

STATE OF NEVADA

Performance Audit

Office of the Military

2016



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Office of the Military issued on October 18, 2016. Legislative Auditor report # LA16-18.

Background

The Office of the Military (Office) was established to supervise the military affairs of the State of Nevada. The Office is under the direction of the Adjutant General, who also serves as the Commander of the Nevada National Guard. The Nevada National Guard (Guard) is composed of the Army Guard, Air Guard, and state employees. State employees provide administrative, accounting, personnel, firefighting, security, operating, and maintenance services to the Nevada National Guard.

At the close of 2014, the Guard reported having 4,264 members (3,104 Soldiers and 1,160 Airmen). In addition to guard members, the 2015 legislatively approved budget authorized 134 full-time state employees. Funding for the Guard is provided primarily through federal funds and state General Fund appropriations. For fiscal year 2015, General Fund appropriations amounted to \$3.4 million and federal funding totaled \$15.7 million.

Purpose of Audit

The scope of our audit focused on activities from fiscal year 2013 through 2015. However, we performed work in certain areas through calendar year 2015. Our audit objectives were to determine the reliability of performance measures used in the state's budget process and to evaluate the controls in place over contracts, inventory, and the procurement account process.

Audit Recommendations

This audit report contains three recommendations to improve performance measures and seven recommendations to strengthen controls over contracts, inventory, and the procurement account process. The Office of the Military accepted the 10 recommendations.

Recommendation Status

The Office of the Military's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Office of the Military

Summary

The Office can take steps to improve the accuracy, usefulness, and reliability of its performance measures. The reported measures are not always reliable or adequately documented. In addition, the description provided for one measure is not accurate, and two performance measures may not be useful for decision makers to evaluate the programs' operations. Performance measures must be reliable because they can affect budget and policy decisions made by managers and oversight bodies. Reliability of performance measures can be improved by developing policies and procedures on how the data is collected, how each measure is calculated, and supervisory review to ensure the accuracy of reported results.

The Office can strengthen its controls over (1) contracting activities, (2) maintaining accurate inventory lists of equipment, and (3) monitoring the use of procurement accounts. First, the Office did not compare vendor invoices to contract terms and ensure the contact solicitation process complied with the established policy. Second, the Office did not have a complete inventory list or conduct a reconciliation of the inventory list to its equipment in 2015. Lastly, the Office did not ensure procurement account purchases complied with existing procedures.

Key Findings

The Office did not have adequate documentation to support the reliability of four of the six performance measures tested. The four measures lacking underlying records were maintenance of facilities, units ready for deployment, percent of authorized officer positions filled, and percent of authorized enlisted positions filled. Although the Office maintained a spreadsheet with final numbers for each measure, we could not verify the accuracy of the information since supporting documentation was not retained. Performance measures are not considered reliable unless sufficient underlying records support them. The State Administrative Manual requires agencies to retain the records used in computing performance measures for 3 fiscal years, and to develop written procedures on how the measures are computed. (page 6)

The Office can provide better information to decision makers by improving its performance measures. Three of the six measures reviewed either did not accurately describe the measure presented or could better communicate program operations. For example:

- The measurement for maintenance of facilities is described as the number of work orders completed within the customer's requested timeline. However, the data did not include all work orders, and the reported measure did not include whether the work orders were completed within the customer's requested timeline.
- The measure for tuition assistance reports the number of claims processed in a fiscal year, but additional information on program benefits is not provided. Tuition assistance has been described as providing up to 100% of the credit hour costs for summer school tuition. However, all 93 tuition reimbursement claims were paid at 74% for the 2015 summer school session.
- The measure for the Patriot Relief Account reports the number of economic hardship claims processed, but does not provide information on textbook reimbursements or life insurance premium reimbursements. The Account was created to reimburse Guard members for certain text books and life insurance premiums, as well as assist with economic hardships. (page 6)

The Office lacks controls over payments for contracted maintenance services because it does not have a process to ensure vendor invoices are compared to contract terms. As of October 2015, the Office managed 68 contracts totaling \$12.4 million. The majority of the contracts (65%) were for maintenance services, including 6 of the 10 contracts we tested. Five of the six routine maintenance services contracts did not include pricing schedules or base rates. In addition, the Office does not comply with the established contract solicitation policy. Solicitation documents for all 10 contracts tested did not include evidence of review and approval of the scope of work and evaluation criteria in accordance with the established policy. (page 9)

The Office's statewide inventory listing was incomplete. As of December 17, 2015, the inventory list included 485 items totaling \$4.2 million. Our testing identified nine items purchased by the Army Guard through the state accounting system between fiscal years 2013 and 2015 and not added to the inventory list. The value for the nine items totaled \$281,000. (page 12)

The Office does not comply with established reconciliation procedures for procurement account purchases. The Office manages two procurement accounts for hardware stores and one for fuel. Our testing found a lack of compliance with existing procedures and the need for additional controls. (page 13)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

RICK COMBS, *Director*
(775) 684-6800



LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Office of the Military. This audit was conducted pursuant to 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.

This report includes three recommendations to improve performance measures and seven recommendations to strengthen controls over contracts, inventory, and the procurement account process. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA
Legislative Auditor

September 14, 2016
Carson City, Nevada

Office of the Military

Table of Contents

Introduction	1
Background.....	1
Scope and Objectives	3
Performance Measures and Supporting Documentation Need Improvement	5
Results Were Not Supported by Underlying Records	6
Some Performance Measures Can Be Improved	6
Oversight of Certain Administrative Practices Needs Strengthening	9
Payments for Contracted Maintenance Services Lack Controls	9
Inventory Controls Are Weak	12
Procurement Account Process Can Be Strengthened	13
Appendices	
A. Audit Methodology.....	16
B. Response From the Office of the Military.....	20

Introduction

Background

The Office of the Military (Office) was established to supervise the military affairs of the State of Nevada. The Office is under the direction of the Adjutant General, who also serves as the Commander of the Nevada National Guard. The Nevada National Guard (Guard) is composed of the Army Guard, Air Guard, and state employees. State employees provide administrative, accounting, personnel, firefighting, security, operating, and maintenance services to the Nevada National Guard. The state administrative team also maintains and manages the Master Cooperative Agreement (Agreement) between the National Guard Bureau (Bureau) and the State of Nevada.

The Agreement establishes the terms and conditions applicable to the contribution of Bureau funds or in-kind assistance for the operation and training of the state Army Guard and Air Guard. The mission for the state administrative team is to provide outstanding customer service that maximizes the available resources and informs the pertinent parties as to the status of the Agreement in relation to the state budget, and to maintain and secure the facilities in conjunction with those resources.

Staffing and Budget

At the close of 2014, the Guard reported having 4,264 members (3,104 Soldiers and 1,160 Airmen). In addition to guard members, the 2015 legislatively approved budget authorized 134 full-time state employees. Funding for the Guard is provided primarily through federal funds and state General Fund appropriations. For fiscal year 2015, General Fund appropriations amounted to \$3.4 million and federal funding totaled \$15.7 million. Exhibit 1 shows the revenue composition by budget account for fiscal year 2015.

**Office of the Military Revenues
Fiscal Year 2015**

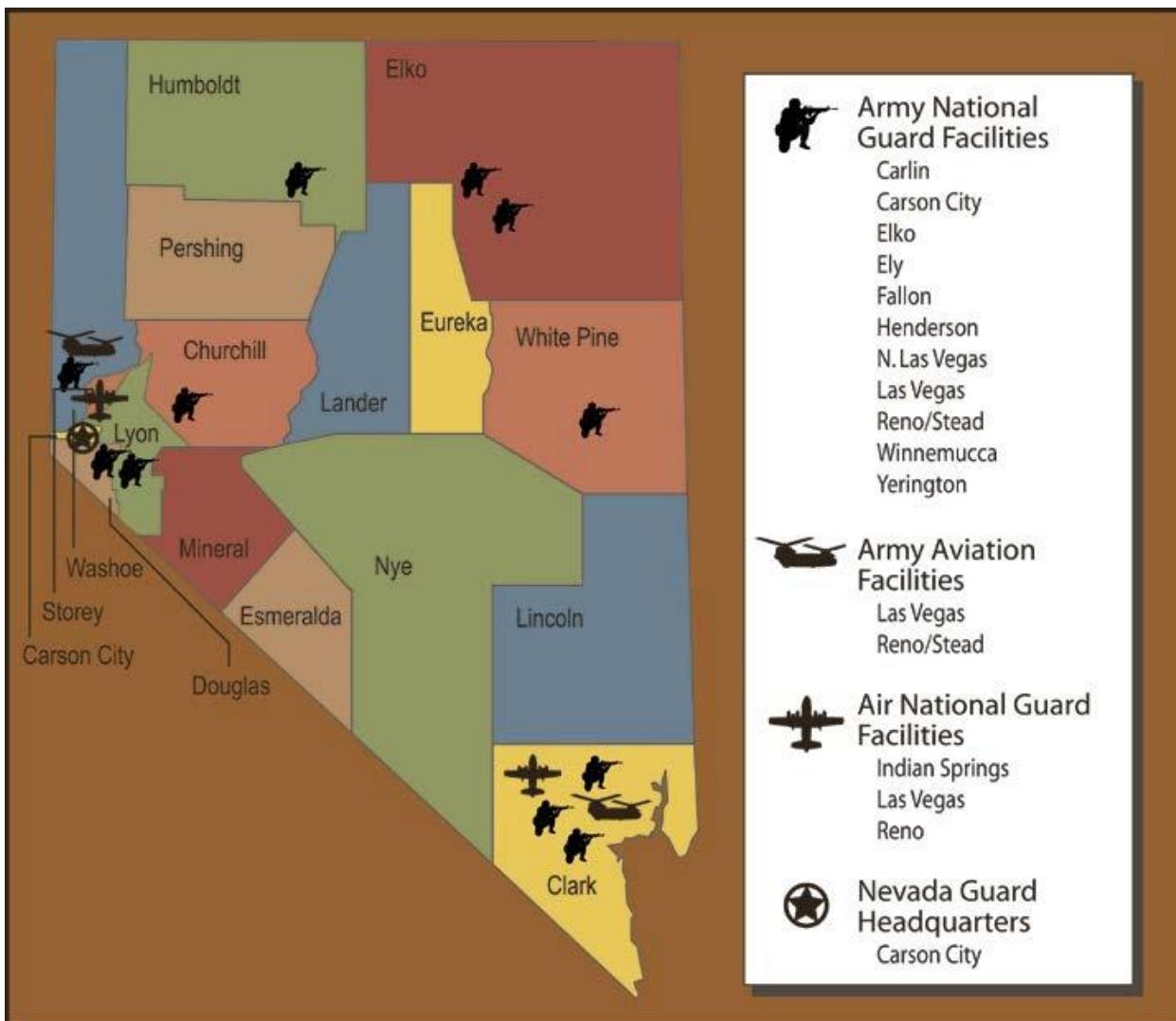
Exhibit 1

**Office of the Military Revenues
By Budget Account and Funding Source**

	Military	Carlin Armory	Special Facility Account	National Guard Benefits	Patriot Relief Account	Military Emergency Operations Center
State Appropriations	\$ 2,545,529	\$808,314	\$ -	\$59,100	\$ 100	\$ -
Federal Funding	15,549,358	120,658	-	-	-	-
Other Revenue	2,038	-	12,896	-	529	355,647
Balance Forward from Fiscal Year 2014	-	-	25,362	-	149,423	219,381
Balance Forward to Fiscal Year 2016	-	-	(37,854)	-	(38,373)	(241,926)
Reversions	(185,250)	(105,197)	-	(6,383)	-	-
Total Revenues	\$17,911,675	\$823,775	\$ 404	\$52,717	\$111,679	\$333,102

Source: State accounting system.

The Office of the Military is located at the Joint Force Headquarters in Carson City along with the Army Guard. The headquarters for the Nevada Air Guard is in Reno. In total, the Guard occupies 16 facilities and armories in 8 of the state's 17 counties. Exhibit 2 shows Guard facilities throughout the State by type and location.

Nevada Guard Facilities**Exhibit 2**

Source: 2015-2017 Nevada National Guard Biennial Report.

Scope and Objectives

The primary focus of our audit was from fiscal year 2013 through 2015. However, we performed work in certain areas through calendar year 2015. Our audit objectives were to:

- Determine the reliability of performance measures used in the state's budget process.
- Evaluate the controls over contracts, inventory, and procurement account purchases.

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 218G.010 to 218G.350. 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.

Performance Measures and Supporting Documentation Need Improvement

The Office can take steps to improve the accuracy, usefulness, and reliability of its performance measures. The reported measures are not always reliable or adequately documented. In addition, the description provided for one measure is not accurate, and two performance measures may not be useful for decision makers to evaluate the programs' operations. Performance measures must be reliable because they can affect budget and policy decisions made by managers and oversight bodies. Reliability of performance measures can be improved by developing policies and procedures on how the data is collected, how each measure is calculated, and supervisory review to ensure the accuracy of reported results.

We reviewed six of the eight performance measures included in the Executive Budget for the 2015-2017 biennium. Exhibit 3 shows the measures reviewed, the reported results, the requested budget amount, and the funding type.

Performance Measures Reviewed

Exhibit 3

Performance Measure	Reported Results FY14 Actual	Reported Results FY15 Projected	Requested Budget Amount	Funding Type Federal	Funding Type State
1. Maintenance of Facilities	92.99%	97.52%	\$26,122,828	86%	14%
2. Tuition Assistance	78	82	\$ 182,186	0%	100%
3. Financial Hardship Assistance Claims	0	1			
4. Units Ready for Deployment	90.00%	81.82%			
5. Percent of Authorized Enlisted Filled	100.03%	100.16%	\$ 148,813	0%	100%
6. Percent of Authorized Officers Filled	95.39%	95.99%			

Source: Auditor prepared from the Executive Budget for the 2015-2017 Biennium.

Results Were Not Supported by Underlying Records

The Office did not have adequate documentation to support the reliability of four of the six measures tested. Performance measures cannot be considered reliable unless sufficient underlying records support them.

The four measures lacking underlying records were maintenance of facilities, units ready for deployment, percent of authorized officer positions filled, and percent of authorized enlisted positions filled. Although the Office maintained a spreadsheet with final numbers for each measure, we could not verify the accuracy of the information since supporting documentation was not retained.

According to Office personnel, the numbers were obtained from various databases. Each branch, Army and Air, have separate databases for facilities maintenance and personnel data. The database downloads cannot be regenerated, in part, because of system limitations and the lack of information, such as the data parameters, and the date used to generate supporting data for the reported figures.

Management does not request or require the retention of underlying records from the Army and Air representatives when measurement data is gathered. In addition, the Office has not developed written policies and procedures for performance measures, including procedures for gathering and computing the data, reviewing the calculations and methodology, and retaining the supporting documentation.

The State Administrative Manual requires agencies to retain the records used in computing performance measures for 3 fiscal years and to develop written procedures on how the measures are computed, including the formulas and information on where the data is obtained and which reports are used.

Some Performance Measures Can Be Improved

The Office can provide better information to decision makers by improving its performance measures. One measure's description is not accurate and two measures may not provide useful information to decision makers. According to the State Administrative Manual, the reported data should accurately quantify the description of the performance measure. In addition,

performance measures should provide decision makers with useful information.

Maintenance of Facilities

The measurement for the maintenance of facilities is described as the number of work orders completed within the customer's requested timeline. However, the data did not include all work orders. The reported figure only includes data for two of the five regions. There are four maintenance regions for the Army and one for the Air Guard.

In addition, the measure does not include whether the work orders were completed within the customer's requested timeline. Management does not review the methodology to ensure the reported measure matches its description.

Tuition Assistance and Financial Hardship Claims

The measures for tuition assistance and financial hardship reports the numbers of claims processed in a fiscal year, but additional information on program benefits is not provided.

Tuition assistance has been described as providing up to 100% of the credit hour costs for summer school tuition. However, for the 2015 summer school session, all 93 tuition reimbursement claims were paid at 74.42%. The reported measure does not reflect the demand for the tuition reimbursements, the adequacy of the available funding, or the Guard members' satisfaction with the program.

The Patriot Relief Account was created to reimburse Guard members for the cost of textbooks at institutions in the Nevada System of Higher Education and monetary relief for economic hardships. In addition, the Account is used to reimburse Guard members for Servicemen's Group Life Insurance premiums. However, the measure reports the number of economic hardship claims processed, but does not provide information on textbook reimbursements or life insurance premium reimbursements. Reporting additional information provides insight to decision makers, particularly if tuition and textbook assistance is viewed as a benefit for Guard members. Measuring efficiency or timeliness,

the demand for assistance to the guard members (percent of claims paid), or the quality (satisfaction level) of the assistance provided is important to the Office's overall self-assessment of activities.

Recommendations

1. Review titles, descriptions, and supporting data for each performance measure to ensure the titles and descriptions of the measures accurately reflect the supporting data.
2. Review performance measures to determine whether the measures provide information useful to management and other decision makers in evaluating the efficiency, effectiveness, output, outcome, and quality of the programs.
3. Develop policies and procedures on the methodology used to obtain each performance measure and distribute to all affected staff. The procedures should include how the supporting data is collected, calculated, reviewed, and retained.

Oversight of Certain Administrative Practices Needs Strengthening

The Office can strengthen its controls over (1) contracting activities, (2) maintaining accurate inventory lists of equipment, and (3) monitoring the use of procurement accounts. First, the Office did not compare vendor invoices to contract terms and ensure the contract solicitation process complied with the established policy. Second, the Office did not have a complete inventory list or conduct a reconciliation of the inventory list to its equipment in 2015. Lastly, the Office did not ensure procurement account purchases complied with existing procedures.

Payments for Contracted Maintenance Services Lack Controls

The Office lacks controls over payments for contracted maintenance services because it does not have a process to ensure vendor invoices are compared to contract terms. The Office is responsible for coordinating contracting needs for the Nevada National Guard. As of October 2015, the Office managed 68 contracts totaling \$12.4 million. The majority of the contracts (65%) were for maintenance services, including 6 of the 10 contracts we tested.

Vendor invoices are not compared to the contract terms and five of the six routine maintenance services contracts reviewed do not include pricing schedules or base rates. The following examples illustrate the lack of vendor payment verifications for maintenance related contracts.

- The contract for electrical services includes a payment schedule; however, the invoices are not itemized and they are not compared to the payment schedule. Fiscal year 2015 payments exceeded the maximum fiscal year amount by \$9,883. The contract term is 4 years and 30 days with

a maximum limit of \$99,960, or \$24,487 per fiscal year. Fiscal year 2015 payments totaled \$34,370.

- The contractor for hood cleaning services submitted a cost estimate for pressure washing kitchen hoods and exhaust systems. The estimate states that it will provide two workers per job for approximately 4-8 hours on a semi-annual basis. In addition, the contract states the contractor will provide services according to the price schedule provided in the contractor's proposal. However, the contractor's proposal does not reflect a dollar amount, such as an hourly rate per employee. Therefore, the accuracy of the contractor's invoices cannot be determined.
- The Office pays \$160 per month for routine maintenance of elevator equipment. However, the contract does not reflect pricing for routine maintenance services. The contract states the contractor will provide services according to the price schedule provided in the contractor's proposal. However, the contractor's proposal includes pricing for after-hour services, truck charges, and hourly rates for work not included in the contract.

Vendor invoices are not compared to contract terms because the pricing terms are not provided to the Certified Contract Manager or retained in the contract file. Pricing terms are attached to the initial purchase order, although routine maintenance services have subsequent purchase orders.

Management explained that maintenance service contracts do not include pricing schedules or base rates, because pricing terms are only suggested and not required during the contract award process. Management indicated maintenance related contracts are "place holders" for vendors. Once the contract is awarded, price negotiations begin with the vendors selected to provide the services. The process involves having all of the vendors for which contracts were granted bid on a particular job. Once the bids are submitted, the Maintenance Supervisor selects the vendor, prepares the purchase order, and proceeds with the service or

project. Management indicated this approach provides the Office flexibility when addressing unanticipated maintenance needs throughout the service areas in the State. However, attaching the negotiated pricing terms to the initial purchase order, and not providing it to the Certified Contract Manager or retaining it in the contract file, hinders the Office from comparing subsequent vendor invoices to the negotiated price. Furthermore, staff does not track vendor payments to ensure annual contract maximums are not exceeded or to ensure the vendor invoices agree with the negotiated prices.

The Office policy states the contract quote will be the basis of the costs, and copies of all bids and communications from vendors must be provided to and retained by the Certified Contract Manager.

State policy and best practice require adequate supporting documentation to ensure contract payments are appropriate. For example, State of Nevada internal control standards require agencies to monitor the performance of each contract and review invoices to ensure deliverables are in accordance with contractual terms. In addition, standard contract monitoring practices include tracking contract budgets and comparing invoices and charges to contract terms and conditions.

Other Contracting Policies Not Followed

The Office does not comply with its policies for contract solicitation and contractor insurance coverage. Solicitation documents for all 10 contracts tested did not include evidence of review and approval of the scope of work and evaluation criteria in accordance with the established policy. Failure to review and approve the scope of work and evaluation criteria prior to the solicitation process can result in poorly negotiated contracts. Further, management cannot be sure the contract process complies with established internal requirements.

The Office's contract policy, which includes the use of a checklist to document the review process prior to proceeding with the vendor solicitation, is not enforced. The contract policy requires the contract request to be initially approved for completeness,

scope of work, evaluation criteria, and accuracy before proceeding with the solicitation process.

In addition, 6 out of the 10 contract files did not have up-to-date insurance information. If proper insurance coverage is not verified, the State may not have adequate protection against unanticipated liabilities. The Office policy requires the Certified Contract Manager to verify contractor insurance coverage is continuous.

Our 2007 audit recommended additional management oversight to ensure compliance with state contracting laws and requirements and staff training regarding Office policies and procedures. This recommendation was implemented, but the implementation was not sustained.

Inventory Controls Are Weak

The Office's statewide inventory listing was incomplete. As of December 17, 2015, the inventory list included 485 items totaling \$4.2 million. Our testing identified nine items purchased by the Army Guard through the state accounting system between fiscal years 2013 and 2015 and not added to the inventory list. The value for the nine items totaled \$281,000, including gym equipment and network hardware.

State Administrative Manual, Section 1544, requires items valued at \$5,000 or more with a useful life of more than 2 years be carried on the statewide inventory listing.

In addition, the Office's annual inventory reconciliation for 2015 was not completed as required. NRS 333.220 requires agencies to conduct a physical inventory and reconcile the inventory with the inventory list of the Purchasing Division annually. We selected 25 items from the inventory listing and traced the items to their physical location. Although we did not note any missing items, conducting an annual inventory is important for the timely detection of errors, fraud, or theft.

The last inventory reconciliation was conducted in June 2014 and did not include equipment assigned to the Air Guard. According to management, the Air Guard does not purchase items valued over \$5,000. The state employee responsible for the inventory

reconciliation is assigned to Army Guard personnel and did not recognize the need to include the Air Guard in the process.

We tested Air Guard purchases for items purchased between fiscal years 2013 and 2015 and did not identify any items that needed to be added to the inventory listing. Although we did not identify any purchases over \$5,000 made by the Air Guard during this period, management provided a listing with some items purchased several years ago. The listing does not reflect dollar values, therefore it is not known whether the items should be added to the inventory list. However, the Office should ensure the inventory process includes the Air Guard as applicable. Weak controls over inventory increase the risk that errors or theft could occur and go undetected.

Procurement Account Process Can Be Strengthened

The Office does not comply with established reconciliation procedures for procurement account purchases. The Office manages two procurement accounts for hardware stores and one for fuel. We tested both types of accounts and found a lack of compliance with existing procedures and the need for additional controls.

The purchase order logs for fiscal year 2015 listed a total of 357 purchase orders for the two hardware stores: 181 at hardware store number one and 176 at hardware store number two. Our testing found the following inaccuracies with the purchase order logs for the hardware stores:

- Twenty-five purchase orders were issued to hardware store number one, but the purchases were made at hardware store number two.
- Eight purchase orders were issued to various vendors, but the purchases were made at hardware store number one.

The Office's purchasing procedure requires the account manager designated to issue purchase order numbers to reconcile the purchase order forms with the purchase order log. According to the procedure, this reconciliation will include accounting for the final disposition of each purchase order number and vendor name.

In addition, the Office does not reconcile the vendor monthly statements against the purchase orders, purchase order logs, and receipts. This increases the risk that the Office may not detect unauthorized purchases and exposes the Office to credit limitations in the event purchases are not paid timely. For example, the Office had a past due balance of \$2,101 with one of the hardware stores as of February 11, 2016. The vendor indicated that, in order to avoid a credit hold, the payment must be remitted. We verified the approval of the past due purchases and noted the past due balance was paid as of February 19, 2016.

Lastly, we noted that the Office does not have a process to ensure terminated employees are removed as authorized buyers. We identified one individual who was still an authorized buyer almost 4 weeks after he was terminated. After we brought this issue to management's attention, the purchasing authority was revoked. We did not identify any misuse after the termination date. However, failure to revoke purchase authority for terminated employees could result in fraudulent purchases, and the Office could be liable for amounts charged.

Recommendations

4. Enhance existing controls over the contracting process to ensure compliance with the Office contract policy, including documenting the review of the contract request prior to the solicitation process, retaining evidence of the review in the contract file, and monitoring the vendor for insurance coverage.
5. Adopt procedures to require vendors to provide pricing terms during the selection process and include pricing terms in contracts.
6. Require contractors to submit invoices with both the number of units and the contract rates for those units. Also, ensure vendor invoices are monitored for compliance with contractual pricing terms.
7. Establish a process to ensure state laws and procedures are followed to include a complete inventory list, inclusive of purchases by the Army and Air Guards.

8. Reconcile the annual physical count of equipment for the Army and Air Guards against the inventory list and update the list as needed.
9. Update procedures to reflect a process to reconcile the purchase order logs and purchase orders with the monthly statements for procurement accounts, and provide additional management oversight to ensure compliance with Office purchasing procedures.
10. Develop procedures to ensure terminated employees are removed timely as authorized buyers.

Appendix A

Audit Methodology

To gain an understanding of the Office of the Military, we interviewed staff and reviewed statutes, regulations, policies, procedures, and guidelines significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the Office's activities. Finally, we reviewed and assessed internal controls over performance measures, contracts, procurement account purchases, and inventory.

To determine the reliability of performance measures used in the state's budget process, we reviewed the eight measures reported in the Executive Budget and the Priorities and Performance Based Budget for the 2015-2017 Biennium. Next, we obtained the supporting documentation for each of the measures. From the spreadsheets provided as support, we reviewed and discussed the methodology for each with Office management. Next, we judgmentally selected six out of the eight performance measures for review. Our selection was based on our perception of legislative and public interest, and information obtained during preliminary work. To determine the reliability of the supporting figures, we interviewed individuals responsible for providing supporting data and learned where and how the data is generated. Lastly, we verified the lack of operating procedures and the purpose of each measure with management.

To evaluate the administrative practices for contracts, we obtained a list of all contracts maintained by the Office. The list included 68 contracts totaling \$12.4 million. To determine the total population, we tested the list for completeness. From the file drawer, we randomly selected 10 contract files and traced the contracts to the contract list provided. Next, we queried the state accounting system for fiscal year 2015 for vendors with cumulative payments exceeding \$2,000. From the query, we selected 10 vendors and

traced to the contract list provided by the Office. We also tested the list for accuracy by comparing the vendor name, approval date, and contract amount from the list to the contract in the file. Next, we judgmentally selected 10 contracts from the contract list to test compliance with state and office guidelines. The judgmental selection was based on dollar amount, service provided, and overall significance to the Office and its mission. We reviewed the documentation for soliciting the vendors. We also compared vendor payments against the contract terms.

To evaluate the administrative practices for inventory, we obtained the Office's inventory list from the state's property records. The list contained 485 items with purchase prices totaling \$4.2 million. To determine the total population, we totaled the items and dollar amounts. Next, we tested the listing for completeness by judgmentally selecting 10 items with a dollar value of \$5,000 or more from the fiscal year 2015 purchase order logs and tracing them to the inventory list. Judgment was based on the dollar value of the item. We reviewed the purchase order logs for fiscal years 2013 to 2015 for the Air National Guard to determine whether items purchased that met requirements were added to the inventory list. Next, we judgmentally selected 25 items from the inventory list. Judgment was based on items valued over \$5,000 and physically located in the Carson City area. For each item selected, we verified the existence of the item and the state asset tag.

To evaluate the controls over procurement accounts, we first obtained a list of authorized buyers for each account. The lists showed a total of 77 authorized buyers for the three vendors providing procurement accounts. We tested the accuracy of the list from each vendor by reconciling against the list of active employees. From the reconciliation, we determined whether any terminated employees remained authorized buyers. Next, we obtained fiscal year 2015 vendor payments and purchase order logs for the two hardware stores and fuel procurement card company. We totaled the purchases and compared the vendor payments to the purchase order totals and noted any differences. For purchases made at the hardware stores, we judgmentally selected 10 purchases from the monthly account statements, and

tested the purchases for approval and reasonableness. Judgment was based on availability of data during the testing period, since the Office did not have all account statements available. Prior to the end of fieldwork, the Office was able to obtain all of the monthly statements.

For fuel procurement cards, we judgmentally selected a 3-month period from the 12-month period ending June 30, 2015, based on dollar amount, and reviewed statements for unusual activity. The statements for the 3 months selected totaled \$10,321, or 42% of the \$24,504 billed for fiscal year 2015.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate method for concluding on our audit objectives. Based on our professional judgment, review of sampling guidance, and consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient appropriate audit evidence to support the conclusions in our report. We have not projected the errors in our samples to the populations because our samples were judgmentally selected. Since our samples were based on certain risk factors, a projection of the errors in the samples to the populations would not be appropriate.

Our audit work was conducted from April 2015 to February 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Adjutant General of the Nevada National Guard. On August 25, 2016, we met with agency officials 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 20.

Contributors to this report included:

Yette M. De Luca, MBA
Deputy Legislative Auditor

Jane Giovacchini, MS
Audit Supervisor

Appendix B

Response From the Office of the Military



STATE OF NEVADA OFFICE OF THE MILITARY

Office of the Adjutant General
2460 Fairview Drive
Carson City, Nevada 89701-6807



Brian Sandoval
Governor

WILLIAM R. BURKS
Brigadier General
The Adjutant General

September 7, 2016

Mr. Rocky Cooper, CPA
Legislative Auditor
Legislative Council Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Cooper:

Office of the Military has reviewed and agrees with the performance audit and recommendations provided by the Legislative Council Bureau. Attached is the Office of the Military's Response to Audit Recommendations as requested.

After careful review of the performance audit report, we will strive to improve upon our performance measures and strengthen our administrative controls over contracts, inventory, and the procurement account process.

Thank you for the time and effort your staff put forth in conducting this audit.

Sincerely,

A handwritten signature in black ink that reads "Wm R Burks".

William R. Burks
Brigadier General
The Adjutant General, Office of the Military

Office of the Military's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Review titles, descriptions, and supporting data for each performance measure to ensure the titles and descriptions of the measures accurately reflect the supporting data.....	X	_____
2. Review performance measures to determine whether the measures provide information useful to management and other decision makers in evaluating the efficiency, effectiveness, output, outcome, and quality of the programs	X	_____
3. Develop policies and procedures on the methodology used to obtain each performance measure and distribute to all affected staff. The procedures should include how the supporting data is collected, calculated, reviewed, and retained	X	_____
4. Enhance existing controls over the contracting process to ensure compliance with the Office contract policy, including documenting the review of the contract request prior to the solicitation process, retaining evidence of the review in the contract file, and monitoring the vendor for insurance coverage	X	_____
5. Adopt procedures to require vendors to provide pricing terms during the selection process and include pricing terms in contracts	X	_____
6. Require contractors to submit invoices with both the number of units and the contract rates for those units. Also, ensure vendor invoices are monitored for compliance with contractual pricing terms	X	_____
7. Establish a process to ensure state laws and procedures are followed to include a complete inventory list, inclusive of purchases by the Army and Air Guards.....	X	_____
8. Reconcile the annual physical count of equipment for the Army and Air Guards against the inventory list and update the list as needed	X	_____
9. Update procedures to reflect a process to reconcile the purchase order logs and purchase orders with the monthly statements for procurement accounts, and provide additional management oversight to ensure compliance with Office purchasing procedures	X	_____
10. Develop procedures to ensure terminated employees are removed timely as authorized buyers	X	_____
TOTALS	10	_____