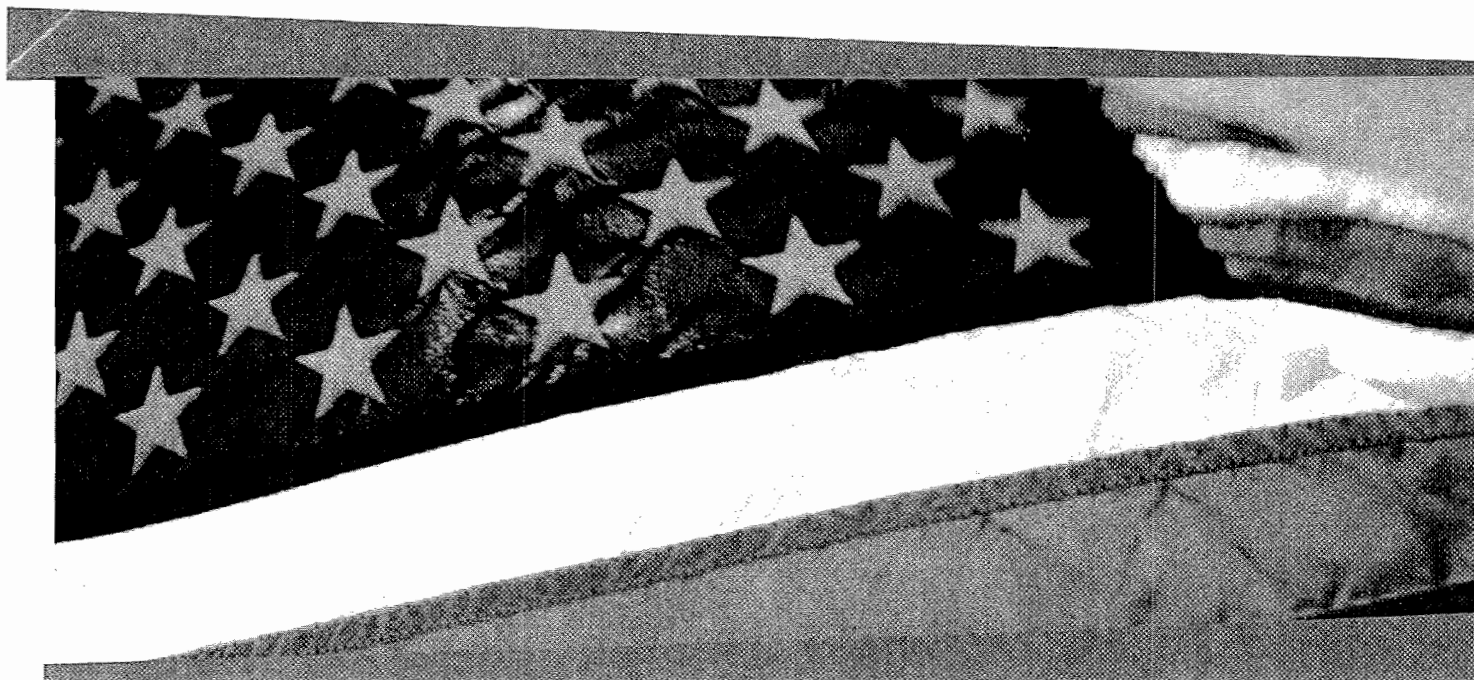
- Governmental auditing
- Student financial aid
- R&D compliance

EDUCATION

- Bachelor of science, accounting, Metropolitan State University of Denver

EMPLOYMENT HISTORY

- CliftonLarsonAllen LLP, 2011



February 28, 2014

**COST PROPOSAL to Provide Professional
Auditing Services to:**

The State of Nevada

**Proposal to the State of Nevada
Legislative Counsel Bureau – Audit Division
Request for Proposal – Single Audit of the
State of Nevada**

Prepared by:

CliftonLarsonAllen LLP
370 Interlocken Blvd., Suite 500
Broomfield, CO 80021

Paul Niedermuller, CPA, Principal
paul.niedermuller@CLAconnect.com
main 303-466-8822 | fax 303-466-9797

COST PROPOSAL – STATE OF NEVADA SINGLE AUDIT RFP

Name of Firm: CliftonLarsonAllen LLP

Primary Contact: Paul Niedermuller

Title: Principal

Name of

Subcontractor(s): None

Signature of Firm/Subcontractor(s):



This fee proposal is a firm and irrevocable offer for 90 days, as well as for the five year period of the engagement if selected as your service provider. Please refer all questions regarding this fee proposal to me by phone at 303-466-8822, or by email at paul.niedermuller@CLAconnect.com.

As a principal, I am authorized to make representations and contractually bind the firm.

Our clients tell us they do not like fee surprises. Neither do we. Our policy is to estimate fees that are competitive, yet enable us to respond to your needs and provide the quality of service you expect and deserve. We do not charge for routine telephone consultations. The State can contact any member of your service team without fear of receiving a bill. We want to keep the lines of communication open to avoid any surprises at year-end. Our goal in establishing fees is to charge competitive rates while providing the highest quality professional service. We do not undercut our competitors' fees just to obtain the work, but instead price our engagements to receive a fair and reasonable fee for the services we provide. Our fees are as follows:

| | Annual Total Cost |
|------------------|----------------------|
| Fiscal Year 2014 | \$534,530 |
| Fiscal Year 2015 | \$545,200 |
| Fiscal Year 2016 | \$556,100 |
| Fiscal Year 2017 | \$567,200 |



Note that the fees quoted above include all report deliverables and attendance at related meetings, travel and accommodation expenses, and all other out-of-pocket expenses.

Reasoning for Cost Changes Between Contract Years:

We based our proposed fees on existing professional standards and minimal yearly increases. If there are any significant changes to professional standards that may affect the proposed fee for future engagements, we will discuss changes prior to each year's audit. Any additional charges not discussed in this proposal will be mutually agreed upon up front. We will always be candid and fair in our fee discussion, and we will avoid surprises.

For the State's audit of federal awards, the above fees include the audit of twenty-three (23) major programs per year. Additional major programs will be audited at the following fees per major program:

2014 \$9,125

2015 \$9,300

2016 \$9,480

2017 \$9,650

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

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Rick Combs, *Director, Secretary*

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DONALD O. WILLIAMS, *Research Director* (775) 684-6825

April 17, 2014

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In May 2013, we issued an audit report on the Risk Management Division of the Department of Administration. The audit report contained seven recommendations to improve contract practices. The Risk Management Division filed its plan for corrective action in July 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the seven recommendations contained in the audit report. As of February 3, 2014, the Department of Administration indicated that six recommendations were fully implemented and one was partially implemented. Based on our subsequent follow-up with staff of the Risk Management Division, we have determined that the partially implemented recommendation is now fully implemented and we do not have any questions for agency officials.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits
Julia Teska, Director, Department of Administration
Ana Andrews, Administrator, Risk Management Division

SIX-MONTH REPORT



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: February 3, 2014

Subject: Legislative Audit of the Risk Management Division

On May 8, 2013, your office released an audit report on the Department of Administration, Risk Management Division (Division). The Division subsequently filed a corrective action plan on July 25, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

There were seven recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Revise service agreements with brokers to communicate a clear and mutual understanding of the contract requirements and include the specific contract deliverables.

Status – Fully Implemented

Agency Actions – The Division revised all current service agreements with brokers to communicate a clear and mutual understanding of the contract requirements, including language that addresses specific contract requirements and deliverables. We compared the terms noted in each of the revised service agreements to those in the prior version. In each service agreement, the terms had been expanded to provide additional detail with respect to contract requirements and deliverables.

Recommendation 2

Revise the workers' compensation service agreement to include a claims audit or review requirement. This should include an independently selected sample, the frequency of audits, and documentation requirements.

Status – Fully Implemented

Agency Actions - The Division revised the workers' compensation service agreement to specify a claims audit requirement, which includes an independently selected sample of claims to be audited by the broker. The frequency and documentation requirements have also been added to the revised service agreement. We verified the revised workers' compensation service agreement requires the broker to randomly select and review four workers' compensation claims files each week for forty weeks each year, to address issues noted during the review with the Third Party Administrator, and to report monthly to Risk Management the review results.

Recommendation 3

Revise the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved. When broker fees are based on a commission instead of a flat fee, document the decision was properly approved.

Status – Fully Implemented

Agency Actions – The Division revised the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved, including when broker fees are based on a commission instead of a flat fee. The Division revised its "Order to Bind" document, which authorizes the broker to bind coverage on behalf of the State, to specifically include the cost of the policy premium along with the service fee or commission associated with the policy procurement. We verified revisions on two recently executed "Orders to Bind." The revised document now includes the amount of broker fees related to the procurement of the insurance policy, that the fee is commission-based, if applicable, and notes the approval of the Risk Manager.

Recommendation 4

Revise policies and procedures for monitoring broker contracts to help ensure contractors provide all required services.

Status – Partially Implemented

Agency Comments – The Division revised the broker contract monitoring section of its Internal Control Manual to add meeting and reporting requirements for brokers. Provisions for subsequent review and follow-up by Program Managers were also added.

Auditor Comments – We reviewed the revisions in the Internal Control Manual. The procedures should be expanded to distinguish clearly the types of brokers, and the meeting and reporting requirements of each type. The agency expects full implementation by April 1, 2014.

Recommendation 5

Evaluate the training needs of the loss prevention program and potential cost savings measures. This includes determining if it is necessary for the contractor to charge a fee based on a full-time training person, and the potential benefits of implementing online classes and videoconferences.

Status – Fully Implemented

Agency Actions – The Division evaluated the training needs of the loss prevention program and potential cost savings measures, which includes determining if it is necessary for the contractor to charge a fee based on a full-time training person as well as the potential benefits of implementing online classes and videoconferences. The Division revised the service agreement to reflect a clear understanding of the number of classes to be taught on an annual basis, classes that will be developed as an “online class,” as well as future use of videoconferencing for training purposes. The revised service agreement removes the need for a fee based full-time training person. The Division represents that the ability to provide training via video conference has been hindered by the lack of bandwidth in the building where Risk Management is located; however, they are in negotiations to have EITS provide a solution to this issue.

Recommendation 6

Revise the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. Implement controls to ensure the results of these meetings are well documented.

Status – Fully Implemented

Agency Actions – The Division revised the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. The Division implemented controls to ensure the results of these meetings are well documented by revising all broker service agreements to clearly outline the requirement for annual stewardship meetings, including the documentation requirement.

Recommendation 7

Revise procedures for expenditures to include steps that provide reasonable assurance all payments are accurate and appropriate.

Status – Fully Implemented

Agency Actions – The Division revised its Internal Control Manual outlining the steps to provide reasonable assurance all payments are accurate and appropriate. The Certified Contract Manager ensures all contract payments are appropriate. The revised version of the Internal Control Manual adds an additional level of review in which the Administrative Assistant responsible for maintaining the contract log reviews invoices for accuracy prior to forwarding to the appropriate program manager for approval. The program manager then forwards the invoice to the Deputy Risk Manager for final review.

Paul Townsend, Legislative Auditor
February 3, 2014
Page 5

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Ana Andrews, Administrator, Risk Management Division
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Risk Management Division

Department of Administration

Highlights of Legislative Auditor report on the Risk Management Division issued on May 8, 2013. Report # LA14-05.

Background

The mission of the Risk Management Division is to preserve and protect state property and personnel. According to the Division, this is achieved by integrating agency programs that systematically identify and analyze exposures to risk, selecting and implementing appropriate risk control strategies, financing anticipated or incurred losses, and monitoring regularly for continual improvement and enhancement.

The Division is comprised of two primary sections: Insurance and Loss Prevention, and Workers' Compensation and Safety. The Insurance and Loss Prevention section is responsible for providing automobile, aviation, crime, liability, and property insurance coverage for the State, and other miscellaneous insurance as needed by state agencies. This section also oversees loss prevention services, such as workplace safety training to state employees. The Workers' Compensation and Safety section administers the state's workers' compensation coverage for all state employees and a number of political subdivisions such as boards, commissions, and conservation districts.

The Division has one office in Carson City. For fiscal year 2012, the Division had seven full-time employees and was administered by a Risk Manager. The Division has one operating budget account which is supported by assessments to the agencies it serves. In fiscal year 2012, the Division had expenditures of about \$21 million, which included approximately \$18 million in workers' compensation costs.

Purpose of Audit

The purpose of our audit was to determine if the Division effectively monitors service contracts.

This audit included a review of the Division's contract monitoring activities for the period of July 2011 through December 2012.

Audit Recommendations

This audit report contains seven recommendations to improve contract practices.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 2, 2013. In addition, the six-month report on the status of audit recommendations is due on February 3, 2014.

Summary

Overall, the Risk Management Division (Division) provided adequate oversight of its contracts; however, the Division could improve certain contract practices. We found the Division did not always establish a clear and mutual understanding of service expectations and deliverables in its contracts. As a result, the Division has limited assurance its programs are operating as intended. Further, the Division did not always require contractors to provide evidence that certain services were performed, and some payments to vendors were not accurate or proper. Improvements to these processes would help ensure vendor performance is satisfactory and payments are accurate and in compliance with state laws.

Key Findings

Our review of two important broker contracts found the Division did not always establish what the broker was to do, when it was to be done, and what documents should be provided to the Division. One of the Division's contracts is with a broker to oversee and manage the workers' compensation program. We found the Division's expectations were not clearly defined for some of the services listed in the service agreement for clinics that treat injured workers. For example, the agreement states the broker is to conduct on-site visits, monitor wait time, and meet regularly with the clinic manager. However, the Division has not established the frequency of on-site visits, how often to monitor wait time and meet with the clinic manager, or what reports should be provided to the Division. Regular monitoring of these clinics would help ensure they meet Division standards and injured workers receive timely treatment. (page 6)

The Division did not always require brokers to provide evidence that certain services were provided. Further, when documentation was provided, it was not adequately reviewed. As a result, there is an increased risk the Division did not receive all services that were factored into the brokers' fees. The Division contracts with a broker to provide loss prevention services. We reviewed activity reports submitted by the broker and found many of the required weeks for training were not provided. For example, 5 of the 20 required weeks of training in southern Nevada were not provided, 3 of the 5 required weeks of training in rural Nevada were not provided, and 7 of the 8 required weeks for special projects were not provided. Had the Division timely reviewed activity reports submitted by the broker, this issue could have been identified and corrective action taken. (page 10)

The Division may not need to contract for a full-time person to provide training throughout the State. Included in one contract is a requirement that the broker provide one full-time person dedicated to providing training and program development. This includes various types of training to state employees required by the State Administrative Manual, such as defensive driving and workplace safety. We reviewed activity reports for 2012 which were submitted by the broker for this person. The reports indicated there were 46 weeks during the year when this person provided training. Our analysis of the 46 weeks with training found none of the weeks had more than 3 days of training, 18 weeks had 3 days of training, 23 weeks had 2 days of training, and 5 weeks had 1 day of training. In addition, the Division has opportunities to implement technology that should result in cost savings. (page 11)

The Division could strengthen its controls over contract payments. Although most payments we tested were accurate and appropriate, we found some payments did not comply with state law and some payments exceeded the contract rate. For example, the Division paid a former employee for services that were performed prior to expiration of the required "cooling-off" period. This included 11 payments totaling about \$21,300 for services provided in the first year after the person left employment with the State. Some services were provided as soon as 3 weeks after the employee's termination date. NRS 284.1729 does not allow an agency to enter into a contract with a person to provide services if the person is a former employee of an agency of this State and less than 2 years has expired since the termination of the person's employment with the State. (page 13)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
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Mark Krmpotic, *Fiscal Analyst*
Cindy Jones, *Fiscal Analyst*

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PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

April 17, 2014

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In May 2013, we issued an audit report on the Department of Conservation and Natural Resources, Division of State Parks. The Division filed its plan for corrective action in June 2013. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 14 recommendations contained in the audit report. As of February 10, 2014, the Department of Administration indicated eight recommendations were fully implemented and six were partially implemented. Based on our review of the six-month report and other documents provided, we determined that four of the partially implemented recommendations are now fully implemented. The two remaining partially implemented recommendations listed below relate to quarterly sales and inventory reports.

| Recommendation Number | |
|--------------------------|--|
| 4 | Follow procedures for taking physical inventory at retail outlets by using two-person count teams. |
| 5 | Provide for supervision of the physical inventory count at retail outlets. |

Regarding recommendation four on using two-person count teams for taking physical inventory, the Department of Administration indicated that through testing six inventory documents, four did not have the required signatures or initials indicating the involvement of a two-person count team.

Questions

1. Why did the Division not ensure all inventory count documents have the proper signatures of two people?
2. What controls does the Division intend to implement to ensure inventory count documents have the proper signatures?

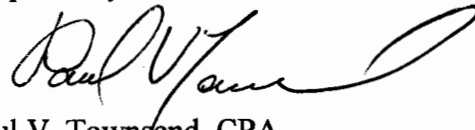
Members of the Audit Subcommittee
of the Legislative Commission
April 17, 2014
Page 2

Regarding recommendation five on providing supervision of physical inventory counts at retail outlets, the Department of Administration indicated that through testing six count documents, four had nothing indicating that supervision was provided during the counts. Through subsequent discussions, the Division indicated they have updated written procedures to require one member of the count team to be a supervisor.

Question

3. What controls does the Division intend to implement to ensure there will be proper evidence of supervision provided for during physical inventory counts?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Julia Teska, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Eric Johnson, Administrator, Division of State Parks

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: February 10, 2014

Subject: Legislative Audit of the Department of Conservation and Natural Resources, Division of State Parks

On May 15, 2013, your office released an audit report on the Department of Business and Industry, Division of State Parks (Division). The Division subsequently filed a corrective action plan on August 15, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 14 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Take steps to ensure the POS system provides complete and accurate sales and inventory information for proper oversight of retail operations at state parks.

Status – Fully Implemented

Agency Actions – The Division implemented a new POS system that provides complete and accurate sales and inventory information. We examined the 3rd quarter sales and inventory information for one of the retail outlets and noted no exceptions.

Recommendation 2

Follow procedures for timely submission of quarterly sales and inventory reports to the Division.

Status – Fully Implemented

Agency Actions – The Division indicated they received the 3rd quarter sales and inventory reports for calendar year 2013 in a timely manner. We examined one of the retail outlets and determined the sales and inventory reports were submitted to the Division timely.

Recommendation 3

Follow procedures for review of quarterly sales and inventory reports by an oversight committee.

Status – Fully Implemented

Agency Comments – The Division stated that procedures will be established in the “Management Summary” portion to include oversight committee meetings after the 15th day of the month following inventory. As a result, they deemed this recommendation partially implemented.

Auditor Comments – The Division’s oversight committee met on October 14, 2013 to review the 3rd quarter inventory and sales reports. The meeting minutes detail the committee’s review of each sales outlet. We reviewed the 3rd quarter minutes from the oversight committee meeting and noted the committee performed adequate review of all retail outlets’ sales and inventory reports.

Recommendation 4

Follow procedures for taking physical inventory at retail outlets by using two-person count teams.

Status – Partially Implemented

Agency Comments – The Division indicated they are using two-person count teams when taking physical inventory at the retail outlets.

Auditor Comments – The Division stated they followed procedures for using two-person count teams when taking physical inventory. We selected a sample of six

physical inventory count documents from the retail outlets for testing. We tested for signatures or initials on the count documents to determine if two-person count team members were used. Our testing revealed four out of the six documents tested did not have the required signatures or initials indicating the involvement of two-person count team members.

Recommendation 5

Provide for supervision of the physical inventory count at retail outlets.

Status – Partially Implemented

Agency Comments – The Division indicated they are providing for supervision when taking physical inventory at the retail outlets.

Auditor Comments – The Division stated they provide for supervision when taking physical inventory counts. We tested six physical inventory count documents from four retail outlets. Our testing revealed four of the six count documents tested had nothing to indicate that supervision was provided during the counts.

Recommendation 6

Monitor cash overages or shortages for retail outlets with appropriate follow-up when variances reach specified thresholds or show unusual patterns or trends.

Status – Partially Implemented

Agency Actions – The Division developed a cash variance report to document and monitor cash overages or shortages. However, procedures have not yet been implemented to track and review overages and shortages. The Division anticipates full implementation of this recommendation by January 31, 2014.

Recommendation 7

Establish procedures for handling cash variances at retail outlets. Revise work performance standards to address cash handling errors by employees.

Status – Partially Implemented

Agency Actions – The Division revised their work performance standards to address cash handling errors. However, the Division stated they are still in the process of establishing procedures for handling cash variances at retail outlets. The Division anticipates full implementation by January 31, 2014.

Recommendation 8

Establish procedures for outlet employees to follow when conducting non-revenue transactions such as voids and refunds.

Status – Partially Implemented

Agency Actions – The Division developed a non-revenue transaction log for employees to record non-revenue transactions such as voids and refunds at retail outlets. The Division stated they are in the process of establishing written procedures for handling non-revenue transactions. The Division anticipates full implementation by January 31, 2014.

Recommendation 9

Review non-revenue transactions conducted at retail outlets and investigate irregularities.

Status – Partially Implemented

Agency Actions – The Division developed a non-revenue transaction log for employees to record non-revenue transactions. However, the Division stated they have not implemented procedures to track and review such non-revenue transactions. The Division anticipates full implementation by January 31, 2014.

Recommendation 10

Develop procedures to ensure adjustments to concession fees for inflation are properly calculated and billed timely.

Status – Fully Implemented

Agency Actions – The Division developed procedures for concessions to ensure adjustments to concessions fees are properly calculated and billed timely. We examined the Division's documented procedures for calculating inflation

adjustments and they appear reasonable. Examination of the Division's current contract list revealed none of the contracts required inflation adjustment.

Recommendation 11

Refund the overpaid concession fees.

Status – Fully Implemented

Agency Actions – The Division refunded the overpaid concession fees. We verified the payment was made.

Recommendation 12

Develop written procedures for performing periodic audits of revenues reported by concessionaires that pay fees based upon a percentage of revenues.

Status – Fully Implemented

Agency Actions – The Division developed procedures for concessions to ensure proper audits are performed periodically. We reviewed an audit of a concessionaire and noted appropriate procedures were performed.

Recommendation 13

Take steps to ensure compliance with state requirements over the purchase and disposal of firearms inventory.

Status – Fully Implemented

Agency Actions – The Division is ensuring compliance with state requirements over the purchase and disposal of firearms inventory. We reviewed all purchases and disposals of firearms as of December 2013 and noted no exceptions.

Recommendation 14

Develop procedures to ensure at least two people participate in the annual physical inventory count and reconciliation of firearms.

Status – Fully Implemented

Agency Actions – The Division developed procedures to ensure at least two people participate in the annual inventory count of firearms. We reviewed the Division's written internal controls and noted appropriate safeguarding procedures. Additionally, we reviewed the 2013 annual inventory records and noted no exceptions. .

The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation and Natural Resources
Eric Johnson, Administrator, Division of State Parks
Kirsten Strange, ASO, Division of State Parks
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Division of State Parks

Department of Conservation and Natural Resources

Highlights of Legislative Auditor report on the Division of State Parks issued on May 15, 2013. Report # LA14-06.

Background

The Nevada Division of State Parks was established in 1963, within the Department of Conservation and Natural Resources. The Division's mission is to acquire, plan, develop, interpret, operate, and maintain a system of parks and recreational areas and to preserve areas of scenic, historic, and scientific significance for the use and enjoyment of residents and visitors.

The Division is organized into five sections: park operations; administration; construction and major maintenance; fiscal, personnel and payroll; and grants and planning. There are 22 parks in the State Parks system that serve over 3.3 million visitors per year.

The Division's main office is located in Carson City with regional offices in Las Vegas and Fallon. In fiscal year 2012, about 60% of the Division's 229 employees were seasonal. Of the 93 permanent positions, 29 were commissioned Nevada peace officers. The Division has eight budget accounts with total expenditures of \$12.5 million in fiscal year 2012.

Purpose of Audit

The purpose of this audit was to: (1) determine if retail outlets at state parks had sufficient controls and processes in place to ensure efficient and effective operations, (2) evaluate the Division's financial and administrative controls over concession contracts, and (3) determine if the Division had adequate inventory controls over firearms to ensure compliance with applicable state laws, regulations, and policies and procedures.

This audit focused on the Division's activities for the period from July 1, 2011, through November 30, 2012. In some instances our audit period included earlier dates back to 2007.

Audit Recommendations

This report includes 14 recommendations to strengthen controls over retail operations, improve monitoring of concession contracts at state parks, and enhance inventory controls over firearms.

The Division accepted the 14 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 9, 2013. In addition, the six-month report on the status of audit recommendations is due on February 10, 2014.

Summary

Stronger controls are needed over the Division's retail outlets to help ensure successful operations. For example, problems with the point-of-sale (POS) system hindered the Division's ability to monitor sales at retail outlets. In addition, the POS system did not maintain records needed to track merchandise inventory. The Division can take steps to ensure the POS system provides accurate management information for proper monitoring of the retail operations. Furthermore, better oversight of the cashier function will reduce the Division's risk that theft could occur and go undetected.

The Division can improve its monitoring of concession contracts to ensure revenues from concessionaires are accurate and timely. For example, the Division did not properly adjust concession fees for annual Consumer Price Index (CPI) increases required by two contracts. In addition, the Division did not perform periodic audits of revenues reported by entities that pay fees based upon a percentage of revenues.

The Division needs to strengthen inventory controls over surplus firearms to ensure compliance with state requirements. For example, the Division conducted unauthorized sales of surplus firearms to state employees. Furthermore, controls were circumvented when the Division failed to ship surplus firearms removed from state accounting records that were designated for trade-in. The guns were found improperly secured at the Division 3 years after they were presumed traded-in.

Key Findings

Problems with the POS system hindered the Division's ability to monitor sales at retail outlets in state parks. Specifically, sales reports we examined for the two largest outlets for the quarter ended September 30, 2012, contained significant errors. For example, the report for the Valley of Fire outlet incorrectly showed total deposits were short by over \$3,000 for the quarter ended September 30, 2012. By changing some report parameters in the system, the difference between sales and total deposits was reduced to \$89 for the quarter. In addition, most of the sales reports for fiscal year 2012 were not submitted to management timely. As a result, management did not receive accurate or timely sales information important for evaluating results of operations and making operating decisions. (page 7)

The Division did not have adequate controls in place to properly monitor merchandise inventory at retail outlets. Significant problems with the quarterly inventory reports used by management were noted. In particular, the POS system did not maintain accurate inventory records that the Division needed to prepare the quarterly inventory reports. These errors affected the inventory variance calculations. When inventory variance information is not correct, management cannot determine the amount of inventory lost to damage, theft, or other irregularities. (page 9)

The Division did not have sufficient oversight of the cashier function to help prevent potential fraud. Areas with weak oversight included cash variances and certain non-revenue transactions conducted at the cash registers. Best business practices in fraud prevention include monitoring cash variances, looking for patterns, and investigating large or unusual discrepancies. (page 11)

The Division can improve its monitoring of concession contracts to help ensure revenues from concessionaires are accurate and timely. For both contracts with inflation adjustments, the Division did not properly adjust concession fees for CPI increases according to the terms of the agreements. First, the Division lost nearly \$7,700 in unbilled concession fees that the Lake Tahoe Shakespeare Festival at Sand Harbor should have paid from 2008 through 2010. Second, the Division did not adjust performance fees for a cultural arts concession at Spring Mountain Ranch State Park for CPI increases from 2007 through 2010. Additionally, the Division did not perform periodic audits of revenues reported by the three concessionaires that pay fees based upon a percentage of revenues. (page 15)

Controls over surplus firearms were not adequate to prevent unauthorized sales to state employees. In 2009, 61 surplus firearms, designated for trade-in to a firearms manufacturer, were instead offered for sale to state employees without involving the Purchasing Division. Of these, the Division sold 22 surplus firearms to state employees and failed to trade in the other 39 surplus firearms to the firearms manufacturer. Documentation submitted to Purchasing indicated the firearms would be shipped to the manufacturer to complete the trade-in for new pistols. However, in August 2012 we found instead of shipping the additional 39 surplus firearms, staff stored them improperly in cardboard boxes in an office. We reported this circumvention of controls over the 39 surplus firearms to management and verified none were missing. (page 18)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

6c

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
~~Fax No. (775) 684-6600~~



LEGISLATIVE COMMISSION (775) 684-6800
MARILYN K. KIRKPATRICK, *Assemblywoman, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Senator, Chairman*
Mark Krmpotic, *Fiscal Analyst*
Cindy Jones, *Fiscal Analyst*

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PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

April 17, 2014

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In April 2013, we issued an audit report on the Department of Business and Industry, Taxicab Authority. The Taxicab Authority filed its plan for corrective action in July 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the eight recommendations contained in the audit report. As of January 17, 2014, the Department indicated that three recommendations were fully implemented and five recommendations partially implemented. The six-month report also indicated the Taxicab Authority was nearing completion of several partially implemented recommendations.

In April 2014, the Taxicab Authority provided an update on the status of the five partially implemented recommendations. Based on our review of information received, we concluded the Taxicab Authority fully implemented four more recommendations. The remaining partially implemented recommendation (#8) relates to updating policies and procedures. The Authority anticipates it will complete its update by August 2014.

We will continue to monitor the Authority's progress in updating its policies and procedures. Therefore, we have no questions for agency officials.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Julia Teska, Director, Department of Administration
Bruce Breslow, Director, Department of Business and Industry
Steve Weinberger, Administrator, Division of Internal Audits
Charles D. Harvey, Administrator, Taxicab Authority

**AGENCY UPDATE
ON SIX-MONTH REPORT**

BRIAN SANDOVAL
Governor



STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
TAXICAB AUTHORITY
1785 E. Sahara Avenue, Suite 200
Las Vegas Nevada 89104
Telephone (702) 668-4000 • Fax (702) 668-4001
<http://taxi.state.nv.us>

BRUCE BRESLOW
Director
CHARLES D. HARVEY
Administrator
ILEANA DROBKIN
Chairman
VACANT
Vice Chairman
Members
JOSHUA C. MILLER
JOSEPH P. HARDY, JR., ESQ.
DENNIS NOLAN
DEAN COLLINS

April 1, 2014

Paul V. Townsend
Legislative Counsel Bureau
401 S Carson Street
Carson City, NV 89701

Dear Mr. Townsend:

Per your March 13, 2014 request, attached please find an update on the status of partially implemented audit recommendations from the 2013 Legislative Audit of the Department of Business and Industry Taxicab Authority (#LA14-04).

Please contact me if you have any further questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to be "CDH", written over a horizontal line.

Charles D. Harvey
Taxicab Authority Administrator

Encl: Taxicab Authority Status Report on Audit Recommendations

cc: Bruce Breslow, Director, Department of Business and Industry
Terry Reynolds, Deputy Director, Department of Business and Industry
Jennifer DeRose, Deputy Administrator, Nevada Taxicab Authority
Ruben Aquino, Chief Investigator, Nevada Taxicab Authority
Ileana Drobkin, Taxicab Authority Board Chairman
Steve Weinberger, CPA, Administrator, Division of Internal Audits

Recommendation 1

1. Develop additional preventative measures to deter long hauling practices, including providing information to passengers that helps them prevent or immediately identify long hauling.

1. The Nevada Taxicab Authority (Authority) developed and implemented a comprehensive multi-step program designed to help deter, detect and reduce long hauling practices, which included the following measures:

- a. Internal & external review of the Authority's taxicab driver programs to determine their effectiveness.
- b. Increased emphasis on the training and education of new and existing cab drivers regarding their responsibilities under NRS 706.8846(3), and the fines and sanctions imposed for long hauling.
- c. Increased sanctions for violations of NRS 706.8846(3) to statutory maximum, including mandatory court appearances, monetary fines, suspension and revocation of driver permits.
- d. Addition of two additional administrative court dates per month to streamline the timeframe between the issuance of citations and adjudication, and reduce case backlog.
- e. Implementation of pre-hearing settlement conferences prior to the commencement of administrative court to expedite disposition of routine cases, and allow the parties to appreciate the seriousness of their charges and what is expected of them.
- f. Audit of taxicab company trip sheets to help identify long hauling practices.
- g. Creation of long hauler database listing the permit numbers of taxicab drivers adjudicated guilty of long hauling. The long haul list is published on the Authority's Website - http://taxi.nv.gov/Driver_Info/Longhauling/
- h. Creation of long haul notification letter. The Authority sends certificate holders a monthly notification of drivers adjudicated guilty of a long hauling violation. See Exhibit 1.
- i. Creation of Community of Interest workgroups to discuss taxi related issues with interested parties.

- j. Roundtable meetings with taxicab company hiring and training staff regarding NRS 706.8846(3), the actions being taken by the Authority, and the disciplinary actions being imposed by the taxi companies.
- k. Posting of approximate taxi rate information at McCarran International Airport. In January 2014, the Authority installed approximate fare range signage along the corridors to taxi rider staging areas at Terminal 1 and Terminal 3 at McCarran International Airport. Two 46"H x 132"W signs were installed at door 1 and 4 of Terminal 1, and four 60"H x 36"W metal signs were hung outside of Terminal 3. The airport signage was installed as part of the Authority's Taxi Rider Information Program (TRIP) which was developed to educate and inform the taxi riding public of their rights under Nevada law. These signs inform passengers of the approximate miles, minutes and trip cost to a specific destination via three routes: Paradise Road, Las Vegas Boulevard or Interstate 15. The most direct route and the corresponding fare is also prominently displayed.
- l. Posting of approximate taxi rate information on the Taxicab Authority Website [http://taxi.nv.gov/Rider_Info/Approximate Minimum Rates - McCarran Airport to Las Vegas Strip Hotels/](http://taxi.nv.gov/Rider_Info/Approximate_Minimum_Rates_-_McCarran_Airport_to_Las_Vegas_Strip_Hotels/)
- m. Distribution of approximate taxi rate pamphlets and information to McCarran International Airport, the Las Vegas Convention and Visitors Authority and the Las Vegas Sands Expo for dissemination to their customers through various marketing efforts. See attached pamphlet.
- n. Publication of long route information in taxi driver magazine.
- o. Distribution of long route violation advisories to taxi companies.
- p. Long route enforcement operations – McCarran Airport.
- q. Long route enforcement operations – McCarran Airport Tunnel.
- r. Long route enforcement operations – Las Vegas Strip & Downtown.
- s. Targeted long route undercover operations and administrative checkpoints along the hotel/resort, airport corridor and downtown Las Vegas.

Status – Fully Implemented

Recommendation 2

Comply with agency policy for performing company audits and develop steps to help identify long hauling practices, including steps to hold companies accountable for excessive long hauling activities.

1. The Authority resumed audits of certificate holders in February 2013. Audits of each taxicab company will be conducted no less than once every 18 months. The purpose of these audits is to evaluate the adequacy of existing internal controls to ensure accurate recording, summarizing and reporting of trip charges and annual report information.
2. During each audit, staff inspects trip sheets to verify the accuracy of reported trip numbers. Additionally, staff reviews and verifies the following data:

| | |
|--|--|
| <ul style="list-style-type: none">· Daily Trip Sheets· Daily Trip & Revenue Summary | <ul style="list-style-type: none">· Monthly Trip Return· Cash Receipts and Bank Statement |
|--|--|
3. The information gathered during these audits is used to determine the degree of compliance with those controls, and to evaluate general operations for compliance within the applicable sections of NRS 706.881 to NRS 706.885 and NAC 706.450 to NAC 706.990. In accordance with NRS 706.885, certificate holders are subject to criminal penalties and disciplinary action by the Taxicab Authority and Administrator.

NRS 706.885 Unlawful acts: criminal penalties

1. Any person who knowingly makes or causes to be made, either directly or indirectly, a false statement on an application, account or other statement required by the Taxicab Authority or the Administrator or who violates any of the provisions of NRS 706.881 to 706.885, inclusive, is guilty of a misdemeanor.

2. The Taxicab Authority or Administrator may at any time, for good cause shown and upon at least 5 days' notice to the grantee of any certificate or driver's permit, and after a hearing unless waived by the grantee, penalize the grantee of a certificate to a maximum amount of \$15,000 or penalize the grantee of a driver's permit to a maximum amount of \$500 or suspend or revoke the certificate or driver's permit granted by the Taxicab Authority or Administrator, respectively, for:

(a) Any violation of any provision of NRS 706.881 to 706.885, inclusive, or any regulation of the Taxicab Authority or Administrator.

(b) Knowingly permitting or requiring any employee to violate any provision of NRS 706.881 to 706.885, inclusive, or any regulation of the Taxicab Authority or Administrator.

If a penalty is imposed on the grantee of a certificate pursuant to this section, the Taxicab Authority or Administrator may require the grantee to pay the costs of the proceeding, including investigative costs and attorney's fees.

4. Remaining audit schedule

| Taxicab Company | Date |
|---|------------|
| A Cab | April 2014 |
| FRIAS ACE Cab ANLV Cab Union Cab Vegas Western Cab Virgin Valley Cab | May 2014 |
| Deluxe Cab | June 2014 |
| YCS Yellow Cab Checker Cab Star Cab | June 2014 |

5. The Authority continues its evaluation of technological enhancements designed to improve its ability to license, monitor and regulate the taxicab industry.

- a. The Authority participated in vendor demonstrations with the Nevada Transportation Authority to test real time data systems that gather information and data such as:

- | | |
|---|---|
| <ul style="list-style-type: none"> · Taxicab unit numbers · Active medallions · Vehicle identification numbers · License plate number · Total time of trip | <ul style="list-style-type: none"> · Route of trip · Speed during the trip · Fare of the trip · Real-time and historical data relating to each trip · A map view showing the real-time and historical location and status of each taxicab. |
|---|---|

- b. The Authority issued a Request for Information (RFI) on February 20, 2014, to evaluate real time data systems that gather information and data relative to long hauling. The deadline for responses is April 18, 2014. Staff will then complete a needs matrix in preparation of working with State Enterprise Information Technology Services (EITS) on a Technology Investment Request (TIR) and with State Purchasing on a Request for Proposal (RFP).
- c. The Authority issued an RFI on February 20, 2014 to evaluate software solutions to integrate its disparate databases into a workable centralized system. The deadline for responses is April 18, 2014. Staff will then prepare a needs matrix in preparation of working with EITS on a TIR and Purchasing on an RFP.

Status – Partially Implemented

Recommendation 3

Work with the Taxicab Authority Board to identify information needs for medallion allocations, and use available resources to compile information on taxicab utilization.

1. Authority staff met with each Board Member to discuss their needs and ensure the Taxicab Authority Board receives timely and relevant information to determine medallion allocations.
2. Nevada Taxicab Authority Administrative Staff are responsible for compiling and submitting information to the Taxicab Authority Board, as it relates to the allocation of medallions for conventions and special events. Though not replete, the information and sources listed below provide a majority of the information that the Nevada Taxicab Authority staff uses when reviewing industry requests for temporary medallions to service large (80,000+ attendees) conventions and events.

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> · Convention Center Data · Productivity Data | | <ul style="list-style-type: none"> · Special Event Worksheet · McCarran Airport Data |
|---|--|--|

a. Las Vegas Convention & Visitor Authority (LVCVA)

The LVCVA maintains a voluminous amount of data relating to the various conventions and special events in Las Vegas, which includes general statistical data specific to the various events and their attendees, down to the wait-time for visitors on LVCVA properties that are cued up in their on-property taxicab stands. Taxicab Authority staff gathers relevant data from the LVCVA website (www.LVCVA.com), LVCVA Traffic Operations Supervisor, and various LVCVA analysts.

b. Productivity Data Worksheet for Conventions and Special Events

Each taxicab company submits a productivity data worksheet to the Authority within 48 to 96 hours after the conclusion of a convention or special event. The productivity worksheet form provides information related to the number of trips, shifts, and revenue for the special event medallion. The form also compares the special event medallions to all of the company's other medallion types that were operating during the same time period as the special event medallions. Staff can use that comparative data to determine if the special event medallions performed better than, equal to, or worse than the permanent medallions with which they are augmenting.

c. Special Event Worksheet

The Authority prepares a one-page document for each convention or special event for which a temporary allocation of medallions has been agendized. The intent of the form is to answer 90%+ of the questions that could be raised by the Taxicab Authority Board members, interveners, or others with standing in the matter. The form provides a "snapshot" of the event's current data and allocation requests; the form also contains a three-year allocation history for the event.

d. McCarran International Airport provides the Authority a daily taxi update which includes a running total of taxis counted for the entire airport.

3. Conventions and special events that bring business to Las Vegas are not created equal; Authority staff must account for factors other than simply the number of attendees. Conventions or special events with identical attendance numbers can differ significantly in demographic makeup, type of convention or event, and the group's tendencies toward the frequency and preference for various transportation options available to them in Las Vegas.

a. Example #1 – Demographic

A large fashion industry convention will find their visitors attending a multitude of industry events and parties at various hotels and clubs throughout Las Vegas that are away from the primary convention venue. In contrast, visitors attending heavy construction trade conventions usually stay close to their hotels, and tend not to stay out very late. Construction trade conventions typically have few, if any convention related events (dinner and show reservations notwithstanding) that occur after the convention venue has closed for the day.

b. Example #2 – Type of Convention or Event

There are some conventions that have displays or equipment that is so massive, or space intensive that it can impact the traffic flow and traffic patterns going into and out of the hosting venue; Authority staff must take this information into account when reviewing the taxicab company's requests for temporary medallions.

4. Authority staff relies almost exclusively on empirical data to determine the efficacy of temporary medallion requests. Staff does not ignore historical and anecdotal information from sources with specific knowledge and expertise as it relates to the convention or special event for which temporary medallions are being requested.

a. Example – Event Dates

Staff considers whether the convention/special event is a mid-week show (Tuesday, Wednesday, & Thursday) when there are no additional Thursday noon to Monday noon medallions deployed to accommodate a large number of attendees.

5. Authority staff have worked diligently to cultivate professional and information sharing relationships with coordinators and facility managers at the agencies and venues listed herein: Las Vegas Convention and Visitor Authority, UNLV & Thomas and Mack Center, Sands Expo, Mandalay Bay Event Center, Nellis AFB, Las Vegas Motor Speedway, Forum Shops at Caesars Palace, Nevada Transportation Authority (coordinate crossover transportation events), City of Las Vegas, City of Henderson, Clark County, and McCarran International Airport. Representatives from McCarran International Airport, the Las Vegas Convention and Visitors Authority, and the Sands Expo attend each TA Board Meeting and present information related to taxi services including: upcoming events, anticipated attendance figures, prior year event data and updated taxicab logistical information.

Status – Fully Implemented

Recommendation 5

Develop guidance for companies to help ensure medallions are properly affixed and safeguarded, and consider penalties for reporting incorrect medallion information.

1. The Authority developed and implemented a new database to track all medallion types by company, and more accurately reflect inventory.
2. The Authority issued a new and complete set of medallions to each certificated cab company in December 2013. Medallions will be rotated/reissued every 12 months in accordance with internal policy.
3. The Authority disseminated guidance to each taxicab company to help ensure their medallions are properly affixed and safeguarded. Three recommendations were provided for securely attaching medallions to limit the ability of a random person from stealing the medallion, or having it come loose in transit.
 - a) Use of anti theft bolts, screws or fasteners.
 - b) Use of a license plate frame/bracket with a hinged key locking assembly that can securely lock and retain the medallion to the taxicab. These types of frames can only be opened with a key and should stop all poorly secured or worn medallion from falling off, reduce the amount of damage due to the protective frame, and stop the theft of medallions.
 - c) Use of a Radio Frequency Identification Device (RFID) attached or embedded into each medallion.
4. The Authority revised its internal Medallion Policy, its lost/stolen medallion process and the lost/stolen medallion form. When a medallion is reported to the Authority as

lost or stolen, a taxicab company representative is required to complete and sign a Lost Medallion Form. No replacement medallion will be issued without the completion of the Lost Medallion Form, which must include accurate information on the missing medallion number and the taxicab number from which the medallion is missing. A temporary replacement medallion will be issued for a period of seventy-two hours to determine whether the lost medallion is found. At that time a permanent replacement medallion will be issued. If a lost/stolen medallion is discovered by a certificated company, the Authority shall be immediately notified and the replacement medallion returned on the next TA business day. Temporary/permanent replacement medallions will only be issued during the hours of 7:00 am to 5:00 pm Monday thru Friday, to allow the Authority's business office to complete all necessary paperwork and maintain an accurate inventory of medallions.

5. To help ensure that the records of certificate holders are in harmony with Authority records, the Authority provides a monthly list of medallions reported Lost/Stolen. Discrepancies between the medallions that cab companies have in their possession and the TA's database records will be investigated and reviewed by the Authority to determine the whereabouts of missing medallions, and the reason for a company having more/less medallions than issued.
6. Authority Investigators and Vehicle Inspectors are provided a monthly list of medallions reported Lost/Stolen. In April 2013, Authority field staff began conducting checks of taxicab medallions during enforcement activities, audits and inspections. Discrepancies between medallions on taxicabs and those reported Lost/Stolen are investigated to determine the facts and circumstances surrounding the lost/stolen medallions.
7. The Authority will conduct an annual physical medallion inventory not less than once per year (approximately 6 months after a new set of medallions have been issued), to ensure the accuracy of our inventory. In accordance with NRS 706.885(1), certificate holders are subject to criminal penalties and disciplinary action by the Taxicab Authority and Administrator.

NRS 706.885 Unlawful acts; criminal penalties

1. Any person who knowingly makes or causes to be made, either directly or indirectly, a false statement on an application, account or other statement required by the Taxicab Authority or the Administrator or who violates any of the provisions of NRS 706.881 to 706.885, inclusive, is guilty of a misdemeanor.

2. The Taxicab Authority or Administrator may at any time, for good cause shown and upon at least 5 days' notice to the grantee of any certificate or driver's permit, and after a hearing unless waived by the grantee, penalize the grantee of a certificate to a maximum amount of \$15,000 or penalize the grantee of a driver's permit to a maximum amount of \$500 or suspend or revoke the certificate or driver's permit granted by the Taxicab Authority or Administrator, respectively, for:

(a) Any violation of any provision of NRS 706.881 to 706.885, inclusive, or any regulation of the Taxicab Authority or Administrator.

(b) Knowingly permitting or requiring any employee to violate any provision of NRS 706.881 to 706.885, inclusive, or any regulation of the Taxicab Authority or Administrator.

If a penalty is imposed on the grantee of a certificate pursuant to this section, the Taxicab Authority or Administrator may require the grantee to pay the costs of the proceeding, including investigative costs and attorney's fees.

3. When a driver or certificate holder fails to appear at the time and place stated in the notice for the hearing, the Administrator shall enter a finding of default. Upon a finding of default, the Administrator may suspend or revoke the license, permit or certificate of the person who failed to appear and impose the penalties provided in this chapter. For good cause shown, the Administrator may set aside a finding of default and proceed with the hearing.

4. Any person who operates or permits a taxicab to be operated in passenger service without a certificate of public convenience and necessity issued pursuant to NRS 706.8827, is guilty of a gross misdemeanor. If a law enforcement officer witnesses a violation of this subsection, the law enforcement officer may cause the vehicle to be towed immediately from the scene.

5. The conviction of a person pursuant to subsection 1 does not bar the Taxicab Authority or Administrator from suspending or revoking any certificate, permit or license of the person convicted. The imposition of a fine or suspension or revocation of any certificate, permit or license by the Taxicab Authority or Administrator does not operate as a defense in any proceeding brought under subsection 1.

(Added to NRS by 1969, 1248; A 1971, 584; 1975, 1327; 1977, 752; 1981, 2057; 1991, 1967; 1993, 903; 1997, 2991; 2011, 2688, 3660; 2013, 1039, 2542)

Status – Fully Implemented

Recommendation 8

Update policies and procedures to ensure they safeguard agency resources and reflect current practices.

1. The Authority revised and disseminated the first two chapters of the agency's policies and procedures. Policies and procedures are being reviewed and updated in an on-going process. Anticipated completion date: August 2014.

Status – Partially Implemented

End of Status Report.

EXHIBIT 1 – Long Haul Adjudications by Company

From: Annette Watson
Sent: Wednesday, March 12, 2014 1:34 PM
To: johnm@friasmanagement.com; sshanahan@lvcabs.com; jhickman@lvcabs.com
Cc: Jennifer DeRose; Charles D. Harvey
Subject: Long hauling adjudications by company - Frias, Feb 2014

Good afternoon,

In 2013, the Nevada Legislative Counsel Bureau (LCB) conducted an audit of the Nevada Taxicab Authority (LA14-04).

One recommendation issued by the LCB audit was to "Comply with agency policy for performing company audits and develop steps to help identify long hauling practices, including steps to hold companies accountable for excessive long hauling activities."

In response, the Taxicab Authority will be generating a monthly email notification to companies of drivers adjudicated guilty of a long hauling violation received while employed by that company.

The following list reflects long hauling guilty adjudications of permitted drivers employed by Frias Transportation at the time of violation:

| Permit # | Violation Date | Citation Number | Adjudication Date | Company |
|----------|----------------|-----------------|-------------------|---------------|
| 031637 | 11/8 /2013 | 8-00046392 | 2/27/2014 | ACE |
| 108479 | 1 /18/2014 | 8-00046982 | 2/19/2014 | ACE |
| 101615 | 10/9 /2013 | 8-00046309 | 2/19/2014 | VEGAS WESTERN |

For a complete and searchable list of adjudicated guilty drivers by permit number for all companies, please access the long hauler database published monthly and located on the Taxicab Authority website at http://taxi.nv.gov/Driver_Info/Longhauling/.

Thank you,
 Annette Watson
 Management Analyst II
 Nevada Taxicab Authority
 1785 E. Sahara, Suite 200
 Las Vegas, NV 89104
 Phone 702-668-4022
 Fax 702-668-4001
watsona@taxi.state.nv.us

EXHIBIT 2 - Approximate Taxi Fare Pamphlet

Welcome to Las Vegas

PASSENGER BILL OF RIGHTS

1. The driver is not permitted to take a longer route to the passengers' destination than is necessary, unless specifically requested to do so by the passenger (NRS 706.8846).
2. A safe and courteous driver who obeys all traffic laws.
3. Clean air, smoke free environment.
4. Air conditioning or heat upon request.
5. A receipt provided upon request.
6. Pursuant to NRS 484.6415 "Any passenger who is 18 years or older, who rides in the front or back seat of any taxicab on any highway, road or street in this state shall wear a safety belt if one is available for his seating position."
7. If, for any reason, you have having trouble securing your seatbelt, ask and your driver will provide assistance.
8. For your safety, passengers should use curbside door to exit taxi.
9. Remember to take all your possessions when exiting the taxi. Contact the taxicab company provide service for lost or found, or the Taxicab Authority at 702-668-4005.

It is your responsibility to take reasonable measures to ensure your safety as a passenger. Wearing a seatbelt is one such measure. Wearing a seatbelt will likely minimize, if not eliminate, any injuries you may sustain should an accident occur while riding in a taxicab.

FARE DESCRIPTION:

| | |
|---|---------|
| Initial Activation of taximeter: | \$3.30 |
| Each additional 1/3th mile: | \$0.20 |
| (\$2.60 per mile, includes \$.20 per mile fuel surcharge) | |
| Waiting time per hour: | \$30.00 |
| McCarrran Airport fee per pick up: | \$2.00 |

COMPLIMENTS OR CONCERNS

To provide a compliment or concern regarding taxi service in Las Vegas, contact the Nevada Taxicab Authority at 702-668-4005 with the taxi company's name, taxi number, driver's name and the date and time of service.

To file a complaint online, please go to:

<http://taxi.nv.gov/Complaints/Complaints>

CAB CO. NAME: _____

TAXI NO.: _____

DRIVER'S NAME: _____

DATE OF SERVICE: _____

TIME OF SERVICE: _____

NOTES: _____

Taxicab Rider Information Program

APPROXIMATE TAXI FARES

McCARRAN AIRPORT

TO LAS VEGAS STRIP

AND AREA

PROPERTIES



NEVADA TAXICAB AUTHORITY

Charles D. Harvey, Administrator

1785 E. Sahara Ave., Suite 200

Las Vegas, NV 89104

Phone 702-668-4005

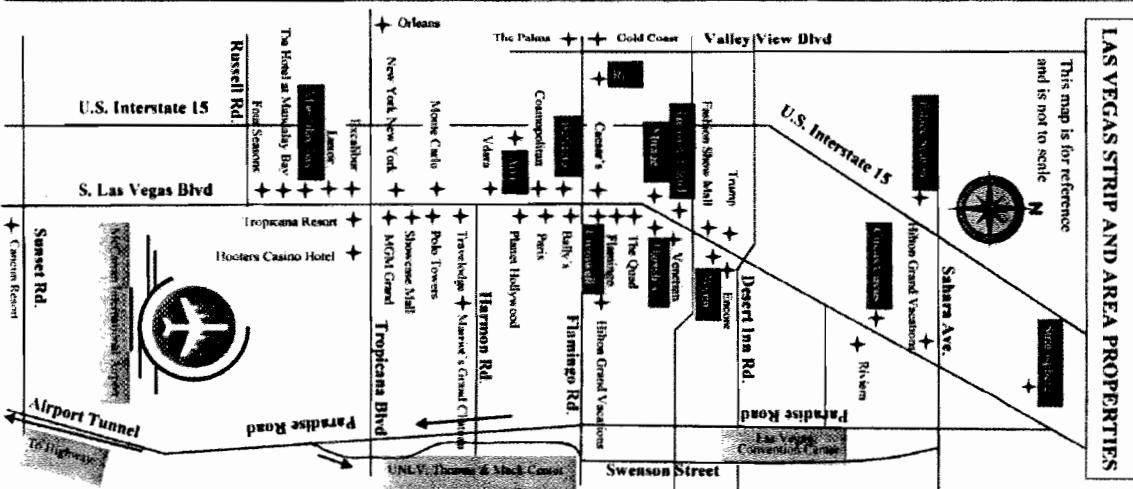
Fax 702-668-4001

Web site: taxi.nv.gov

Important Facts

- * This pamphlet provides approximate fares based on normal traffic conditions for the most direct route.
- * Variables which may affect your fare include traffic levels, time of day, day of week, time of year, community events, and your terminal of origin.
- * Fares from Terminal 3 will be approximately \$2.00 to \$2.60 higher.
- * Your actual fare may be different than the amount posted here. Please notify your driver of the route that you would like to take to your destination.
- * The driver is not permitted to take a longer route to the passenger's destination than is necessary, unless specifically requested to do so by the passenger (NRS 706.8846).
- * The driver can only charge a passenger the amount shown on the taximeter plus any applicable credit card transaction fees.
- * Some taxis do not accept credit card as payment; passengers utilizing a credit card for payment will be charged a \$3.00 fee over and above the meter charge.
- * There is a \$2.00 charge on all fares originating at the airport.
- * The most direct route is based upon miles and may not be the shortest time or lowest cost.

| APPROXIMATE FARES FROM MCCARRAN | | |
|---------------------------------|------------------|-------------------|
| DESTINATION | APPROXIMATE FARE | MOST DIRECT ROUTE |
| ARIA | \$16.70 | Las Vegas Blvd |
| BALLY'S | \$17.70 | Paradise/Svenson |
| BFLY/ACIO | \$18.45 | Paradise/Svenson |
| CAESARS | \$17.70 | Paradise/Svenson |
| CIRCUS CIRCUS | \$25.70 | Las Vegas Blvd |
| COSMOPOLITAN | \$18.65 | Las Vegas Blvd |
| THE CROWNE PLAZA | \$15.80 | Paradise/Svenson |
| FLAMINGO | \$16.45 | Paradise/Svenson |
| HARRAH'S | \$17.70 | Paradise/Svenson |
| LUXOR | \$14.75 | Las Vegas Blvd |
| MANDALAY BAY | \$16.75 | Las Vegas Blvd |
| MGM | \$13.20 | Paradise/Svenson |
| MIRAGE | \$19.45 | Paradise/Svenson |
| MONT CARLO | \$16.55 | Las Vegas Blvd |
| PALACE STATION | \$23.25 | Paradise/Svenson |
| PARIS | \$17.50 | Las Vegas Blvd |
| RIO | \$21.15 | Las Vegas Blvd |
| RIVIERA | \$22.40 | Las Vegas Blvd |
| STRATOSPHERE | \$20.60 | Paradise/Svenson |
| THE QUAD | \$18.18 | Paradise/Svenson |
| TIFFIN ISLAND | \$21.25 | Las Vegas Blvd |
| VENETIAN | \$22.25 | Las Vegas Blvd |
| WYNN | \$18.50 | Paradise/Svenson |



SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 17, 2014

Subject: Legislative Audit of the Department of Business and Industry, Taxicab Authority

On April 22, 2013, your office released an audit report on the Department of Business and Industry, Taxicab Authority (Authority). The Authority subsequently filed a corrective action plan on July 18, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were eight recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Develop additional preventative measures to deter long hauling practices, including providing information to passengers that helps them prevent or immediately identify long hauling.

Status – Partially Implemented

Agency Actions – The Authority developed preventative measures to deter long hauling practices including conducting administrative checkpoints and undercover operations along the hotel/resort and airport corridor; and publishing approximate fare ranges from McCarran International Airport to various Las Vegas Strip hotel/resort and tourist destinations on their website. The Authority plans to disseminate pamphlets containing approximate fares from the airport at strip resorts, hotels, convention centers, and other tourist destinations; and set

up a booth and kiosk at the airport to provide estimated fares and best routes to take. The Authority anticipates full implementation of this recommendation by February 28, 2014.

Recommendation 2

Comply with agency policy for performing company audits and develop steps to help identify long hauling practices, including steps to hold companies accountable for excessive long hauling activities.

Status – Partially Implemented

Agency Actions – The Authority revised their audit plan to help ensure taxicab companies are audited biannually. We noted they audited five of the 16 taxicab companies and plan to complete the remaining audits by November 2014. Additionally, the Authority developed steps to help identify long hauling practices by reviewing trip sheets, and notifying the taxicab company of any potential long hauling practices. The Authority also represents they increased sanctions on cab drivers for long hauling violations to the statutory maximum. Status is considered partially implemented as the Authority has not completed audits of all taxicab companies.

Recommendation 3

Work with the Taxicab Authority Board to identify information needs for medallion allocations, and use available resources to compile information on taxicab utilization.

Status – Partially Implemented

Agency Actions – The Authority represents they are hosting planning meetings to assess best practices for taxicab allocations and are collaborating with the airport, convention centers, and hotel/resorts to evaluate taxicab demand, capacity and wait times. We reviewed the October 2013 Taxicab Authority Board member packet which includes information on annual review of medallions, rates, fees, statistics, and allocation of temporary medallions during upcoming Las Vegas events. The Authority anticipates completion of this recommendation by February 28, 2014.

Recommendation 4

Comply with policies and procedures for controlling medallions until new technology is implemented, including periodic rotation of medallions and verification of medallion validity when officers perform enforcement activities.

Status – Fully Implemented

Agency Actions – The Authority revised its existing policies and procedures for controlling medallions. The Authority distributed new medallions to each certified cab company and performed a reconciliation of the medallions that were discontinued as of December 2013. Additionally, the Administrator and Chief Investigator represented medallions are verified when officers perform enforcement activities and incidents are reported in their computer aided dispatch system.

Recommendation 5

Develop guidance for companies to help ensure medallions are properly affixed and safeguarded, and consider penalties for reporting incorrect medallion information.

Status – Partially Implemented

Agency Comments – The Authority has disseminated information to taxicab companies as to how to properly affix medallions onto the taxicabs. Additionally, enforcement and vehicle inspectors will verify medallions are affixed properly during routine investigations.

Auditor Comments – Although the Department disseminated information for safeguarding medallions, we noted six of 11 (55 percent) taxicab companies sampled were not properly affixing medallions onto the taxicabs.

Recommendation 6

Ensure proper management oversight so that policies and procedures regarding separation of duties, reconciliations, and proper supervision of cash receipts are followed.

Status – Fully Implemented

Agency Actions – The Authority revised existing policies and procedures regarding the cash receipt process. We observed the cash receipt process and noted adequate separation of duties and proper reconciliation procedures. Additionally, we examined 12 deposits, reconciled the deposit amount and verified adequate separation of duties.

Recommendation 7

Limit access to cash receipt systems to ensure changes cannot be made without proper approval.

Status – Fully Implemented

Agency Actions – The Authority has updated their cash receipt systems to ensure changes cannot be made without proper approval. We tested the systems to ensure changes could only be made by supervisory personnel.

Recommendation 8

Update policies and procedures to ensure they safeguard agency resources and reflect current practices.

Status – Partially Implemented

Agency Actions – The Authority is still in the process of updating their policies and procedures. The Authority anticipates full implementation of this recommendation by January 31, 2014.

Paul Townsend, Legislative Auditor
January 17, 2014
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The degree of ongoing compliance with these recommendations is the responsibility of the agency.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry
Ash Mirchandani, Deputy Director, Department of Business and Industry
Charles D. Harvey, Administrator, Taxicab Authority
Jennifer DeRose, Deputy Administrator, Taxicab Authority
Ruben Aquino, Chief Investigator, Taxicab Authority
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Highlights of Legislative Auditor report on the Taxicab Authority issued on April 22, 2013.
Report # LA14-04.

Background

The Taxicab Authority was created by the Legislature in 1969 and is an agency within the Department of Business and Industry. The Authority is charged with regulating the taxicab industry in any Nevada county with a population of 700,000 or more. There are 16 taxicab companies in Clark County; employing approximately 9,000 drivers, and operating a taxicab fleet of approximately 3,100 vehicles. The Director of the Department of Business and Industry appoints an Administrator to oversee the day-to-day operations of the agency. In fiscal year 2012, the Authority had 56 authorized positions. The Authority is self-funded and receives most of its funding from taxicab trip charges. In 2012, expenditures totaled about \$5.5 million.

The Authority is governed by a five-member board appointed by the Governor. The Taxicab Authority Board conducts hearings and renders decisions regarding the administration and enforcement of laws and regulations, as well as the issuance and transfer of certificates of public convenience for taxicab companies.

Purpose of Audit

The purpose of this audit was to determine whether: (1) the Authority performed adequate regulatory activities to ensure proper oversight of taxicab company operations; (2) the Authority had adequate management information for deciding medallion allocations and controls over the medallion inventory; and (3) internal controls over collecting and recording cash receipts were adequate.

Audit Recommendations

This audit report contains two recommendations to help detect and deter long hauling practices, and to ensure proper oversight of taxicab companies. In addition, three recommendations were made to improve management information used to determine medallion allocations and track the medallion inventory. Finally, three recommendations were made to ensure proper controls over cash receipts.

The Taxicab Authority accepted the eight recommendations.

Recommendation Status

The Taxicab Authority's 60-day plan for corrective action is due on July 17, 2013. In addition, the six-month report on the status of audit recommendations is due on January 17, 2014.

Taxicab Authority

Department of Business and Industry

Summary

The Taxicab Authority can strengthen its oversight of the taxicab industry in Clark County. Specifically, the Authority needs to take additional action to help prevent long hauling. Long hauling occurs when a driver takes a longer route than necessary to increase the fare amount. From our testing of drivers' trip sheets, we identified potential long hauling occurred for 22.5% of trips to or from the airport. As a result, we estimate airport passengers were overcharged \$14.8 million in 2012. In addition, the Authority has not performed audits of taxicab companies in over 3½ years. Adequate oversight of taxicab drivers and companies is important to help ensure passengers are treated properly and companies comply with state laws.

The Authority can improve the information provided to its Board for determining taxicab medallion allocations, and its oversight of the medallion inventory. Medallions are the small metal plates affixed to taxicabs authorizing them to operate. The number of authorized taxicabs is important because too few will increase passengers' wait times. Conversely, too many taxicabs reduce the number of trips drivers can take per shift; thereby, increasing the pressure for drivers to long haul passengers to make more money. Furthermore, staff did not adequately track medallions, and taxicab companies did not provide accurate information when reporting lost or stolen medallions. Tracking the medallion inventory is important because each permanent medallion generates about \$190,000 in gross revenue annually.

Key Findings

Long hauling is one of the biggest enforcement issues for the Authority. Our testing identified potential long hauling for 614 of 2,730 (22.5%) trips to or from the airport. Based on the percent of long haul trips identified, we conservatively estimate airport passengers were overcharged \$14.8 million in 2012. Although the Authority has increased its efforts to detect long hauling, more needs to be done, including the use of preventative measures. Taxicab trips are often the first and last experience tourists have in Las Vegas. Therefore, long hauling may result in tourists having a negative experience. (page 7)

The Authority did not conduct any taxicab company audits for over 3½ years. When regular audits are not performed, the Authority does not have assurance laws and regulations are being followed. For example, our review of 600 drivers' trip sheets identified 53% did not contain the required time stamps that would allow verification of the number of hours worked. This is a safety issue because if drivers work too long they could become fatigued. In 2003, the Legislature provided additional resources so the Authority could audit taxicab companies; however, audits have not occurred because management assigned other tasks to staff responsible for performing audits. (page 12)

Information provided to the Board does not always help members with their decision to allocate additional permanent medallions. Staff did not always provide the information timely, and the data did not include passenger wait times or other important taxicab demand and capacity information. Medallion allocations are important because they affect passengers' wait times, drivers' wages, companies' revenues, and the Authority's resources. (page 14)

The Authority did not adequately track the taxicab medallion inventory. Specifically, staff did not perform annual medallion inventories, rotate medallions annually, and verify a medallion's status when performing enforcement activities. In addition, taxicab companies frequently reported inaccurate information related to lost or stolen medallions. As a result, one company received an extra medallion, which it had for approximately 14 months. Another company reported 76 of 114 (67%) authorized medallions as lost or stolen since 2006. Because the Authority has not maintained an accurate medallion inventory, there is a greater risk companies will gain unauthorized market share. (page 17)

Although the Authority has improved cash controls since our last audit, additional action is needed to strengthen controls over cash receipts. Specifically, key duties were not properly separated, supervision over cash receipts was not adequate, and computer system access controls were weak. Outdated policies and procedures contributed to these weaknesses. Strong cash controls are important because staff collected payments totaling more than \$500,000 during fiscal year 2012. (page 22)