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**Legislative Commission
Legislative Building
Carson City, Nevada**

We have completed an audit of the State Board of Finance. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including the findings, conclusions, recommendation, and the Agency's response, are presented in this report.

We wish to express our appreciation to the State Treasurer and the Chief Deputy State Treasurer for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA
Legislative Auditor

April 17, 2008
Carson City, Nevada

STATE OF NEVADA
STATE BOARD OF FINANCE

AUDIT REPORT

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EXECUTIVE SUMMARY

STATE BOARD OF FINANCE

Background

The State Board of Finance was created in 1919. The Board consists of the Governor, State Controller, State Treasurer and two other members appointed by the Governor for terms of 4 years each. One of the appointed members must be engaged in commercial banking. The State Attorney General is the legal adviser and the Chief Deputy State Treasurer is the Ex Officio Secretary of the Board.

Primary duties of the Board include approving the investment policies of the State Treasurer, issuing and redeeming securities on behalf of the State, and approving the debt issuances of state agencies.

Purpose

The purpose of this audit was to determine if the State Board of Finance complied with laws and regulations applicable to the Board. This audit included activities of the State Board of Finance for fiscal year 2007.

Results in Brief

The State Board of Finance substantially complied with laws and regulations significant to its activities. This includes approving investment policies established by the State Treasurer, reviewing and approving the issuance of bonds, and conducting meetings in compliance with state open meeting laws. However, we found the Board has not adopted certain regulations related to establishing standards for granting authorization to smaller cities and municipalities for lending securities from their investment portfolio. These regulations have been required since 1999.

EXECUTIVE SUMMARY

STATE BOARD OF FINANCE

Principal Findings

- The State Board of Finance has not adopted certain regulations related to establishing standards for granting authorization to smaller cities and municipalities for lending securities from their investment portfolio. These regulations have been required since 1999. NRS 355.178(5) requires the Board to adopt regulations that establish minimum standards for cities or consolidated municipalities whose populations are between 25,000 and 150,000. Regulations in this area would advise these local governments what is required before entering into complex security lending transactions and approaching the Board for approval. (page 5)
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Recommendation

This audit report contains one recommendation for the Board to adopt regulations that establish minimum standards for cities and consolidated municipalities to lend securities from their investment portfolio. (page 10)

Agency Response

The Board, in response to our audit report, accepted the one recommendation. (page 8)

Introduction

Background

The State Board of Finance was created in 1919. The Board consists of the Governor, State Controller, State Treasurer and two other members appointed by the Governor for terms of 4 years each. One of the appointed members must be engaged in commercial banking. The State Attorney General is the legal adviser and the Chief Deputy State Treasurer is the Ex Officio Secretary of the Board.

The Board's primary duties are to:

- Review and approve the investment policies of the State Treasurer.
- Issue and redeem securities on behalf of the State.
- Fund, refund and reissue securities in accordance with the State Securities Law.
- Approve debt issuance of the Department of Business and Industry.
- Approve the sale and acquisition of land and the debt issuance and collateralized mortgage obligations of the Housing Division.
- Approve certain financing proposals under the City and County Economic Development Revenue Bond laws.

The State Board of Finance does not have any employees, and expenses such as postage are paid out of the State Treasurer's budget.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included activities of the State Board of Finance for fiscal year 2007. The objective of our audit was to determine if the State Board of Finance complied with laws and regulations applicable to the Board.

Findings and Recommendation

Regulations Are Needed

The State Board of Finance substantially complied with laws and regulations significant to its activities. However, we found the Board has not adopted certain regulations related to establishing standards for granting authorization to smaller cities and municipalities for lending securities from their investment portfolio. These regulations have been required since 1999.

One of the Board's duties includes assisting and authorizing the lending of securities by certain cities and consolidated municipalities. NRS 355.178(5) requires the Board to adopt regulations that establish minimum standards for cities or consolidated municipalities, whose populations are between 25,000 and 150,000, for granting authorization to lend securities from their investment portfolio.

Officials from the Office of State Treasurer indicated that the Office of Attorney General has been contacted to assist them in creating regulations the Board could adopt. Regulations in this area would advise smaller cities and consolidated municipalities what is required before entering into complex security lending transactions and approaching the Board for approval. This would better prepare these local governments to take advantage of the earnings potential from securities lending.

Recommendation

1. Adopt regulations that establish minimum standards for cities and consolidated municipalities to lend securities from their investment portfolio.

Appendices

Appendix A Audit Methodology

To gain an understanding of the State Board of Finance, we reviewed applicable state laws, regulations, and policies and procedures. We also reviewed prior audit reports. In addition, we interviewed the Chief Deputy State Treasurer regarding Board activities and requirements.

To accomplish our audit objective, we reviewed minutes and investment policies to verify the Board reviewed and approved the policies established by the State Treasurer for the investment of money of the State, and the money in the Local Government Pooled Investment Fund. We verified the quarterly approval of both sets of investment policies during fiscal year 2007.

We identified five bond issuances for 2007 and verified the bonds were approved by the Board. This included two bonds issued by the Nevada Housing Division and three State of Nevada General Obligations Bonds. We reviewed Board minutes to confirm the bonds were submitted and approved. Additionally, we examined bond documents to verify the bonds were properly executed in the name of the State and signed by state officers.

We also evaluated the Board's compliance with state open meeting laws. This included a review of all seven meetings held during fiscal year 2007. We reviewed agendas to confirm that meetings were held according to the posted agenda and contained required information. We examined certificates of posting and Board meeting checklists to confirm dates, times, and locations of agenda postings. Minutes were also reviewed and compared to topics on the agenda to verify completeness. Additionally, we attended a Board meeting and observed processes and meeting facilities.

In addition, we inquired about the Board's adoption of regulations for establishing minimum standards for certain local governments to lend securities from its investment portfolio. This included a search of state regulations, discussions with the Chief Deputy State Treasurer, and a review of minutes from the 1999 Legislative Session.

Our audit work was conducted from September to November 2007, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the State Treasurer. On April 2, 2008 we met with officials from the Office of the State Treasurer to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 8.

Contributors to this report included:

David Steele, CPA
Deputy Legislative Auditor

Rocky Cooper, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Response From the State Board of Finance

Kate Marshall
State Treasurer



Renee L. Parker, Esq.
Chief of Staff

Robin V. Reedy
Chief Deputy Treasurer

STATE OF NEVADA
OFFICE OF THE STATE TREASURER

April 17, 2008

Paul V. Townsend, CPA
Legislative Auditor
State of Nevada
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

In my capacity as Ex Officio Secretary to the Board of Finance ("Board"), I have reviewed your recent audit of the Board. Pursuant to NRS 281.821, I am providing herein the required written statement of explanation to the audit report. Per your request, I am also including the completed "State Board of Finance Response to Audit Recommendation" form.

Your audit resulted in one recommendation, which is repeated below with my response:

Recommendation Number 1: Adopt regulations that establish minimum standards for cities and consolidated municipalities to lend securities from their investment portfolio.

***Response:** I accept this recommendation, and have already begun gathering information to draft a comprehensive regulation that satisfies the statute. I will be submitting a proposed regulation to the Board of Finance for approval before proceeding with the workshops and hearings necessary to comply with the Administrative Procedures Act.*

As you noted in your audit, the requirement that led to the audit recommendation to adopt the regulation was placed in the statutes in 1999. My tenure as Secretary to the Board began in July 2007, and until your audit I was unaware of the requirement or the fact that the Board was out of compliance with the statutory mandate. I cannot speak for the previous administration, as to why they did not comply with the statute, but I can assure you that we will adopt the regulations as expeditiously as possible now that we have been made aware of the requirement.

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State Treasurer
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STATE TREASURER PROGRAMS
Governor Guinn Millennium Scholarship Program
Nevada Prepaid Tuition Program
Unclaimed Property
Upromise College Fund 529 Plan

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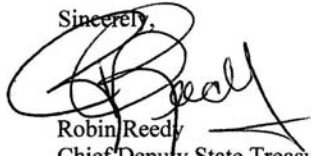
Website: <http://NevadaTreasurer.gov>

E-mail: NevadaTreasurer@NevadaTreasurer.gov

Mr. Paul V. Townsend, CPA
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I apologize for the tardiness of this response; I had surgery Monday April 7th and expected to be released to work by the 14th, but was not released until the 16th. If you have any questions or require additional information, please do not hesitate to contact me at 684-5757, or our Chief of Staff, Renee Lequerica at 684-5600.

Sincerely,



Robin Reedy
Chief Deputy State Treasurer

Cc: Kate Marshall, Nevada State Treasurer
Renee Lequerica, Chief of Staff

**State Board of Finance
Response to Audit Recommendation**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Adopt regulations that establish minimum standards for cities and consolidated municipalities to lend securities from their investment portfolio.....	<u> X </u>	<u> </u>
TOTAL		<u> 1 </u>	<u> 0 </u>