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December 28, 2010

Members of the Nevada Legislature:

I am pleased to report on the activities of the Audit Division for the biennium ended December 31, 2010. This report includes a comprehensive summary of audits issued during the biennium and also a brief overview of the Audit Division.

The Audit Division is committed to providing high quality audit reports based on independent, objective evaluations conducted in accordance with professional auditing standards. I am especially hopeful the findings and recommendations contained in our reports will assist the Legislature, the Governor, and agency heads in providing efficient and effective government services.

We gratefully acknowledge the cooperation and assistance of the members of the Legislative Commission, the Audit Subcommittee, the Interim Finance Committee, and others with whom we have worked. They made it possible for us to conduct our audits and prepare accurate and constructive reports.

Our purpose is to serve the Legislature and the citizens of Nevada. Your suggestions as to how we may continue to improve our services will always be welcomed.

Respectfully,

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

Paul V. Townsend, CPA  
Legislative Auditor

cc: Governor Jim Gibbons  
Governor-Elect Brian Sandoval



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## Introduction

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*The* mission of the Audit Division is to improve accountability and the effectiveness of state government. This is accomplished by providing members of the Legislature with factual information concerning the operations of state agencies, programs, activities, and functions; working with state agencies to identify opportunities to improve accountability, reduce waste, and enhance program effectiveness; and recommending to the Legislature the amendment of existing laws or the enactment of new laws designed to improve the functioning of state agencies.

*The* key to improving any organization is an objective assessment of the performance of that organization. That is the type of assessment provided by legislative audits of state agencies. These audits, which are conducted in accordance with rigorous professional standards, provide an independent and unbiased evaluation of government operations. Performed by experienced staff who are familiar with the intricacies of government operations, the audits include specific recommendations for improvement.

*The* findings and recommendations of the Audit Division are published in formal reports which include constructive suggestions for change. Since the purpose of an audit is to improve government operations, state agency officials are given the opportunity to respond to a draft report to ensure findings are accurate and conclusions are appropriate. The comments of these officials are carefully considered in preparing the final audit report. Audit reports are presented to the Legislative Commission or the Audit Subcommittee of the Legislative Commission at public meetings. However, if the Legislature is in session and the Chairman of the Audit Subcommittee does not call a meeting within five days after being notified that an audit report is ready for presentation, the report is issued. After presentation, copies of the reports are made available to each member of the Legislature, state officials, and the public.

*The* Legislative Commission approves the biennial audit program of the Legislative Auditor and may direct him to make any special audit or investigation considered necessary. The Legislature may also direct the Legislative Auditor to conduct special audits or investigations through legislation.

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## Introduction

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*H*istorically, the focus of the Audit Division was to conduct financial audits of state government. In recent years, performance audits of certain agencies, programs, activities, and functions have been conducted. These audits are especially valuable in times of limited resources and increasing demand for public services.

*T*he scope of the audits for the upcoming biennium will vary depending upon the nature and purpose of the agency. As in the past, the integrity of fiscal affairs will receive substantial consideration in the planning phase of each audit. Increased audit emphasis will be placed on providing an independent assessment of the performance of an agency, program, activity, or function. This will be done in order to provide information to improve public accountability and facilitate decision-making by the Legislature or those responsible for initiating corrective action. This may include determining if an agency is operating in an economical and efficient manner, or determining the extent to which a program achieves a desired level of results.

*T*he Legislative Auditor is a statutory officer appointed by the Director of the Legislative Counsel Bureau, with the approval of the Legislative Commission for an indefinite term, whose qualifications and duties are defined by law. The Legislative Auditor serves as staff to the Nevada Legislature and its various committees and is the chief of the Audit Division.

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## Benefits of Legislative Audits

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The benefits of the Audit Division's work can be measured in a number of ways. First, our audits save taxpayer dollars by identifying waste and inefficiencies and by finding ways to enhance state revenues and other resources. Second, legislative audits identify ways to improve program performance and effectiveness. Third, our audits ensure internal control systems are suitably designed to protect public resources. Fourth, we determine whether state agencies and programs are operating in accordance with laws and regulations. Finally, our audits ensure public officials are held accountable.

### *Millions of Taxpayer Dollars Have Been Saved*

Legislative audits have contributed significantly over the years to saving millions of dollars for Nevada's taxpayers. In the past two years alone, measurable financial benefits of more than \$76 million have been realized by implementing our recommendations. These savings include increased revenues and reduced costs. For instance, the Division of Health Care Financing and Policy realized savings of about \$49 million by recovering Medicaid claims overpayments and controlling costs related to medical services.

### *Improved Programs to Better Serve Nevadans*

In addition to measurable financial benefits, our work has led to improvements in programs to better serve Nevadans. By increasing program effectiveness, improved levels of service can be provided thus ensuring Nevada's citizens get the most for their money. For example, the Health Division can reduce the public's risk of exposure to illness, disease, or unsafe conditions by performing required inspections timely. In some cases inspections were several years overdue. These included inspections of food establishments, school kitchens, health care facilities, and x-ray machines. In addition, the State Department of Agriculture did not perform required inspections and tests of commercial fertilizers and agricultural minerals to determine whether they meet certain requirements. This testing is necessary for the protection of public health and safety, domestic animals, and the environment because fertilizers often contain concentrations of hazardous metals such as arsenic, mercury, and lead.

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## Benefits of Legislative Audits

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### *Focus Is on Improving Accountability*

Although not directly measurable in terms of dollar savings, improved public accountability and management controls pay dividends by ensuring assets are properly safeguarded against waste, loss, and misuse; laws and regulations are followed; appropriate goals and objectives are met; and reliable data are obtained, maintained, and fairly disclosed. Over the past two years, our audit work continued to focus on improving the accountability of Nevada State Government. Legislators, public officials, and citizens want and need to know whether the state's funds are handled properly and in compliance with laws and regulations. They also have an interest in knowing whether state agencies and programs are achieving their purposes and whether these agencies and programs are operating economically and efficiently. This need for accountability has created a demand for more information about state government. To realize government accountability, legislators, program managers, and citizens must have credible, objective, and reliable information to assess the integrity, performance, and stewardship of the government's activities.

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## Historical Listing of Legislative Auditors

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<b>Paul V. Townsend</b>	<b>2001 --</b>
<b>Wm. Gary Crews</b>	<b>1990 -- 2001</b>
<b>John R. Crossley</b>	<b>1978 -- 1990</b>
<b>Earl T. Oliver</b>	<b>1971 -- 1978</b>
<b>Robert E. Bruce *</b>	<b>1968 -- 1971</b>
<b>Norman H. Terrell *</b>	<b>1963 -- 1968</b>
<b>A.N. Jacobsen</b>	<b>1949 -- 1963</b>

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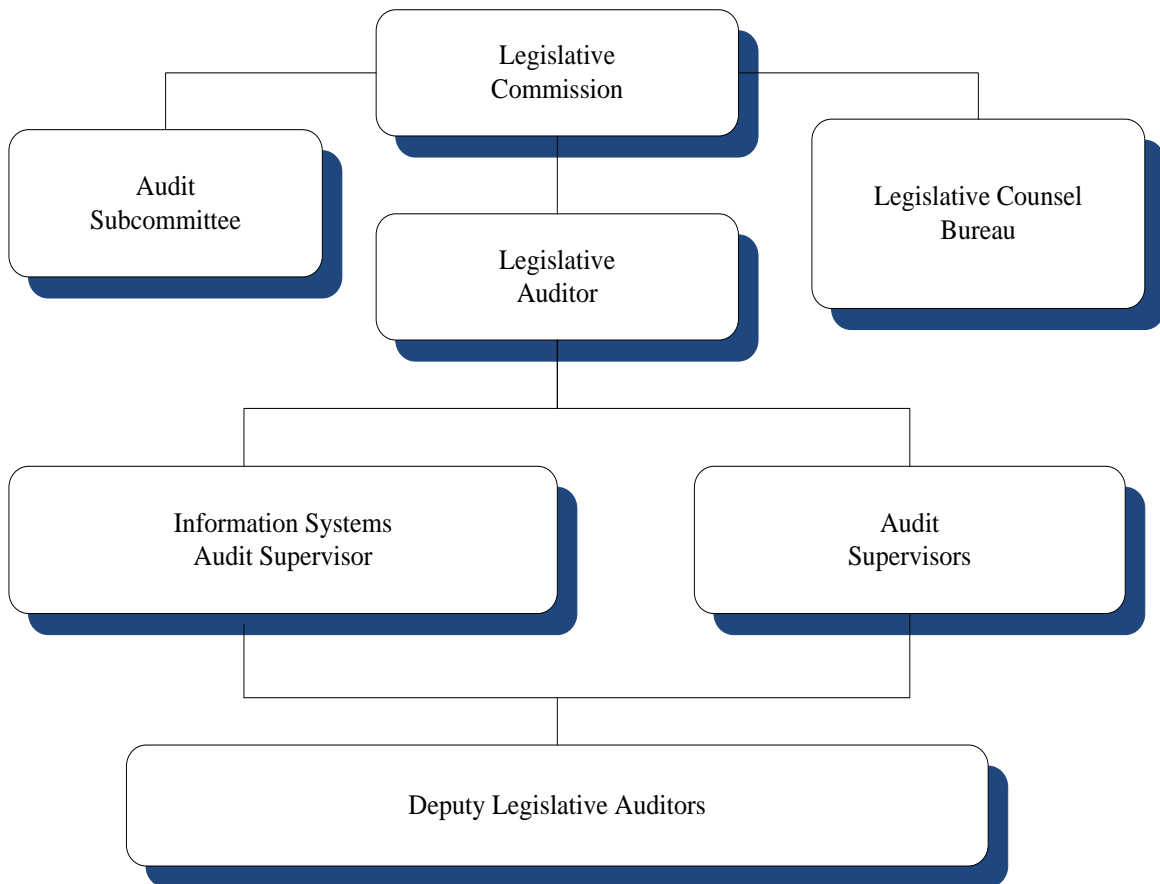
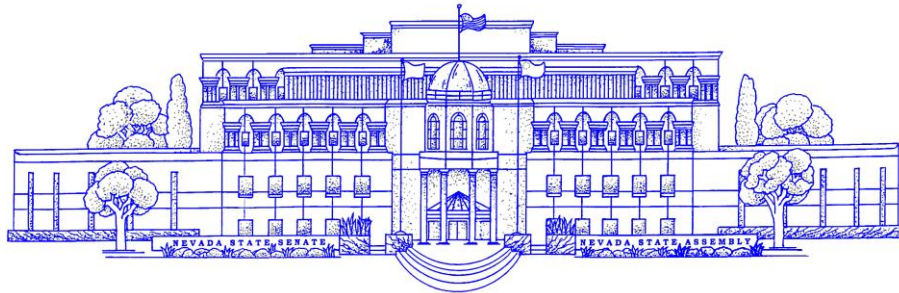
\* The official title Fiscal Analyst (Chapter 403, Statutes of Nevada, 1963) was used for a period of ten years, 1963-1973 (Chapter 771, Statutes of Nevada, 1973); however, the principal functions and duties were auditing and accounting for the Legislative Branch of Government.

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# Organizational Chart

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## LEGISLATURE



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## Audit Division Staff

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PAUL V. TOWNSEND, CPA, CIA

Legislative Auditor

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JANE BAILEY

Audit Supervisor

ROCKY J. COOPER, CPA

Audit Supervisor

RICHARD A. NEIL, CPA

Audit Supervisor

SHANNON RYAN, CPA

Audit Supervisor

S. DOUGLAS PETERSON, CISA

Information Systems Audit Supervisor

EUGENE ALLARA, CPA

Deputy Legislative Auditor

DANIEL L. CROSSMAN, CPA

Deputy Legislative Auditor

ROLAND ERICKSON

Deputy Legislative Auditor

STEPHANY GIBBS, CPA, CGFM

Deputy Legislative Auditor

DIANA GIOVANNONI, CPA

Deputy Legislative Auditor

TAMMY A. GOETZE, CPA

Deputy Legislative Auditor

MIKE HERENICK

Deputy Legislative Auditor

SHAWN HEUSSER

Deputy Legislative Auditor

DENNIS KLENCZAR, CPA

Deputy Legislative Auditor

GARY J. KULIKOWSKI, CPA

Deputy Legislative Auditor

SANDRA T. McGUIRK, CPA

Deputy Legislative Auditor

TODD PETERSON

Deputy Legislative Auditor

LEE PIERSON

Deputy Legislative Auditor

JEFFREY S. RAUH, CIA, CISA

Deputy Legislative Auditor

JILL SILVA, CPA, CIA

Deputy Legislative Auditor

DAVID M. STEELE, CPA

Deputy Legislative Auditor

THOMAS TITTLE, CPA, CIA, CFE

Deputy Legislative Auditor

ROGER WILKERSON

Deputy Legislative Auditor

DONNA WYNOTT

Office Manager

DEBORAH ANDERSON

Audit Secretary

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## 2009 - 2010 Biennium in Review

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### Audit Highlights

Over the biennium the Audit Division issued 35 audit and other reports relating to the operations of state government and other governmental agencies. Many audits completed during the biennium contributed to legislative and executive branch actions resulting in significant benefits to state government and Nevada citizens. Benefits directly attributable to or notably influenced by the audit work include elimination of waste, increased collection of revenues, and more effective government programs. While it is not the sole purpose of audits to identify ways to save money or increase revenues, many audit recommendations did, in fact, have a cost-savings impact. Consequently, we have worked closely with agency management to provide constructive recommendations which should, if properly implemented, save millions of dollars.

### Audits Requested Through Legislation

#### A.B. 463 of the 2009 Session

##### CONTRACTS WITH CONSULTANTS

*Better oversight is needed for contracts with current and former state employees. The State does not have adequate controls to prevent current employees from performing contractor activities during their state work hours. Because controls are not in place to prevent abuse and detect timesheet discrepancies, some employees were paid twice for the same time. Further, agencies did not always*

*enter into a contract with current and former employees. We also found several former employees provided services to the same agency they previously worked for, and performed similar duties for an extended period. In addition, agencies did not properly utilize the Contract Summary form to disclose important information, and former employees were frequently hired by the State through temporary employment services. Improved monitoring of contracts with current and former employees will provide transparency and help ensure contract costs are minimized.*

*The 2009 Legislature passed A.B. 463 to provide better oversight of state contracts with consultants. This includes requirements that information be provided to the Interim Finance Committee regarding contracts with current and former employees. However, the IFC has received very little information regarding consultant contracts entered into by state departments, divisions, and other agencies. Shortly after enactment of A.B. 463, the Department of Administration narrowly defined the term consultant to exclude individuals that provide any type of work product. Therefore, only under rare circumstances would a contractor be deemed a consultant and reported to the IFC. In contrast, boards, school districts, and the Nevada System of Higher Education (NSHE) used a broad definition of consultant and reported many contracts to the IFC.*

***The following are selected findings from our report.***

- The State does not have adequate controls to prevent current employees from performing contractor activities during their state

work hours. Because controls are not in place to prevent abuse and detect timesheet discrepancies, some employees were paid twice for the same time. We tested 23 employees with a state contract and found 8 employees either performed contractor activities during their regular state work hours, or did not provide adequate documentation to verify contractor activities were performed on their own time. For example, one employee was paid for 25 hours in 1 day. This included 10 hours of contract services, a regular 10-hour shift on his timesheet, plus an additional 5 hours of overtime. Another employee used 8 hours of family sick leave on a day he provided 2.5 hours of contract services at a rate of \$250 per hour.

- Executive Branch agencies did not always enter into a contract for services provided by current and former state employees. We identified 111 individuals that were either current or former employees and found 28 (25%) were paid for services without a contract. When there is no contract, state requirements for contract approvals are bypassed. Sixteen individuals rendered services for 2 years or more without a contract, and one current employee was paid \$62,590 during fiscal years 2008 and 2009 in addition to her state salary. State Administrative Manual 322.5 requires all services provided to an agency by persons or firms falling under the definition of an independent contractor to be supplied under a contract executed by the agency receiving the services.
- A significant number of the current and former state employees we

identified performed independent contractor services similar to their state job duties. For example, we found 51 of 111 (46%) individuals were paid for similar job duties. This includes 18 current employees and 33 former employees. Many of the former employees returned to the same agency and performed services for an extended period. As a result, there is an increased risk of unnecessary cost to the State, such as higher contract rates. Also, there may be the potential for state employees to perform the work without additional cost to the State.

- The contract hourly rate was not always comparable to the employee hourly rate when current and former employees contracted to perform similar duties. We found some instances when an individual performed similar duties at a significantly higher hourly rate. For example, one agency contracted with a former employee at a rate of \$350 per hour vs. \$65 per hour cost to the State as an employee. Another former employee had a contract rate of \$150 per hour vs. \$71 per hour cost to the State as an employee.
- Former employees provide a valuable resource to the State because of their knowledge and skills gained through years of state service. For short-term or specific assignments, agencies can use these employees' expertise to address a staffing shortage, fluctuating workloads, or to provide services on an as-needed basis. In many instances, former employees can provide these services more effectively and at a lower cost than hiring and training additional staff. For example, a firefighter provided

training for the Department of Public Safety at a rate of \$26 per hour. Total payments to this individual were \$1,400 during a 2-year period.

- Contract Summary forms were not always prepared as required, and were not always accurate or complete. When the summary form is not provided, or it is inaccurate, authoritative bodies do not have all information necessary to determine if the contract should be approved. We tested 40 contracts for current employees and found only 10 instances when both a Contract Summary was submitted and it properly identified the contractor as a current employee. In addition, the Contract Summary form can be improved to provide better disclosure of employee information.
- Our testing of 18 former employees, hired through a temporary employment service, found some pay rates were excessive and other pay rates were reasonable. For example, one individual was paid \$121 an hour compared to \$60 an hour cost to the State as an employee. This individual retired, returned to the same agency, and was paid \$117,500 during a 2-year period. This individual was also paid \$25,150 by another agency during the same period. On the other hand, a former department director provided services at a reasonable pay rate of \$30 an hour compared to \$69 an hour cost to the State as an employee.
- Because of a narrow definition of consultant, the IFC has received very little information regarding consultant contracts entered into by departments, divisions and other

agencies since the enactment of A.B. 463, effective May 31, 2009. The State Administrative Manual Section 304.2 defines the term consultant as a person who provides information, an opinion or advice for a fee. However, according to Department of Administration personnel, the Attorney General's Office provided a verbal opinion that the term consultant does not include an individual that provides a work product, such as a written report. Therefore, this narrow definition has limited the number of contracts submitted to the IFC for approval.

- The Department of Administration did not provide any consultant contracts to the IFC for review and approval from July 2009 through July 2010, a period of more than 1 year. Before the Department narrowed its definition of consultant, it submitted a list of 32 consultant contracts for the June 25, 2009, IFC meeting. However, 30 of the contracts were already approved by the Board of Examiners on June 17, 2009. Therefore, the IFC approved two applicable contracts. During our audit, no other consultant contracts were submitted to the IFC for review and approval.
- Since enactment of A.B. 463, state agencies have not notified the IFC whenever they employed a former state employee to provide consulting services. Our review of IFC minutes and agenda items from June 2009 through July 2010 indicates the IFC had not been notified by any department, division, or other agency when it employed a former state employee. Because former employees typically provide a work product as part of their consulting

activities, the Department of Administration's narrow definition of consultant prevented the reporting of former employees to the IFC.

## **A.B. 432 of the 2009 Session**

### **ALCOHOLIC BEVERAGE AWARENESS PROGRAM FINES**

*The Department imposed one fine upon an establishment pursuant to NRS 369.630, between July 1, 2007, and November 30, 2009, for a violation detected by staff. In December 2009, the Department informed us staff reported four more violations, and fines imposed totaled \$2,500. Of this, the Department collected \$500 in January 2010, but had not yet paid the funds to the two accounts designated to receive fines. Further, law enforcement agencies in Clark and Washoe Counties did not report any violations of the statute during the 29-month period ended November 30, 2009.*

*More emphasis is needed on enforcing the statute and reporting violations to the Department, including training law enforcement personnel to report violations and monitoring agencies' violation reporting activities. In addition, the Department can take steps to broaden enforcement resources by authorizing local officials to enforce the statute. Finally, the Department and law enforcement agencies in Clark and Washoe Counties need written procedures to ensure compliance with reporting requirements.*

#### ***The following are selected findings from our report.***

- Law enforcement in Clark and Washoe Counties did not enforce the statutory requirement for alcoholic beverage awareness training of

employees at liquor establishments. Although questionnaire responses indicated Clark and Washoe County law enforcement agencies had some awareness of the training requirement for liquor establishment employees, none of the agencies enforced the statute. Four of six (67%) law enforcement agencies in Clark County, and two of four (50%) in Washoe County responded they performed compliance checks at establishments. However, since July 1, 2007, law enforcement did not report any infractions to the Department, except for two reports from Washoe County in December 2009.

- Law enforcement officers need training for effective local enforcement of NRS 369.630. We noted officers did not have clear guidance for enforcing the statute. For example, officers were not informed how to report infractions of NRS 369.630 to the Department. In addition, some officials testified during the 2009 Legislative Session that officers are familiar with issuing criminal citations for violations, not administrative citations. Agencies testified they were confused about how to report administrative violations of NRS 369.630. Some thought the fines were payable to their local courts or counties, and did not know the Department was responsible for fine administration.
- Except for distributing the Notice of Civil Infraction form in October 2009, the Department did not contact officials concerning the lack of enforcement efforts. The Department can increase the likelihood officers will properly

enforce the statute by monitoring agencies' violation reporting activity.

- Six of ten law enforcement agencies we surveyed reported they were not aware a form for reporting violations existed. After AB 432 became effective October 1, 2009, the Department developed an infraction form and mailed it to the head of each law enforcement agency in Clark and Washoe Counties. However, based upon law enforcement officials responses to our survey, some agencies may not have informed officers the forms were available for citing violations of NRS 369.630.
- The Department could broaden its enforcement activities by authorizing certain local officials to enforce the statute. For example, business license and health department officials could check for valid alcohol education cards when they have contact with employees of liquor establishments. Effective October 1, 2009, AB 432 gave the Department authority to appoint other officials to enforce the statute. With thousands of liquor licensees in wide geographic areas in the two counties, the Department has severe limitations with its own enforcement capabilities.
- Neither the Department nor law enforcement in Clark and Washoe Counties have developed procedures to assure required reports are submitted timely to the Director of the Legislative Counsel Bureau (Director). AB 432 requires the Department and each law enforcement agency in Clark and Washoe Counties submit reports to the Director on or before February 1,

2011. The reports must include enforcement actions taken and the number of violations discovered. In addition, the Department is also required to report the amount of money collected from fines it imposed.

## **A.B. 629 of the 2007 Session and A.B. 103 of the 2009 Session**

### **REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN (2009)**

*Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at the facilities we reviewed provide reasonable assurance that they adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of youths in their care. However, during our visit, we were unable to obtain assurance that Briarwood South adequately protects the health of the youth residing at the facility because of significant medication documentation and administration issues. Subsequent to our visit, Briarwood South revised its medication administration policies and procedures. In addition, during the 14 unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the facilities.*

*All of the 13 facilities reviewed could improve their background check processes. Many of the facilities' processes for background checks do not ensure staff have appropriate backgrounds. Some of the most*

*common or serious weaknesses found at the facilities included:*

- *9 of 13 facilities did not conduct periodic post-employment background checks.*
- *6 of 13 facilities' policies did not address hiring employees with prior criminal histories.*
- *3 of 13 facilities did not require at least one employee to have a background check or the results of the background check were not received by the facility.*
- *2 of 13 facilities did not require fingerprint-based background checks, checks were based on social security number and name, or only local background checks were conducted.*

*In addition, facilities do not always follow-up when the results of background checks are not received or the results show an arrest, but no conviction information. WestCare-Harris Springs Ranch had four employees with felony convictions; however, as a substance abuse treatment facility, it was not required by state law or its licensing agency to obtain background checks on all employees. While the facility's policies required employees be fingerprinted, the policies did not provide guidance on the types of convictions that would exclude an applicant from employment. In addition, the facility did not determine whether reported arrests resulted in criminal convictions.*

*Requirements for background checks vary between different types of facilities, depending on the type of license and the licensing agency. Six of the thirteen facilities reviewed (four correction and detention facilities and two substance abuse treatment facilities) were not required by state law or regulation to obtain background checks on all employees. Even though not*

*required, all six did obtain background checks of newly hired employees. However, two facilities used background checks based on social security numbers and names instead of fingerprints or obtained only local background checks. Background checks not based on fingerprints and local background checks may not be as complete or accurate as state and federal background checks based on fingerprints.*

*Governmental correction and detention facilities and resource centers have no statutory or regulatory requirements to obtain background checks of employees. These types of facilities are subject only to the background check requirements imposed by those charged with governance, such as a county or state agency. In addition, drug and alcohol treatment facilities have no requirements to obtain background checks on all employees. Nevada statute specifically exempts drug and alcohol treatment facilities from background check requirements. However, licensed staff at these facilities must obtain background checks to be certified by the Board of Examiners for Alcohol, Drug and Gambling Counselors. The Board has established its own standards for types of convictions that would exclude an applicant from licensure.*

*Different types of facilities also have different timeframes for obtaining background checks and different requirements for periodic post-employment background checks. For example, employees of child care facilities must be fingerprinted within 3 days of being present at the facility and every 6 years thereafter. There are no statutory or regulatory requirements regarding the timeliness of obtaining background checks and no requirements for periodic post-employment background checks for group foster homes.*

*In order to ensure all youths in Nevada facilities are afforded equal protection, background check requirements should be consistent for all types of facilities that serve youths. We researched statutory and regulatory requirements for employee background checks for several other western states. While no one state had statutes that were comprehensive, several contained requirements that were either more specific or stronger than those in Nevada statutes.*

*We made one recommendation to the Legislature to consider enacting legislation to:*

- *Require all facilities that provide residential services to children to obtain state and federal fingerprint background checks of all employees prior to allowing the employees to have unsupervised access to the children in those facilities.*
- *Specify the offenses for which a conviction would exclude a person from obtaining employment at a facility.*
- *Require facilities to maintain the results of the background check for each employee for as long as that person remains employed by the facility.*
- *Require background checks be obtained periodically for persons remaining employed at a facility for a specified time.*

***The following are selected observations from our report.***

- The most common observation at the 13 facilities we reviewed was that all 13 facilities needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated

ranged from suicide risk to privileges.

- Medication administration processes and procedures need improvement at all 13 facilities. Specifically, youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at 10 of 13 facilities, there was no evidence of physicians' orders or pharmacy instructions at 4 of 13 facilities, and medication errors were not adequately documented at 3 of 13 facilities. In addition, we noted medical files and records were not reviewed by someone independent of the medication process at 10 of 13 facilities. Also, there were no controls over prescribed medications returned to a pharmacy, physician, or clinic, or unused prescribed medications at 3 of 13 facilities.
- Staff did not check for "cheeking" at 6 of 13 facilities. Cheeking is a method used to conceal medication administered. There were no over-the-counter standing order forms at 6 of 13 facilities. A standing order form identifies over-the-counter medications a facility may administer to youths.
- Complaint and grievance processes need improvement. For example, youth files did not contain evidence of a youth's acknowledgement of his right to file a complaint at 6 of the 13 facilities. In addition, the complaint process was not posted or visible to youths at five facilities, and there was no locked complaint box at three of the facilities. Finally, information provided to youths at intake did not address the complaint process at 2 of the 13 facilities.

- During our reviews, we noted instances where youths disclosed an allegation of abuse or neglect. However, we did not find evidence the allegations were reported to child welfare services or law enforcement at 2 of 13 facilities. We also noted an allegation of abuse or neglect was not documented consistent with policy at a third facility. NRS 432B.220 requires those who know or have reasonable cause to believe that a child has been abused or neglected make a report within 24 hours to child welfare services or law enforcement. Improvements to ensure compliance with mandatory reporting requirements may reduce the likelihood of a youth being returned to an unsafe environment.

*The following is an update on a prior facility review.*

- We conducted a review of West Hills Hospital in July 2008 and reported our observations in our December 2008 report. One of the issues reported was that West Hills Hospital needed to improve its supervision of youths. Incident reports at the Hospital documented two incidents where youths may have been inadequately supervised. One report described a youth who wrapped a cord around her neck while in the group room. The other report described an elopement of a youth who had been identified as an elopement risk.
- In its response to our review, West Hills Hospital represented staff received training on their responsibility to maintain a safe environment for youths and perform 15 minute checks on youths. In addition, the Hospital said staff had

been equipped with walkie talkies to aid communication without having to leave youths unsupervised.

- In March 2009, the Bureau of Health Care Quality and Compliance (Bureau), of the Department of Health and Human Services' Health Division, conducted a review of the Hospital and released a statement of deficiencies. The statement included a finding which stated that, based on record review, staff interviews and observation, the facility failed to provide adequate staffing to meet patient needs for 2 of 10 patients and failed to provide agency staff with the training needed to provide safe patient care. In June 2009, the Bureau issued a notice to suspend the Hospital's license due to ongoing safety issues and suspended new admissions to the Hospital. Subsequent to the notice, an independent monitor was appointed to ensure patient safety. The Bureau has reinstated the Hospital's license and the Hospital currently has monitored accreditation.
- In October 2009, we requested an explanation from the Hospital regarding the actions taken to improve patient safety. The Hospital replied that it has corrected the deficiencies identified by the Bureau. The Hospital stated that significant changes were made in staffing throughout the Hospital; training was substantially expanded; leadership changes were made; and risk management and oversight procedures were modified to improve effectiveness.
- In November 2009, we conducted an unannounced visit to West Hills Hospital. The focus of our visit was

to review the actions taken by the Hospital to correct deficiencies related to the supervision of the youths at the facility. We found the Hospital had made improvements regarding the training of staff related to supervision. However, while the Hospital had purchased walkie talkies for the staff, management indicated they had not been used since March 2009 due to technical difficulties and privacy concerns. Management indicated the Hospital will obtain better walkie talkies to assist staff with supervision of youths. We made some verbal suggestions to facility management regarding cross training of staff when they change shifts. We will continue to monitor West Hills Hospital's progress toward improving the supervision of youths and other issues noted in our prior review.

## **NRS 218G.570 - 218G.585**

### **REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN (2010)**

*The following are selected findings from our report.*

*Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at the six facilities we reviewed provide reasonable assurance that they adequately protect the health, safety, and welfare of youths at the facilities, and they respect the civil and other rights of youths in their care. In addition, during the six unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of the rights of the children in the facilities.*

*One of the most common problems we found at the six facilities reviewed was medication management. For example, we noted at least one type of medication management error at each of the facilities reviewed. Errors included not following physician's orders, missing or incomplete medication documentation, and youths not receiving medications timely. Although employees receive training on the administration of medication, the delivery of instruction needs strengthening.*

*In general, staff receive training on the administration of medication to youths and how to identify the signs and symptoms of illnesses. However, facilities should consider training surrounding both medication management and handling medication errors. For example, facilities should document medications missed and the reason why, and medication errors, like incorrect dosage.*

*Employees of residential facilities for groups who assist residents with their medications are required to successfully complete training and pass an examination approved by the Health Division of the Department of Health and Human Services. Residential facilities for groups include facilities that furnish food, shelter, assistance, and limited supervision to a person with mental retardation or with a disability or a person who is aged or infirm. Most of the children's facilities that are included in our reviews are not required to receive this training. However, this type of training may help reduce the number of medication errors and improve the facilities' responses to errors that do occur.*

*The Bureau of Health Care Quality and Compliance maintains a list of approved medication training programs on its website. As of September 2010, there were 10 programs on this list. We contacted eight of these training providers. Two*

*entities did not provide training to persons outside their facilities. The other six do provide medication management training. These six entities provided us with information on the topics covered in the training. While some of the topics are not applicable to children's facilities, since they deal with elderly populations, most of the topics addressed common problems at children's facilities. For example, some of the topics included dispensing, storage and handling of medications, over the counter medications, documenting medication errors, and disposing of discontinued and expired medications. This training is available at a cost ranging from \$70 to \$100 for a full day class.*

***We made one recommendation:***

*All facilities should strengthen medication management training by having key medication management staff participate in training conducted by an agency independent of the facility. This training should include the administration of medication, documentation of administration and medical orders, and minimizing and handling medication errors.*

***The following are selected observations from our report.***

- All six facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from mandatory reporting of child abuse and neglect to off-campus activities.
- Medication administration processes and procedures need improvement at all six facilities. Youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at five of six facilities reviewed. Some youths' files were missing evidence of

physicians' orders at four of six facilities. Some medication administration records were missing at two of six facilities. In addition, youths did not always receive medications timely at two of six facilities. Staff did not check for "cheeking" at four of six facilities. Cheeking is a method used to conceal medication administered. Four of six facilities need to develop or update their over-the-counter standing order forms. A standing order form identifies over-the-counter medications a facility may administer to youths.

- Complaint and grievance processes need improvement. For example, youth files did not contain evidence of a youth's acknowledgment of his right to file a complaint at three of six facilities. In addition, a description of the complaint process was not posted or visible to youths at three of six facilities.

***The following is an update on a prior facility review.***

- In April 2010, we conducted an unannounced visit of the Nevada Youth Training Center (NYTC). The focus of our visit was to review actions taken by NYTC to address supervision, the complaint process, and contraband. We found NYTC had made improvements in these areas.
- In addition, we reviewed required and recommended training of staff that have direct contact with youth. This training includes Use of Force and Handle With Care training. Based on our testing, we noted staff did not always receive required and recommended training. Facility management stated that, while

training is ongoing, NYTC has developed a corrective action plan to ensure that all mandatory training is completed.

- We also noted employees do not always receive annual evaluations. Completing timely annual evaluations may help identify training deficiencies. According to facility management, annual evaluations were to be completed by August 2010.

## **NRS 385.3789(4)**

### **PROGRAMS FOR INNOVATION AND THE PREVENTION OF REMEDICATION - 2009**

*Schools and school districts did not always spend grant funds received from the Account for Program for Innovation and the Prevention of Remediation (Account) in accordance with laws, the Commission on Educational Excellence (Commission) and the Nevada Department of Education (NDE) policies and procedures, and the terms of the grant awards. Approximately \$6 million of expenditures made by schools and school districts was not approved by the Commission at all, or at the time the expenditure was incurred. In addition, NDE and the Commission can improve activities related to administering and monitoring program funds. For instance, grant period and reporting deadlines did not coincide with the normal school year and contributed to schools and school districts submitting inaccurate and untimely reports. Additionally, NDE did not always distribute funds timely from the Account in accordance with State law. Finally, policies and procedures are not adequate to ensure equipment purchased with Account funds is properly safeguarded, tracked, reported, and monitored. Most of these issues*

*occurred because the program was new for 2006 and 2007.*

#### ***The following are selected findings from our report.***

- Expenditures made by schools and school districts were not always authorized by the Commission. Over \$580,000 in expenditures were made on items that were specifically rejected or never presented to the Commission for approval. For instance, Clark County School District purchased an educational software license for \$200,000 in May 2006 from its district-wide grant. However, the Commission had denied funding for this type of expenditure during the grant award process in January 2006.
- Grant amendments were not always prepared or properly approved prior to the expenditure of funds. Schools and school districts in our sample spent over \$5.1 million of grant funds prior to receiving Commission approval. We also found NDE approved some amendments even though statute indicates the Commission is responsible for allocating funds. About \$380,000 in expenditures were approved by NDE instead of the Commission.
- Documentation used to modify original grant budgets was not sufficient to easily determine the changes being requested by the grantee. As a result, items originally rejected by the Commission were amended back into certain grants. This occurred because the Commission did not have adequate policies regarding the amendment process and relied on NDE to develop documentation.

- The Commission used funding designated for elementary schools to approve district-wide grants that included secondary school programs. We identified over \$1 million in elementary funding that was used for secondary schools. This may have resulted in some elementary schools receiving only partial funding on grant requests.
- About 16% of annual reports were not submitted by established deadlines. In addition, nearly 31% of the reports submitted timely were not accurate. Because grant periods established by the Commission did not allow for grant activities occurring through the end of the school year, some school districts used estimates which resulted in about \$172,000 in funding not being returned to the Account.
- Some annual financial reports were inaccurate because schools and school districts made improper accounting entries and supporting schedules did not reflect all grant activities. Some grantees made improper accounting entries transferring expenditures in excess of budget authorizations to other fiscal years, grants, and budget subcategories. As a result, amounts returned at the end of the grant period were reduced.
- The Department of Education did not distribute funding in accordance with statute for fiscal year 2007. Even though statute requires the full distribution of funds by August 15, not all amounts were distributed by this date, and some funds were received over a year later.
- Schools and school districts did not return unused funds to the Account

in a timely manner. In addition, NDE did not deposit funds in accordance with state law. The untimely return of funds and failure to deposit checks timely resulted in the loss of about \$45,000 in interest earnings to the State.

- Adequate controls are not in place to ensure equipment purchased with funding from the Account is properly safeguarded. Nearly 6% of the assets included in our sample could not be located. Some missing equipment is highly susceptible to loss, theft, or misuse such as laptop and desktop computers.

## **NRS 385.3789(4)**

### **PROGRAMS FOR INNOVATION AND THE PREVENTION OF REMEDIAION - 2010**

*Although administration of the Account for Programs for Innovation and the Prevention of Remediation has improved, additional efforts can be made to provide greater assurance that funding is allocated and controlled as the Legislature intended. Our review of funding allocations revealed some lower scoring grantees received more of the amount requested than grantees with significantly higher scores. In addition, NDE made adjustments to the amount of funding available for some grants without Commission approval. Furthermore, the Commission lacked adequate procedures to ensure an Account reconciliation was completed and all unused funds were reverted to the State General Fund. Even with improvements to oversight processes, amendments were not always approved by the Commission when they should have been, required annual financial reports did not include all required supplementary schedules, and expenditures*

*were not always approved by the Commission. While additional strengthening of controls is needed, we identified fewer errors and weaknesses than our prior audit of fiscal years 2006 and 2007 funds indicating the Commission has improved its oversight of the Account.*

***The following are selected findings from our report.***

- Grants with higher application scores did not always receive more funding, compared to amounts requested, than grants receiving lower scores. For example, two Clark County School District elementary schools requested approximately the same amount of funding (\$104,000). The higher scoring grant of 70 received 92% of requested funding (\$95,387), while the lower scoring grant of 53 received 100% of requested funding (\$104,475). While some review teams' awards of funding correlated with application scores, other teams' awards had weak or no apparent relationship. These inconsistencies occurred because Commission procedures and guidelines regarding funding allocations were not sufficient to ensure the highest quality applications received appropriate funding.
- The Commission did not always approve necessary changes to grant allocations. NDE reduced all Commission approved consortium grants by 50% in November 2007, without proper approval from the Commission. The reduction in funding to consortium grants resulted in some grants not being implemented. In addition, revised grant budgets approved by NDE did not always comply with Commission approvals. Of 47 revised grant

budgets included in our sample, 6 (13%) did not remove or reduce funding as detailed by the Commission.

- Grant amendments were not always approved by the proper authority. Of 26 grant budget amendments included in our sample, 9 (35%) received NDE approval when they should have been reviewed and approved by the Commission.
- Of 59 amendments included in our sample, 22 (37%) included incomplete or partial documentation. Amendment forms developed by NDE were not adequate to ensure sufficient information was requested and provided.
- NDE did not conduct a complete reconciliation of the Account at the conclusion of the grant cycle. Of 16 school districts receiving funds, 6 (38%) had significant variances between amounts distributed, expended, and reverted. This included about \$77,000 that should have been reverted to the State General Fund. In addition, other districts may have reverted more than they should have. The Commission lacks controls to ensure the Account is properly reconciled at the conclusion of the grant cycle.
- About 71% of annual financial reports were not submitted by established deadlines. In addition, 13% were not accurate. Because grant periods established by the Commission did not allow for grant activities occurring through the end of the school year, some schools districts used estimates for reporting expenditures.
- Adequate controls are not in place to ensure supplemental financial and

items of value schedules are submitted with annual financial reports. Out of 48 reports included in our sample, 4 (8%) did not include the required supplemental financial schedule. In addition, six (86%) of seven items of value inventory lists were not submitted as required.

- Expenditures made by schools and consortiums of schools were not always authorized by the Commission. Our testing of expenditures found nearly 7% of expenditures tested, totaling over \$51,000 were for items and services that were not properly reviewed or approved by the Commission.
- The Department of Education did not distribute funding in accordance with statute for fiscal years 2008 and 2009. Even though statute requires the full distribution of funds by August 15, not all amounts were distributed by this date.

## **Agency Audits**

### **OFFICE OF STATE CONTROLLER**

#### **ACCOUNTS RECEIVABLE**

*Improvements are needed to the accounts receivable reporting and debt collection processes. The Office of State Controller's June 30, 2008, statewide accounts receivable report was not reliable because some agencies reported inaccurate or unsupported amounts, did not report accounts receivable information, or reported untimely. The Office can improve the quality and reliability of its statewide receivable reports by enhancing its review of agencies' accounts receivable reports and the guidance it provides to agencies. Furthermore, agencies often submitted debts*

*for collection that were significantly aged and did not participate in the debt offset program. With the passage of certain legislation during the 2009 Legislative Session and changes to its information system, the Office can rectify many of these issues.*

#### ***The following are selected findings from our report.***

- Our review of three large agencies found that none of them reported accounts receivable to the Office completely or accurately. In addition, some receivable ledgers had mathematical errors or did not contain necessary information. As a result, the Office's June 30, 2008, statewide accounts receivable report, which showed \$482 million in receivables, was inaccurate and understated.
- Some receivables were not reported to the Office because agencies misunderstood what should be reported, system limitations hindered the accuracy of reports, and agencies did not identify all reportable receivables. Had the Office developed processes to improve the accuracy and completeness of agency submissions, some unreported receivables could have been identified.
- The Office did not adequately document and confirm modifications it made when agency receivable reports were inaccurate, incomplete, or not submitted. We found the Office made changes to 25 of 45 agency accounts receivable reports for June 30, 2008, adding about \$19 million to amounts reported as being at collection companies, amounts estimated uncollectible, and the total receivables balance. Without

sufficient documentation we could not always determine whether changes made were accurate or appropriate.

- Our review found five agencies did not routinely file quarterly accounts receivable reports even though they submitted debts to the Office for collection. These agencies should have reported receivables to the Office totaling at least \$18.4 million at June 30, 2008.
- One third of agencies' reports due for the quarter ended September 30, 2008, had not been submitted 4 months after the due date. Even though agencies failed to prepare and submit reports in a timely manner, the Office did not have established procedures for contacting and following up with agencies that missed reporting deadlines.
- Our review of year-end receivable reports found that agency estimates regarding the collectability of accounts receivable were not always based on sound assumptions. The Office needs to provide more detailed guidance for agencies to reasonably estimate the collectability of accounts receivable. In addition, the Office has not reviewed agency methodology or calculations even when estimates provided by agencies were unreasonable.
- The Office did not always timely reconcile its record of state agencies' debts turned over for collection with collection company records. Furthermore, when reconciliations were performed, they were not always adequately documented or properly reviewed.
- The Office's records of receivables turned over for collection activities

contained inaccuracies. Office records for one agency varied significantly from the agency's records. In another instance, an agency submitted debts for collection that were not included in the Office's database. Finally, some Office records of receivables did not contain all necessary information, such as the date the debt was incurred.

- The Office did not maintain an accurate record of past due receivables that were written off between July 1, 2007, and December 31, 2008. We found 76 debts totaling more than \$20,000 on the Office's schedule of written off receivables which were not approved by the State Board of Examiners or its clerk.
- State agencies turned over debts to the Office's debt collection program which were often significantly aged. In general, collection rates decline as debts age. Because debts were over 2 years old on average when submitted to the Office for collection, some collection opportunities may have been missed. The Office recommended changes to statute which now require agencies to submit debts to the Office when they are 60 days past due. Therefore, the Office will need to develop procedures to monitor agencies and ensure debts are remitted for collection timely.
- Improvements can be made to enhance the success of the Office's debt offset program. Specifically, efforts should be directed at encouraging more agencies to participate in the debt offset program. Our review of debts found

at least \$20,000 more could have been collected through debt offsets had more agencies been involved in the program. While this amount is not significant, it is more than what was collected through offsets during all of fiscal years 2008 and 2009.

- The Office is taking steps to improve its processes over monitoring accounts receivable and increasing the collection of the State's accounts receivable. During the 2009 Legislative Session, the Office requested changes to statute which will increase agency participation in collection activities. Additionally, the Office is implementing a new IT system aimed at improving efficiencies in the Office's receivable reporting, debt collection, and debt offset programs. Finally, the Office is increasing its training for agencies in understanding accounts receivable, meeting reporting requirements, and improving collection of accounts receivable.

## **SECRETARY OF STATE**

*Improvements are needed to reduce delays in depositing checks and ensure adequate safeguarding of checks and customer information. For example, we examined 120 deposits made during fiscal years 2009 and 2010 and found all 120 were not deposited timely as required by state law. On average, the 120 deposits were made 6 working days late. Additionally, checks were not restrictively endorsed when received as a safeguard against misuse. Furthermore, paper copies of customer information including credit card and bank account numbers were stored for up to two years, increasing the opportunity for loss or misuse. During our audit the Office addressed these issues. Deposits are now made more timely, and some customer*

*information was shredded and remaining records are better secured.*

*The Office can take steps to improve the reliability and effectiveness of its performance measures. Most Office goals lack corresponding performance measures to help determine progress towards achieving goals or address all key programs. Additionally, reported results were not always reliable, accurate, or adequately documented. Finally, revising some measures to address the outcome or the impact on customers and citizens would provide more meaningful information to evaluate program effectiveness.*

*Policies and procedures can be strengthened by ensuring procedures are in place for all functions, that they are up-to-date, and clearly identify staff responsibilities. In addition, two key Office information systems lack adequate password controls.*

### ***The following are selected findings from our report.***

- The Office did not deposit cash and checks timely. We reviewed 120 bank deposits from July 2008 to June 2010 and found all 120 deposits were not made timely. On average, bank deposits were made from 2 to 15 working days late. NRS 353.250 requires if on any day the money accumulated for deposit is \$10,000 or more, the deposit must be made the next working day. The Office receives about \$100,000 in cash and checks daily. In September 2010, the Office reported bank deposit timeliness had improved to 1 – 5 working days late.
- The Office's process for handling and receipting checks does not ensure checks are endorsed timely. State policy requires agencies

endorse checks as soon as possible, but no later than at the end of the working day. These checks were at greater risk of misuse.

- The Office stores records including customer credit card and bank account numbers for up to two years. In addition, these records were not adequately secured. During our audit some records were shredded and a locked door is now in place to better secure these documents. However, policies and procedures have not been established addressing the storage and retention of customer information.
- Most Office performance measures are not aligned with agency goals. Performance measures provide a method to measure whether an agency is reaching its goals. We found three of four Office goals did not have corresponding performance measures. For example, one goal without a measure is: *Encourage the development and diversification of the state's business community by providing innovative, expeditious, and cost-effective services.* Without corresponding performance measures the Office cannot effectively measure progress toward achieving its goals.
- The Office's reported results for five of its six performance measures were not always reliable. Results were not reliable because inconsistent information was reported from one year to the next, inaccurate information was reported, and math errors were made. Additionally, supporting documentation was not always retained to verify the reliability of reported results. As a result, decisions affecting Office

programs could be made based on incorrect information.

- The Office can take steps to improve its performance measures. These include focusing on outcome based measures and maintaining supporting documentation. Outcome measures focus on how well work is done or the impact on customers and citizens. Additionally, written policies and procedures for developing, tracking, computing, and reporting measures are needed.
- The Office can take steps to strengthen policies and procedures. We found the Office needs to develop additional policies and procedures in some areas, update existing procedures, and ensure procedures are made available to all staff. In addition, policies and procedures should include effective dates and clearly identify which staff positions are responsible for performing specific functions.
- Two key information systems maintained by the Office lack adequate password controls. These include the Commercial Recordings and accounting systems. The Commercial Recording system does not require a password. In addition, the accounting system does not require users to periodically change their passwords, passwords are not required to be complex, and passwords are seven characters instead of the state standard of eight. These weaknesses put the information contained in the systems at risk from hackers outside the organization. In addition, with weak password controls, there is a greater risk that employees can access the information under another

employee's account. However, employees are required to log into the network before accessing these systems. Although this provides some control over employee access, additional controls are needed.

## **OFFICE OF THE STATE TREASURER**

### **UNCLAIMED PROPERTY PROGRAM**

*The Program substantially complied with state laws, regulations, and policies significant to its activities. However, the Program could improve its practices for identifying unclaimed property. In addition, the Program did not always comply with requirements for timely deposits. Improvements to identification practices could increase collections and timely deposits will strengthen controls over cash receipts.*

*The Program also needs stronger controls over administrative functions related to the sale of securities, various reconciliations of internal records, and access to data in the Unclaimed Property database. Stronger controls in these areas would help ensure the Program continues to meet its responsibility to properly safeguard unclaimed property.*

#### ***The following are selected findings from our report.***

- The Program did not fully utilize its audit function. We found staff auditors performed less than half the number of audits established in a performance measure. The purpose of audits is to identify and collect unclaimed property and improve future compliance with reporting requirements. When audit coverage is not adequate, rightful owners may be denied their property.

- In addition to performing an adequate number of audits, a risk-based approach for scheduling audits is needed to ensure audit resources are used effectively. Our analysis of the audits performed did not find sufficient evidence a risk-based approach was consistently used. For example, 20 of 40 audits each had less than \$3,000 in findings. This includes two audits with no findings. The Program does not have written policies and procedures for scheduling audits.
- The audit function is the Program's primary method for identifying holders that have not properly reported. However, additional methods to improve reporting compliance are available. We contacted unclaimed property personnel in nine states and found all nine have implemented additional methods to identify unclaimed property, and improve reporting. The use of other methods could help the Program meet its goal to reunite rightful owners with their property.
- The Program had custodian responsibilities for about \$27 million in securities, as of December 31, 2008. However, the Program has not established a timeframe for when securities are to be sold. According to the Program's database, there are about 7.2 million shares that have been held by the Program for 2 or more years and are available for sale. Untimely sales of securities that have not been claimed increase the number of shares held in trust. As a result, additional staff resources are needed to account for the securities. Further, the longer shares are held, interest income is lost for the State.

**DEPARTMENT OF  
ADMINISTRATION**

**MOTOR POOL DIVISION**

- The Program did not always make timely deposits. Our review found 27 of 37 payments received from holders were not deposited timely. These deposits ranged from 1 to 26 days late. NRS 353.250 has established timeframes for when money received is to be deposited. Failure to follow statutory deposit requirements increases the risk of theft or loss. Further, interest income for the State is not maximized.
- The Program did not consistently perform accurate and timely reconciliations. For example, the Program's reconciliation of its internal records to state records for property collected and paid claims did not include all applicable transactions. In addition, we reviewed 15 accounts for securities and found 9,792 shares held in trust by a vendor did not have a corresponding owner listed in the Program's database. Without accurate records, the Program cannot ensure its safekeeping responsibilities are met. The Program does not have policies and procedures for reconciling program records to the state's records or for reconciling accounts with securities.
- Security controls over sensitive data in the Program's database could be strengthened. Our review found the Program does not review computer logs showing who has edited data in the system. As a result, there is an increased risk data could be inappropriately altered, which would allow a fraudulent claim to be processed without detection.

*The Motor Pool can improve the economical utilization of its vehicle fleet. The Division does not adequately monitor its fleet for potential elimination or reassignment of unneeded vehicles. We estimate the Motor Pool could save about \$1.6 million by delaying new vehicle purchases and reducing its fleet size. In addition, vehicles assigned to state agencies are not always maintained in accordance with established maintenance schedules. Preventive maintenance is important for controlling repair costs and performing vehicle safety checks. Additional savings may be realized by determining the most cost-effective time to replace vehicles.*

*The Motor Pool has significant weaknesses in its system of internal control. Specifically, controls over fuel cards were not adequate to deter improper use and to detect illegal transactions in a timely manner. Controls over fuel card use are important because fuel purchases totaled more than \$900,000 in fiscal year 2009. In addition, required reviews of purchase card transactions were not documented by staff. Most problems we identified throughout our audit report stem from management and staff not following the Division's internal controls and not documenting control activities performed.*

***The following are selected findings from our report.***

- Many Motor Pool vehicles did not meet the Division's minimum use requirements. Our testing identified that 162 of 736 (22%) agency assigned vehicles were driven less than 6,000 miles during 2009. Low-use vehicles resulted in some

agencies spending too much for transportation costs. State policies require the Motor Pool to monitor vehicles for low-use and reassign them if necessary. However, management has not actively monitored vehicles for low-use or followed Division policies for investigating low-use vehicles.

- We estimate the Motor Pool could save \$1.6 million in future vehicle replacement costs by reducing its fleet by 73 low-use vehicles assigned to state agencies. These savings would occur if low-use vehicles were eliminated or reassigned and the Motor Pool delayed the purchase of replacement vehicles. Reducing the fleet size will save an average of \$21,835 per vehicle in future replacement costs and annual costs. This estimate includes the average capital outlay of \$18,360 for each vehicle purchased during fiscal year 2009, and \$3,475 in other reoccurring costs such as insurance and registration over the life of the vehicle.
- Vehicles were not always maintained according to the Division's preventive maintenance schedule during fiscal years 2008 and 2009. Our testing identified that preventive maintenance was not timely for 85 of 279 (30%) required services, such as an oil change and vehicle inspection. The cost of these services are included in the monthly rate charged to agencies for Motor Pool vehicles. Without regular maintenance a vehicle's economic useful life may be compromised resulting in higher repair costs, lower resale value, and premature replacement. The Motor Pool can improve its maintenance process by using a report from its

fleet management system that shows when a vehicle's maintenance is past due.

- The Motor Pool has not documented a replacement analysis to determine the most cost-effective time to replace vehicles. Although replacement policies have been revised in recent years, these changes have taken place without an analysis of costs. In general, most cars are replaced at an average of 90,000 miles. Savings could be realized by using a cost analysis to enhance the replacement decisions. Replacement decisions are important because the Motor Pool oversees a fleet of 849 vehicles with a total cost of over \$13 million.
- Although hybrid vehicles help to provide an environment friendly fleet, more attention is needed on recovering the initial cost premium paid when these vehicles are purchased. Relatively low gasoline prices prevented the hybrid vehicles retired in 2009 from generating fuel savings to recover a cost premium of about \$8,600. Because recovery of the cost premium depends primarily on miles driven and gas prices, the Motor Pool should try to place hybrid vehicles at agencies with high utilization. Hybrid replacement and cost recovery issues are important because the Motor Pool now has about 40 hybrid vehicles with a total cost of approximately \$870,000.
- Monthly fuel card billings were not adequately monitored for improper use. We identified 16 vehicles that should have been promptly investigated for improper fuel card use from our review of 4 month's billing statements. Unusual fuel

purchases for one vehicle were investigated by the Attorney General's Office during our audit. According to the Motor Pool, the investigation involved a theft of fuel which totaled approximately \$5,000. Although the theft occurred for about 1 year, the Motor Pool did not become aware of the problem until it received an exception report from the statewide fuel provider showing three purchases in 1 day. Unusual fuel purchases for this vehicle should have been identified much sooner since this was one agency's only Motor Pool vehicle.

- Motor Pool staff did not document all required reviews of purchase card transactions for vehicle repairs and maintenance. These reviews include ensuring that the purchased goods are reasonable and relevant to the repair, and that the maintenance costs are correctly entered into the Division's fleet management database. Of 30 transactions tested, there was no evidence that invoices were reviewed regarding the propriety of the purchase. In addition, no documentation was available to show that required periodic reviews were performed by supervisory staff. Our testing identified three data entry errors and small amounts of sales taxes paid on two purchases. Without documentation of reviews performed, management does not have reasonable assurance that controls are working as intended.

## **PURCHASING DIVISION**

*The Purchasing Division can improve its oversight of the State's Procurement Card (P-Card) program. The Division needs to improve its oversight of*

*procurement card activity to help ensure the program operates effectively and payments are timely. This will help maximize cash rebates available through the program and avoid late payment fees. Oversight can be improved by developing internal controls to guide Purchasing staff and enhancing statewide policies and procedures to assist participating agencies.*

*The Division can improve the reliability of its performance measures reported in the Executive Budget and internally to management. Specifically, flawed methodologies were used to determine reported results for some measures, which resulted in the Division overstating savings it achieved for state agencies. In addition, math errors occurred when calculating some measures and supporting documentation was not always retained. Finally, current policies and procedures are out-of-date and do not provide staff with adequate guidance to help ensure reported results are reliable and accurate.*

### ***The following are selected findings from our report.***

- The Division has not developed internal policies and procedures for the State's Procurement Card (P-Card) program. As a result, Purchasing staff have not received adequate guidance to manage the P-Card program. Additionally, since several staff are involved in various aspects of the program, duties and responsibilities for program activities should be clearly defined to ensure the program receives adequate oversight and monitoring.
- The Division has not established an effective process to monitor the State's procurement card activity. A system of monitoring P-Card activities, including specific duties

and responsibilities for staff, have not been established in writing. Ongoing monitoring is needed to help ensure the State maximizes rebates, avoids late payment fees, and identifies improper activities.

- The Division needs to revise statewide policies and procedures designed to assist agencies in managing their procurement card programs. Existing procedures do not adequately address key procedures such as the reporting and consequences of unauthorized use (personal use), prohibited items, merchant codes, disputed transactions, and timely payments. In addition, the Division's website contains two different versions of internal control procedures agencies are required to follow. Finally, Purchasing should consider combining policies, procedures, forms, and other information into a manual to assist prospective and current P-Card users.
- The results for performance measures for fiscal years 2007, 2008, and 2009 were not always reliable. The Division used flawed methods to determine results for some measures. This includes two measures on the savings realized when agencies use the Division to acquire goods and services. In other cases, inaccurate information was reported because math errors were made when calculating results. In addition, documentation supporting results was not always retained. Therefore, decisions affecting Division programs could be made based on unreliable and inaccurate information.

## **DEPARTMENT OF AGRICULTURE**

*The Department did not always align its payroll and other operating costs with the proper program and funding source. During the 2009 Legislative Session, several adjustments were made to help align the Department's personnel costs and funding sources; however, more adjustments are needed. We estimate that about \$552,000 in annual personnel costs were not aligned with the appropriate funding source. In some instances, state revenue shortfalls have contributed to alignment problems because the duties of eliminated positions were redistributed among remaining staff. In addition, the Department collected about \$442,000 for fertilizer and antifreeze testing programs, but the fees collected during 2008 and 2009 were not used to perform required tests. Therefore, these fees are not aligned with expenditures.*

*The Department does not adequately track the cost of its programs. Without complete cost information, management and other decision-makers do not have the information necessary to make informed decisions when preparing the budget for each program. In addition, this information is important so that industry fees can be set at appropriate amounts. Furthermore, management needs to know which programs are self-supporting and which programs are subsidized by General Fund appropriations or fees from other programs. The Department can improve its cost information by fully utilizing the capabilities of the state's accounting system.*

### ***The following are selected findings from our report.***

- During our audit, we noted 10 positions that were not in proper alignment. We estimate about \$552,000 in annual personnel costs were not aligned with the appropriate

funding source. These alignment issues involved employees that provided services for programs different from where their payroll costs were recorded. For example, the Nursery Program Manager's position is funded by General Fund dollars in Budget Account 4540. However, all other Nursery Program revenue and expenditures are recorded to Budget Account 4545, a non-General Fund supported account. Because of this misalignment, we estimate the General Fund subsidizes the Nursery Program by \$77,740.

- The state's revenue shortfalls have forced the Department to make difficult decisions regarding the minimum staffing levels necessary to keep its programs functioning. Since 2009, the number of full-time-equivalent positions (FTE's) has decreased by 29%. To continue its programs and statutory mandates, the Department redistributed many duties of the vacant and eliminated positions to remaining personnel. In some instances, the redistribution of duties resulted in the misalignment of personnel costs. In other instances, duties once funded by the General Fund are now funded by program fees and federal funds. Our review of 15 eliminated positions identified 5 positions where the duties once funded by the General Fund were redistributed to positions funded fully or partially by program fees or federal funds.
- The Department collects fees for registering and permitting fertilizer and antifreeze, but it has not performed required inspections of these products for several years. The inspections are intended to verify the quality of the product advertised and to ensure the product is safe for public use. During

fiscal years 2008 and 2009, these fees totaled about \$442,000. Because the revenues were not aligned with intended program expenditures, the fees contributed to a reserve balance of \$1.48 million in the account where the fees were recorded. Of this amount, the Legislature established a reserve for the transfer of \$800,000 to the General Fund to help address the state's revenue shortfalls.

- The Department did not maintain accurate financial information on the results of its programs. For example, the Department did not adequately track the financial operations of its Nursery Program and the Pest Control Operator Program. Because of concerns by the Legislature, the Department is required to submit quarterly reports to the Interim Finance Committee (IFC) identifying the reserve level for each program and the corresponding revenue and expenditure activity. Our analysis of the revenues and expenditures for these programs found the reports submitted to the IFC were not accurate. We estimate the Department overstated reserves for the Nursery Program and the Pest Control Operator Program by \$63,589 and \$34,895, respectively, through the quarter ended March 31, 2010.
- Although the Department's Grade and Certification Budget Account (BA 4541) indicates its programs are self-supporting, we found the General Fund subsidizes these programs. For 35% of the inspections we tested, the employees that performed the inspections were funded by the General Fund in another budget account. Because personnel costs are not always charged to Budget Account 4541, this account's reserve balance

had grown to \$78,130 at the end of fiscal year 2009.

- The Department does not effectively use the state's accounting system to track program costs. The state's accounting and payroll systems have been designed to enable agencies to track detailed cost information; however, the Department has not consistently used these systems' capabilities. As a result, accurate information is not readily available for monitoring, reporting, and decision-making. The Department can improve its cost information by 1) aligning personnel costs with the proper budget account, 2) using unique job codes for each program, and 3) recording payroll expense to specific programs.

## **DEPARTMENT OF BUSINESS AND INDUSTRY**

### **FINANCIAL INSTITUTIONS DIVISION**

*The Division did not always perform timely examinations of non-depository licensees. Non-depository licensees include collection agencies and companies that provide services such as check cashing, high-interest and title loans. These licensees often deal with individuals with a financial hardship. Therefore, examinations are important to ensure consumers are protected against unethical business practices, and violations are promptly detected and corrected. During our audit, the Interim Finance Committee approved the Division's request for additional staff to help ensure examinations are performed when required.*

*The Division can improve controls over its financial and administrative activities, including revenues, travel*

*expenditures, equipment inventory records, and personnel requirements. For example, controls were not in place to ensure revenues were adequately safeguarded and staff deposited payments timely. In addition, travel costs were higher than necessary, and travel reimbursements were not always accurate. Furthermore, staff did not maintain accurate property and equipment inventory records. Finally, the Division did not always comply with state personnel requirements. During our audit, management took action to start addressing control weaknesses as they were identified.*

### ***The following are selected findings from our report.***

- Required examinations were not always performed timely. Of 50 non-depository licensees tested, 24 (48%) did not receive a timely examination during 2008. In addition, the Division did not consistently use a risk-based approach for scheduling examinations to ensure higher-risk licensees were examined before lower-risk licensees. When examinations are not performed timely, consumers are not adequately protected against unethical business practices, and compliance violations may not be detected and corrected in a timely manner.
- The Division did not follow its records retention schedule for maintaining licensee files for 6 years. Instead, examination working papers, including correspondence with the licensee, were retained for about 1 to 2 years, until the licensee's next examination was completed. Licensee files are official state records and should be retained to support work performed and any future actions needed.

- Better controls are needed over the Division's revenues. Control weaknesses included: (1) payments not adequately safeguarded, (2) payments not always deposited timely, (3) collections not compared to deposits, (4) payments returned to licensees without adequate approval, and (5) accounts receivable not reported when required. Controls are important because the Division collected and deposited about \$3.9 million during 2008. Without proper safeguards in place, there is an increased risk that theft or loss could occur and go undetected.
- Division staff did not use the least expensive method of travel when conducting state business. Our review of employee travel claims revealed examiners traveling over 50 miles one-way use their personal vehicles instead of using a state motor pool vehicle and car pooling. For instance, three examiners traveled to Elko for one bank examination and drove separately costing a total of \$1,113 for 1 week. If a motor pool vehicle was used, we estimate the Division would have saved \$876.
- The Division does not have adequate policies for claiming mileage when examiners travel from home to a licensee's place of business. Currently, the Division allows employees to claim all mileage when traveling from home to a licensee's business, even when the mileage driven is less than the employee's normal commute. For example, one monthly travel claim we tested included the reimbursement of \$280 for mileage less than the normal commute. This amount could be disallowed in the future depending on policies adopted by the Division.
- Accurate property and equipment records were not maintained. Of 25 assets tested, we identified 9 discrepancies. Some equipment could not be located, certain disposed items were not removed from the agency's inventory report, and some equipment was on hand but not listed on the inventory report. Accurate property records are important to maintain accountability and enhance loss prevention. These problems occurred because the Division lacks written policies and procedures for controlling equipment.
- The Division does not have adequate policies and procedures in place to ensure state personnel requirements are consistently followed. Work performance standards were not always communicated in writing, and performance evaluations were not always completed. Without work performance standards and evaluations, communications between management and staff may not be as effective, and the Division may not have recourse if the employee falls below standard. Furthermore, employees did not have signed agreements to accrue compensatory time.
- Adequate policies and procedures are lacking to guide the Division's financial and administrative activities. The lack of procedures contributed to numerous control weaknesses identified in this report. Without complete policies and procedures, problems could reoccur if there is personnel turnover in key positions.

## REAL ESTATE DIVISION

*The Real Estate Division continues to have difficulty controlling certain financial and administrative activities. Although policies and procedures were developed to address weaknesses reported in our prior audits, the Division has been unable to sustain the implementation of controls related to accounts receivable and revenues. Specifically, the Division did not actively pursue the collection of fines, accounts receivable records were not adequate, and receivables were not properly reported to the State Controller. In addition, the Division continues to have problems depositing payments timely and verifying payments were deposited. Also, investigations of appraiser and real estate complaints were not completed timely. Finally, better controls are needed to ensure information technology vulnerabilities are reduced, and certain administrative activities are performed when required.*

### ***The following are selected findings from our report.***

- The collection of disciplinary fines was not actively pursued by the commissions and Division staff. Of 19 large fines totaling \$808,620, the Division collected only \$40,600 (5%) on 2 fines. The commissions gave violators long periods of time before their fines were due. In addition, Division staff did not send past due collection letters for more than 9 months, on average, after violators failed to pay. The total elapsed time from the commissions' hearing to the date collection letters were sent averaged more than 1.5 years for the fines we tested. Furthermore, staff did not submit delinquent fines to the State Controller for outside collections. Similar problems regarding

collection activities were reported in our 2000 audit of the Division.

- The Division did not maintain adequate accounts receivable information that meets requirements established by the State Controller. Although staff recorded fines receivable information in two separate databases, neither database could provide required information such as individual account balances, the age of accounts, or the total receivables due. Our prior 2000 audit report cited similar problems with incomplete and inaccurate accounts receivable information.
- The Division did not properly report accounts receivable to the State Controller or consider delinquent accounts for bad debt write off. For example, the Division incorrectly included about \$2 million in its June 30, 2008, accounts receivable report. It also failed to notify the State Controller of about \$2.6 million in receivables for the quarter ended December 31, 2008. In addition, old accounts totaling over \$1.6 million were included in the Division's active accounts receivable listing. When receivables are not correctly reported and uncollectible accounts are not written off, accurate information is not available regarding debts owed to the State.
- Adequate controls have not been established over payments received. Control weaknesses include not depositing payments timely, and not verifying payments were properly deposited. For instance, 124 of 306 (41%) payments tested were not deposited timely. This includes 23 payments held more than 30 days. NRS requires agencies deposit

revenues by Thursday of each week for all money received during the previous week. Our prior 2000 audit noted similar problems with untimely deposits.

- The Division did not investigate appraiser complaints timely. Of 24 appraiser complaints tested, 10 cases remained open an average of 552 days as of May 2009. In addition, the Division took an average of 580 days to resolve and close 14 cases. Some of the complaint cases involved serious allegations of inflated appraisals that overvalued residential properties. The likelihood of foreclosure increases when a home is overvalued and the house is worth less than the loan. Complaints were not resolved timely because the Division had difficulty managing available resources for appraiser complaint investigations. These resources include three staff and outside contractors who perform appraisal case review services.
- Real estate complaints were not always processed timely, especially when disciplinary action was required. Of 25 real estate complaints tested, 9 cases remained open, on average, for more than 1 year as of May 2009. Although staff completed most investigations timely, better monitoring is needed to identify cases that remain unresolved for excessive periods of time.
- The Division collects and stores licensee social security numbers. According to management, the Division stores about 135,000 licensee social security numbers unencrypted in the database which is accessible to all employees.

Collecting and storing unencrypted social security numbers increases the risk of identity theft. When agencies maintain this sensitive data, state IT security standards require they control access by the use of encryption software or other methods.

- The Division did not comply with state IT security controls to ensure various network security features were maintained. Control weaknesses included computers not updated for current virus definitions, missing critical software security patches, allowing weak computer passwords, and not conducting criminal background checks on employees with access to sensitive information.
- The Division's property and equipment records were not accurate. For instance, computer equipment, missing since 2002, was not removed from the inventory records until we started our audit. Overall, 17 of 48 assets tested had recordkeeping discrepancies. These problems occurred because the Division did not conduct annual physical inventories of property and equipment as required by its internal control procedures and state law.
- The Division did not complete timely employee performance evaluations for 6 of 10 employees tested. Two of the employees did not receive any performance evaluations when required, and four received untimely performance evaluations. This included three evaluations that occurred after we started our audit. The untimely evaluations ranged between 16 months to 6.5 years late. Without

evaluations, deficiencies in performance may not be corrected timely.

## **DEPARTMENT OF HEALTH AND HUMAN SERVICES**

### **HEALTH DIVISION** **INSPECTION PROGRAMS**

*The Health Division has not inspected facilities in accordance with requirements established in laws, regulations, and other guidelines. For example, 38% of food establishments we tested were not inspected in fiscal year 2008 as required by statute. We also found 56% of health care facilities tested were not inspected timely. In addition, the Division did not always follow up timely to ensure violations found during inspections were corrected. These problems were caused by the Division's lack of controls, including systems to track inspections and violations, management information to assist managers in supervising inspection activities, and written policies and procedures to guide staff. Additionally, difficulties in filling vacant positions contributed to problems with timely inspections.*

*The Division needs to improve the reliability of its performance measures related to inspections. Specifically, the actual results for several measures in the latest Executive Budget were not reliable because the agency could not provide documentation supporting reported numbers. In addition, the numbers reported in the Budget were different than those later provided to us. Finally, some performance measures should be revised to provide more meaningful information for management and other decision-makers for evaluating the effectiveness of the Division's inspection activities.*

### ***The following are selected findings from our report.***

- The Division's Environmental Health Services (EHS) did not inspect all food establishments annually as required by statute. We reviewed 100 food establishment permit files to determine if inspections were performed annually. Based on our review of agency files, 40% of all required inspections were not done during fiscal years 2006, 2007, and 2008. In some cases, food establishments were not inspected for several years.
- EHS did not inspect all school kitchens at least twice each school year (once each semester) as required. We selected a sample of 75 school kitchens and found 32% of all required inspections were not done during fiscal years 2006, 2007, and 2008. Furthermore, 57 of 75 (76%) school inspection files reviewed were missing at least one inspection, and 37 of 75 (49%) files were missing at least two inspections consecutively. In these cases school kitchens were not inspected for more than a year.
- The Division's Licensure and Certification Program (LCP) did not inspect health care facilities timely. We randomly selected 100 health care facilities and found that 56% of required inspections were not done timely. Our sample included 41 facilities subject to a 3-year inspection frequency. For these 41 facilities, we found 37 of 59 (63%) inspections reviewed were not done timely. On average, these 37 inspections were done 3.1 years late.
- LCP did not always investigate and resolve complaints timely. We

found 13 of 35 (37%) complaints reviewed from fiscal year 2008 were not investigated timely (although all seven immediate jeopardy complaints were investigated timely). In addition, after completing the investigation, LCP did not timely provide the facility with the results found during the investigation in 26 of 35 (74%) complaints reviewed. Therefore, it may have taken longer than necessary to correct violations found during complaint investigations.

- Although the Division's Radiological Health Program (RHP) inspected radioactive material users and mammography equipment timely, x-ray machines were not always inspected timely. We randomly selected 50 x-ray machines for review and found 32 (64%) were not inspected timely. These included 18 machines where the initial inspection was not timely and 14 where the periodic inspection was not timely.
- The Division did not always follow up timely to ensure violations found during food establishment inspections were corrected. In many cases a follow-up inspection or contact did not occur until the next annual inspection. In other cases it was unclear if violations were corrected. From our sample of 100 food establishments tested for inspection timeliness, we identified 31 inspections with critical violations per EHS guidelines. Twenty-five of 31 (81%) inspections lacked documentation showing EHS staff followed up with the food establishment timely to ensure violations were corrected. Therefore, violations found during

these inspections may not have been corrected.

- Violations found during health care facility inspections were not always followed up on timely. In some cases violations were not followed up on for several months. In other cases staff could not provide documentation showing that violations had been corrected. From our sample of 100 health care facilities discussed previously, we identified 25 with violations. Twenty of 25 lacked documentation showing violations found during inspections in 2008 were corrected timely. Inadequate follow up has been an ongoing problem over several years.
- Several performance measure results reported for fiscal year 2008 were incomplete. Results were incomplete in some cases because partial year rather than year-end numbers were reported. In other cases results could not be verified because supporting documentation was not maintained. Therefore, decisions affecting division programs could be made based on incomplete and unreliable information.
- The Division can make further improvements to performance measures for its inspection programs. Currently, most performance measures track the number of inspections done, rather than the percentage of required inspections completed. Tracking the percent of required inspections done would better measure program effectiveness. Additionally, division inspection programs would benefit by tracking whether violations found

during inspections were corrected timely.

### **OFFICE OF STATE PUBLIC DEFENDER**

*The Office of State Public Defender substantially complied with state laws, regulations, policies, and procedures significant to its reporting, administrative, and financial practices. However, improvements are needed in some areas. OSPD should develop controls over the preparation and submission of annual reports to ensure all reports are issued in accordance with requirements, include accurate, complete and reliable data, and are error free. In addition, certain trial expenditures should be processed directly by OSPD and not participating counties. Furthermore, improved controls will help ensure OSPD's sensitive data and data systems are properly protected and OSPD complies with laws and regulations regarding personnel and property and equipment.*

#### ***The following are selected findings from our report.***

- OSPD is required by statute to submit three reports at various intervals; however, OSPD did not prepare and submit some reports. Biennial reports disclosing the total proposed budget and projected cases for each participating county for the upcoming biennium were not prepared. In addition, the report submitted to the Legislative Commission was the same report submitted to the Governor and participating counties even though it was not prepared under the correct time frame and did not contain all information required by legislative regulation.

- Underlying data used to compile required reports was not accurate, complete, or reliable. Our analysis of staff hours found all hours were not accounted for and hours were charged to the wrong entity. In addition, case logs, used to compile reports did not always agree to supporting files or to amounts stated on reports. Furthermore, errors were made during report preparation because the process is cumbersome and not adequately reviewed. Without accurate, complete, and reliable data, annual reports will not correctly reflect OSPD operations and calculations used to determine each county's proportional share of costs will be incorrect.
- Expenditures, such as investigative costs, expert witness fees, and independent lab costs, were not recorded in OSPD's budget. We identified approximately \$86,000 of expenditures in fiscal year 2008 which were not reflected in OSPD's budget. These expenditures were paid directly from the treasuries of participating counties or from the Reserve for Statutory Contingency Account. By not processing trial expenditures through OSPD's budget, a complete accounting of costs needed to adequately defend indigent citizens is not available to government officials and the general public.
- OSPD has not developed internal procedures to ensure state information technology standards are met. Network maintenance necessary to protect against outside threats has not been updated and steps have not been taken to protect sensitive information. Furthermore, adequate plans for the recovery of

information and the ability to support critical business functions after a system failure or disaster have not been developed.

- OSPD did not comply with performance evaluation and work performance standard requirements. All four classified employees did not receive evaluations or have work performance standards as required by statute.
- Controls over certain financial activities can be strengthened. Specifically, the cash receipting function and the property and equipment function should be adequately segregated. In addition, OSPD lacks controls necessary to ensure appropriate records of asset disposals are created. Good control systems provide reasonable assurance that an agency's objectives are achieved by ensuring the efficiency and effectiveness of operations, reliability of financial information, and compliance with laws and regulations.

## **DEPARTMENT OF PERSONNEL**

### **STATEWIDE PAYROLL SYSTEM**

*Overall, internal controls associated with the statewide payroll system are sufficient to provide reasonable assurance that payroll transactions are correct, properly authorized, and supported. However, we did note areas where improvements are needed.*

*Specifically, certain payroll transactions were not always correct or properly documented, and overtime and annual leave were not always approved in advance. In addition, agreements required to work variable work schedules were not*

*always on file, and many employees who prepare payroll and records forms did not receive required certification training in a timely manner, or at all. As a result, there is an increased risk of incorrect or improper payments. Finally, Department employees and independent contractors in sensitive information technology positions did not always receive required background investigations and security awareness training. This could result in increased risk of inappropriate access to sensitive data.*

### ***The following are selected findings from our report.***

- Employees were not always paid correctly and timesheets were not always prepared properly. Nine of 80 payroll payments tested contained minor errors, consisting of both overpayments and underpayments. These included incorrect reporting of pay transactions, payment at incorrect rates, and errors in applying shift differential and overtime. Five of the errors were identified and corrected by Payroll staff while four were not corrected. Also, two timesheets had insufficient information for us to determine if the payments were correct. The Department uses various training, policies and procedures, and regulations to ensure proper controls are in place. However, these controls did not always work. As a result, some employees were incorrectly paid. Also, Payroll staff had to spend additional time researching and correcting errors.
- Twenty-three of 80 (29%) timesheets lacked evidence of advance approval of overtime and annual leave. In some cases, the overtime and leave requests were missing and in others, supervisors did not approve them

timely. Advance approval of overtime and leave is required by law and regulation. Without advance approval, management risks losing a certain degree of control over operations, overtime usage, and staffing needs of the agency.

- Nine of 49 (18%) employees tested, who worked variable schedules, did not have required variable workday agreements on file. Without signed and approved agreements, it would be difficult to prove that these employees are in compliance with federal labor laws. This increases the risk that an employee could challenge the State for additional overtime compensation.
- Not all employees authorized to sign key Records section and Payroll section forms received the required training and certification to do so. Certification involves attending training classes offered by the Records and Payroll sections of the Department of Personnel. Forty-nine of 64 (77%) employees tested did not have proper certification for preparing Records forms. In addition, 52 of 70 (74%) employees tested did not have proper certification for preparing Payroll forms. State regulations require these state employees to be certified. The certification must be obtained within 6 months of appointment and recertification must be maintained every two years. Without appropriate and timely training there is an increased risk that payroll and personnel actions will not be complete and accurate.
- The Department did not conduct background investigations for 26 of the 32 employees and 4 of 5

contractors who were determined to be in sensitive positions, as required by state information technology standards. Without proper background checks, there is an increased risk that unsuitable individuals could gain access to sensitive information, use it inappropriately, or destroy it.

- We found no evidence that any of the five contractors who had access to the state human resources information systems received security awareness training, as required by state information technology standards. Security awareness training helps ensure that employees and contractors are aware of their responsibilities in protecting the State's information systems and information processed through them.

## **DEPARTMENT OF TAXATION**

### **INSURANCE PREMIUM TAX**

*Current processes and controls utilized by the Department of Taxation for the administration of the insurance premium tax do not ensure taxes are collected accurately, equitably, and in accordance with laws and applicable guidance. Due to insufficient review of returns, more than \$5 million in taxes went uncollected in tax years 2007 to 2009 because errors, inaccuracies, and unsupported deductions were not identified or corrected. Additionally, insurers who elected to pay tax when amounts annuitized deferred taxes on annuities of \$7.5 million for the 2009 reporting year alone, and rarely reported or paid tax on annuitizations for the years we reviewed. Furthermore, tax forms and instructions do not provide enough guidance to insurers for proper and consistent reporting. Finally, changes to certain functions can assist the Department in*

*streamlining administration of the tax. Since the insurance premium tax is the third largest tax collected by the Department, proper administration of the tax and enhanced cooperation with the Division of Insurance is essential to collecting all premium taxes due.*

***The following are selected findings from our report.***

- Insurers did not always report and account for dividends properly. Fifteen of 16 insurers reporting paid-up addition dividends did not pay tax on these amounts even though the Department indicated they should. Had the Department identified these amounts as being misreported, more than \$5 million in taxes could have been collected between 2007 to 2009.
- Deductions for dividends related to untaxed premiums were allowed in 7 of 11 returns and resulted in an \$8,000 reduction in taxes due. Statutes allow for dividend deductions related to taxable premiums; therefore, dividend deductions should be limited to premiums directly subject to taxation. The Department's forms and instructions do not require companies to identify and account for dividends related to untaxed premiums.
- Elections to defer the payment of premium taxes until annuities are applied for purchase (back-end) resulted in tax deferrals of \$7.5 million by 15 of 25 insurers in 2009. Few companies who elect this method pay any tax on annuities even though sizeable deferrals have occurred. These 15 insurers deferred over \$213 million in annuity considerations for the 2009 reporting

year. Perpetual deferrals occur because the Department does not review annuity schedules, identify unreasonable reporters, or inform the Division of Insurance who can elect to perform an audit of the insurer.

- Monitoring annuity elections continues to be problematic as the Department's annuity election log is not sufficient. In response to our prior audit, the Department developed an annuity election log; however, the log was not designed to ensure the proper reporting of elections. Additionally, the log does not necessarily reflect the approved election for each insurer as reported elections were inconsistent with Division of Insurance records in 8 of the 25 returns. Because elections dictate when taxes are due, knowing the approved election is the only way the State can be assured companies are reporting and paying tax on annuities properly.
- Annuity schedules, used to document, identify, and calculate taxable annuities, were often inaccurate. We found 14 of 25 insurers improperly completed the annuity schedule. In addition, we found amounts received and detailed on National Association of Insurance Commissioners (NAIC) reports for deposit type contracts were improperly included on annuity schedules. Seven of 12 insurers reported non-taxable, deposit type contracts on the annuity schedules and 4 paid taxes totaling \$38,000 on these non-taxable products. Ensuring the accuracy of the annuity schedule is essential to ensuring proper administration of the premium tax.

- “Other considerations” were not always reported or taxed consistently in returns because some uncertainty exists whether all, or a portion of these products meet the statutory definition of a taxable consideration. Eight insurers of the 25 reported “other considerations” totaling \$930 million in NAIC reports but did not pay tax on these considerations. Some reported “other considerations” as annuity products and others did not account for them on returns even though amounts were often a significant percentage of total premiums and considerations. Although “other considerations” may not qualify as taxable products, if subject to taxation, as much as \$32 million in additional taxes could be due for tax years 2007 to 2009. As a result, it is important to determine taxability of these products.
- Home office credits were not always confirmed. Our review of the five largest home office credits found the Department does not routinely verify eligibility and not all deductions were calculated properly. The Department does not have adequate review procedures to ascertain the appropriateness and accuracy of the credits taken.
- Current premium tax returns and instructions are complex, insufficient, and contributed to reporting errors noted above. Varied insurance products with separate tax implications, such as annuities, require sufficient, accurate, and detailed guidance to ensure proper and consistent reporting.
- The Department’s computer system allows staff to create fictitious

credits without notice, review or approval. Compensating system controls are needed to ensure data is complete and proper. When individuals have primary access to computer programs and the ability to manually modify data, compensating system controls such as exception reports or supervisory approval are necessary to ensure data is complete and proper.

### **DEPARTMENT OF TRANSPORTATION**

*The Department’s process for awarding design-build projects has improved in the short time the design-build method has been used by the Department. Its awarding of two design-build projects totaling almost \$500 million complied with most state laws and prudent contracting practices. However, further improvements are needed. Specifically, for the first project, the Department did not follow evaluation methods established in the Request for Final Proposals. On the second project, we found the Department did not score proposal cost in a manner consistent with statutory provisions. The Department, based on its legal interpretation, believed its scoring of proposal costs was appropriate at the time. The scoring problem did not affect the outcome of who was awarded the contract. Nevertheless, correcting these problems will help improve transparency and provide additional assurance that contracts are awarded to the proposer offering the best value. Furthermore, complete and timely information about the evaluation of design-build project proposals was not always provided to the Department’s Board for its approval. Providing this information will enhance the Board’s ability to make critical decisions about the awarding of these projects.*

*Performance measure results and benefit-cost analyses were not always reliable or consistently provided to the Department's Board and the Legislature. As a result of Assembly Bill 595 (A.B. 595) in the 2007 Session, the Department is required to provide performance measurement and benefit-cost information to these oversight bodies. Information that is not reliable or timely can impact decisions made by the Department's management, its Board, and the Legislature. Although the Department needs to improve controls over the reliability and timeliness of the information, the extent of information provided by the Department to the Board and Legislature is an improvement over what was available prior to A.B. 595.*

*The Department did not always follow best practices when preparing specifications for equipment purchases. As a result, the Department used specifications for light and heavy equipment that unnecessarily limited competition. For the approximately \$5.6 million in equipment purchases tested, we found equipment specifications included overly restrictive requirements that in many cases targeted specific manufacturers' models or specified brand names. Overly restrictive specifications limit competition, waste bidders' and state employees' time, and often increase the price of equipment purchases. In contrast, we identified examples where other local, state, and federal entities prepare broader specifications that do not include restrictive specifications or use brand names. Department management has made efforts to improve the specifications used for light and heavy equipment purchases, but they recognize the need to take additional action.*

***The following are selected findings from our report.***

- For the first design-build project performed by the Department (I-15 North), the Department did not evaluate proposals in accordance with the methods established in the Request for Final Proposals (RFFP). For example, the RFFP indicated the technical factors combined would have equal importance to the cost factor (50% for technical factors, 50% for cost). The Department never applied these relative weights to the technical factors or the cost factor. The RFFP includes the factors and relative weights that will be used in evaluating proposals to determine which one offers the best value. Best practices require proposals to be evaluated according to the methods established in the RFFP. This helps provide transparency in the award process to assure contractors, oversight bodies, and taxpayers that the Department is spending its limited funds appropriately. The amount awarded for this project was about \$242.3 million.
- The Department did not score cost proposals for the second design-build project (I-15 South) in a manner consistent with statutory provisions. Specifically, the costs of the proposals were given a relative weight of 10%, which is less than the 30% minimum required by NRS 408.3886. The Department, based on its legal interpretation, believed its scoring of proposal costs was appropriate at the time. The amount awarded for this project was about \$246.5 million. The scoring problem did not affect the outcome of who was awarded the contract since the

proposal with the highest ratings for technical factors also had the lowest proposed cost. However, the awarding of future projects could be affected if this problem is not addressed.

- The Department should provide its Board with additional information about its evaluations of design-build project proposals. For the I-15 North design-build project, the Department did not present its proposal evaluations to the Board for its approval of which proposal should be awarded the project. For the I-15 South design-build project, the Department provided some general information about its proposal evaluations at a Board meeting in August 2009. However, at that meeting, the Department did not present detailed information about its proposal evaluations, including proposal ratings or cost information. Additional information was later provided to the Board about proposal ratings and costs.
- Key performance measures reported by the Department to its Board and the Interim Finance Committee were often not reliable. Our testing found that four of the five measures tested were not reliable. The measures tested had one or more of the following problems: lacked supporting documentation, based on inappropriate methodologies, or included incomplete information. For example, the Department did not have documentation for the measure reporting the percentage of miles traveled on congested highways. In addition, the description for three measures did not reflect what was reported.

- The Department has not consistently implemented statutory provisions to perform benefit-cost analyses on highway projects and make the analyses available to its Board and the public. Specifically, the Department has not always performed the analyses and has not consistently presented the analyses to the Board at its public meetings. In addition, when analyses were performed, they did not include the future costs to preserve and maintain the highways as required by NRS 408.3195. Benefit-cost analyses are important tools that assist the Department and the Board in making decisions on how to spend their limited resources to maximize the benefits to the public.
- Restrictive specifications were often used by the Department to procure equipment used in its operations. Specifically, 11 of the 13 invitation for bids (IFBs) tested had only one bid that met all specifications, or no bids that met all specifications. Accepting a bid when no bid met the specifications shows they were more restrictive than the Department's actual needs. In addition, specifications appeared to be written in some cases to target specific manufacturers' models and always included brand names. Overly restrictive specifications limit competition, waste bidders' and state employees' time, and often increase the price of equipment purchases.

## **BOARD OF PAROLE COMMISSIONERS**

*The Board of Parole Commissioners conducted parole hearings in fiscal year 2010 in accordance with state laws, regulations, policies, and procedures.*

*However, we noted a problem with parole eligibility dates that is not within the Board's control. This problem can impact the Board's ability to achieve its mission to conduct prompt hearings on parole applications and take appropriate action.*

*Specifically, parole eligibility dates provided by the Nevada Department of Corrections (NDOC) to the Board were incorrect for some inmates. The errors occurred when NDOC's computer system was not correctly modified to reflect changes to state laws in 2007 related to when inmates become eligible for discretionary parole hearings. This led to delays for some inmates' discretionary parole hearings. As a result, certain inmates granted parole based on incorrect eligibility dates were released from prison later than their actual parole eligibility dates. Delaying the release of inmates has a fiscal impact on the State. In October 2010, NDOC indicated it corrected the problems with eligibility dates in its computer system. To reduce the risk of future problems, the Board needs to work with NDOC to develop a process to help ensure future statutory changes affecting parole eligibility are properly implemented.*

***The following are selected findings from our report.***

- The Board of Parole Commissioners conducted parole hearings in fiscal year 2010 in accordance with state laws, regulations, policies, and procedures. The Board notified victims and law enforcement agencies of inmates scheduled for hearings, conducted hearings timely upon notice from NDOC that inmates were eligible for parole consideration, assessed inmates' parole risk, made hearing decisions in accordance with established guidelines, ensured sex offenders

were cleared by a psychiatric panel before being released, and notified victims of hearing decisions.

- Parole eligibility dates provided by NDOC to the Board were incorrect for some inmates. For these inmates, their discretionary parole hearings were delayed. As a result, parole release was delayed for inmates affected by this error that were granted parole. Based on information provided by NDOC, the average delay was 24 days. Delaying the release of inmates has a fiscal impact on the State. Determining the fiscal impact depends on the assumptions made about which costs could have been reduced if the inmates' releases were more timely. According to NDOC, the average cost of housing an inmate in fiscal year 2010 was \$58.58 a day. However, NDOC indicated the estimated incremental cost of delaying an inmate's release was \$6.64 a day, which consists of food and medical costs. Using this amount, expenditures of about \$71,000 could have been avoided if the errors with parole eligibility dates had not occurred.

## **PEACE OFFICERS' STANDARDS AND TRAINING COMMISSION**

*POST generally complied with state laws, regulations, policies and procedures significant to its financial administration. However, additional controls are needed to help ensure expenditures are recorded to the correct fiscal year, contracts are properly executed, employee evaluations are conducted, and payroll reporting requirements are complied with. In addition, POST had not developed sufficient controls to protect its sensitive information and information systems. These weaknesses*

*included putting information system resources at risk and not implementing the state's information technology security standards. Implementing these controls will help safeguard the state's assets.*

***The following are selected findings from our report.***

- Travel expenditures were not always recorded to the correct fiscal year. Specifically, out-of-state travel expenditures to attend a conference during fiscal year 2009 were improperly charged to fiscal year 2008. If these expenditures had been properly recorded, POST would have reverted \$1,760 more to the General Fund in fiscal year 2008 and would have had to increase its out-of-state travel authority in fiscal year 2009.
- POST paid a software vendor a total of \$7,400 for two onsite software training sessions which included the instructor's related travel costs. However, written contracts were not established and thus not approved by the Clerk of the Board of Examiners as required by state law. We also noted written contracts were not prepared for services that were exempt from Board of Examiner approval. When contracts are not properly executed there is limited assurance the amounts paid are appropriate.
- POST charges law enforcement agencies a registration fee for each cadet attending its basic academy training. In fiscal year 2008, POST collected about \$25,000 for these fees. However, interlocal contracts establishing the scope of services provided and an agreed upon fee had not been developed. The lack of interlocal contracts increases the risk

that agencies could challenge the fees charged.

- POST did not complete probationary evaluations as required by state law for four of its five probationary employees during fiscal year 2008. When evaluations are not performed timely, deficiencies in performance may not be corrected timely. For one of the employees, work performance standards had not been developed, thus making it difficult to evaluate the employee's performance.
- Employees that accrued compensatory time during fiscal year 2008 had not signed an agreement allowing them to do so as required by NAC 284.250. As of June 30, 2008, POST's total liability for compensatory time was approximately \$3,700. When an agreement is established, employees may receive compensatory time rather than overtime pay.
- POST had not established procedures to ensure employee timesheets were accurate. Two of the 24 timesheets we reviewed had notations indicating the hours worked did not agree with the hours recorded. Despite these variances, the timesheets were approved by the employees' supervisors. By not properly reviewing employees' timesheets, there is an increased risk of payroll errors occurring and not being detected.
- Backup disks of POST's database containing the State's repository of peace officers' training data were not stored off-site as required by the state's information technology (IT) security standards. As a result, there is an increased risk that irreplaceable

data could be lost in the event of a fire or another catastrophe.

- We identified a wireless networking access point in operation in one of POST's classrooms. This wireless access point (WAP) did not have any security features enabled nor was it encrypted. As a result, there is an increased risk anyone with a laptop computer could use this WAP to connect to POST's wired network and gain unauthorized access to POST's confidential data or the State's Wide Area Network.
- POST had not implemented the state's information technology security standards. Specifically, POST had not conducted IT security training for existing staff or new hires and employees had not signed security awareness statements. If properly implemented, these policies and procedures can help reduce the risk that could come from unauthorized access or disruption of services.

## **PUBLIC UTILITIES COMMISSION**

*The Public Utilities Commission substantially complied with state laws, regulations, policies, and procedures significant to its financial, administrative, and information technology activities. However, better monitoring and updating of internal controls is necessary. Improved controls are needed over receivables to ensure unpaid accounts are actively pursued and properly reported. In addition, timely action needs to be taken on delinquent assessment and fee reports. Better financial and administrative controls are also needed to ensure revenue received in Las Vegas is properly safeguarded, out-of-state travel is accurately billed, and certain expenditures and assets are sufficiently reviewed.*

*Furthermore, information technology control weaknesses existed in password controls and training designed to protect Commission data.*

### ***The following are selected findings from our report.***

- The collection of administrative fines was not actively pursued by Commission staff. During fiscal year 2009, 27 fines totaling \$28,000 were assessed. Three months after the fiscal year, 24 fines totaling \$24,000 remained outstanding. Timely and sufficient collection efforts are needed to remind companies of their obligations and consequences for nonpayment.
- The Commission did not properly report fine receivables to the State Controller as statutorily required. As of June 30, 2009, Commission records indicate it had \$24,500 in outstanding fines. A majority of Commission receivables are from assessed fines, which are included in the state's definition of an accounts receivable.
- Enforcement actions were not timely on delinquent assessment and fee reports. Our analysis of delinquent reports revealed none of the ten reports we tested were pursued in a timely manner. They were pursued 2 to 13 months after the due date. These reports show how companies calculated fees due to the Office of Consumer Protection and the Office of Disability Services. The Commission should actively pursue delinquent assessment and fee reports to increase collections and ensure statutory compliance with established deadlines.

- Controls over certain financial activities can be strengthened. Specifically, additional controls are needed over revenue received in Las Vegas. Improved controls are also necessary to ensure the accuracy of travel billings. In addition, better monitoring is needed over certain expenditure transactions to ensure cell phone use and employee travel is adequately reviewed. Further, improvements are needed over the tracking of agency owned vehicles. Good control systems provide reasonable assurance that an agency's objectives are achieved by ensuring the efficiency and effectiveness of operations, reliability of financial information, and compliance with laws and regulations.
- Controls over the Commission's information systems also need improvement. The Commission did not ensure strong computer password controls were in place. The system permitted passwords to be set at a minimum of seven characters and to never force a change. State security standards require that passwords be a minimum of eight characters and be changed at least every 90 days. Shorter passwords and never requiring passwords to be changed creates a greater risk of unauthorized access to the Commission's network and data.
- Management indicated the Commission does not conduct periodic security awareness training or require employees to sign security awareness statements. State standards require each agency conduct ongoing security awareness training. The intent of this training is to ensure that all employees,

consultants, and contractors are aware of their responsibilities in protecting the state's information systems and data processed through them.

## **Information Technology Security Audits**

### **DEPARTMENT OF BUSINESS AND INDUSTRY**

*Weaknesses existed in controls designed to protect the confidentiality, integrity, and availability of the Department's sensitive information and information systems. These weaknesses included computers storing unencrypted sensitive personal identifying information. In addition, computers did not have adequate virus protection and lacked current critical software updates. Furthermore, former employees had current network access and background investigations were not conducted on staff with the greatest access to confidential information.*

*Other security-related controls need improvement. For example, ongoing security awareness training was not conducted to maintain staff awareness of information security risks. In addition, some servers were not properly protected, a wireless network was not adequately secured, and web servers had vulnerabilities.*

#### ***The following are selected findings from our report.***

- Confidential personal information was stored unencrypted on Department computers. Six Department divisions had application databases containing substantial amounts of unencrypted personal information such as social security

numbers. In addition, we identified 23 other computers storing unencrypted personal information. This included 7 servers and 16 individual desktop computers that contained this personal information. If this information is inadvertently accessed or released, the Department would be required to contact all of the affected persons.

- Virus protection software was not current or not installed on some Department computers. Of the 161 individual desktop computers sampled, we found 24 computers or 15% of our sample that lacked adequate antivirus protection. We also found additional computers without virus protection during other audit tests. In all, we found 29 computers without adequate virus protection. Virus definition ages averaged over 206 days old on these computers. State security standards require that all computers have antivirus software installed and current virus definition files. Without current virus protection, there is increased risk that computers will become infected.
- Seven computers were missing critical software security patches. This included four desktop computers and three servers. One computer had not been updated for 438 days. If critical software security updates are not installed, there is increased risk that computers will be vulnerable to various hacker attacks and exploits.
- Five former employees' network access had not been disabled in a timely manner. The duration these five accounts remained enabled after the employee had left the agency

ranged from 102 days to 7.5 years. State security standards require the prompt removal of users who are no longer in the Department's service in order to reduce the risk of someone gaining unauthorized access to the state's network and data.

- Background investigations are not conducted throughout the Department. State security standards require that state employees in positions identified as sensitive have background investigations conducted. Without conducting background investigations on staff with the greatest access to sensitive information and systems, the risk increases that a person with an unsuitable background could be hired or granted access to these systems.
- Ongoing security awareness training was not being conducted throughout the Department. The intent of this training is to ensure that all new and existing employees, consultants, and contractors are aware of their responsibilities in protecting the state's information systems and information processed through them. Without annual information security refresher training, there is greater risk that employees will not adequately protect state information systems and data.
- Six of the 26 (23%) network servers or server rooms were not adequately protected. This included unrestricted access to equipment and one room with a leaky roof. Unrestricted physical access to network servers increases the risk of accidental damage and theft or vandalism. Such problems could also result in

the release of confidential data or the loss of use of the computer network.

- One division had an improperly secured wireless access point. The wireless access point could allow access to the state's network. Improperly secured wireless network configurations represent "backdoors" into an otherwise secure computer network. These backdoors can allow unauthorized access to state information technology resources and confidential data.
- We identified three web servers whose configurations could be made more secure. Scans of these web servers revealed several vulnerabilities in their configurations. These vulnerabilities could allow hackers to modify the web servers and cause them to malfunction. Staff indicated they had not previously conducted vulnerability scans on these web servers.

### DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

*The Department of Conservation and Natural Resources substantially complied with state information security standards. However, we identified several areas where controls could be improved. For example, sensitive personal identifying information was stored on agency computers and critical network equipment was not always available. In addition, some former employees retained current network access and information technology staff did not always have background investigations.*

*Other routine network maintenance and security controls could also be improved. For example, some virus definitions were not current and some*

*software security updates were not installed. In addition, ongoing information security training was not conducted in some divisions and account lockout settings did not limit unsuccessful login attempts. Finally, backup data was not always stored offsite. We noted that the Department corrected most deficiencies prior to completion of the audit.*

#### ***The following are selected findings from our report.***

- Confidential personal information was stored unencrypted on several Department computers. Two human resources computers and four Forestry conservation camp computers contained hundreds of social security numbers that, if inadvertently released, would require the Department to contact the affected persons.
- The Department's computer network was sometimes unavailable for employee use due to ongoing problems with the Heating, Ventilating, and Air Conditioning (HVAC) system which resulted in the Bryan Building's server rooms overheating. An automated system that alerted on-call Department of Administration, Buildings and Grounds employees to respond to the problem was not configured to send text messages to the correct cell phone addresses. Therefore, the on-call HVAC staff did not receive the alerts.
- Five former employees retained access to the Department's computer network after they had left the service of the Department. These accounts remained enabled from 36 to 423 days after these employees left the Department. State information technology (IT) security

standards require the prompt removal of users who are no longer in the Department's service in order to reduce the risk of someone gaining unauthorized access to the state's network and data.

- The Department did not conduct routine background investigations on six information technology staff with access to sensitive IT systems. Background investigations are required by state information technology standards to ensure that unsuitable individuals do not gain access to confidential information or sensitive systems.
- The Department has adequate procedures for managing virus protection. However, improvements could still be made. Eleven of 760 (1%) computers we sampled did not have current virus protection. The virus definition files on these computers ranged in age from 25 to 619 days old. State IT security standards require that all computers have antivirus software installed and current virus definition files. Without current virus protection, there is increased risk that computers will become infected.
- Five of 83 (6%) computers we sampled, did not have critical software security patches installed. If critical software security updates are not installed, there is increased risk that computers will be vulnerable to various hacker attacks and exploits.
- Three of the Department's eight divisions did not conduct annual security awareness training as required by state information security standards. Without annual information security refresher

training, there is greater risk that employees will not adequately protect state information systems and data.

- The Natural Heritage Program's backup data was not stored in an offsite location but rather on a portable flash memory drive carried by an employee. Without offsite storage there is a greater risk of disruption of public services if an accident or natural disaster destroys the primary data storage devices.
- An Environmental Protection Division network setting allowed unlimited unsuccessful log-in attempts rather than locking the account after three unsuccessful attempts as required by state security standards. By not enabling the account lockout setting, there is increased risk that unauthorized persons could gain access to the state's information systems.

### **DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION**

*Weaknesses existed in controls designed to protect the confidentiality, integrity, and availability of the Department's sensitive information and information systems. These weaknesses included: Information technology (IT) staff having unrestricted access to the State's Unemployment Insurance Trust Fund application and database; insufficient security of sensitive information downloaded onto agency laptop computers; and needing more timely removal of mainframe access of former employees. Security of magnetic tapes containing sensitive information also needs improvement.*

*In addition, routine network maintenance could be improved. For*

*example, virus definitions were not current, the firewall's management needs greater attention, server rooms need better physical security, and wireless laptop security configurations should be strengthened. Finally, more effort needs to be expended to properly screen and manage network users. We noted that the Department's information technology staff either fixed or reduced the risks associated with many of the conditions we identified during the audit.*

***The following are selected findings from our report.***

- DETR's Employment Security Division had access control weaknesses in its Unemployment Insurance (UI) system. Forty-seven information technology staff had either unrestricted or inappropriate user rights to the UI program and its corresponding database. This UI program is used to process unemployment claims and distribute unemployment compensation funds from the state's Unemployment Insurance Trust Fund. Although Department officials have the responsibility to determine who has access, only those users with a business need should be granted authority.
- Thirty-four former DETR employees retained current access to the mainframe computer used to process the unemployment insurance transactions. These employees' access remained enabled more than 100 days after they had left DETR employment. State IT security standards require the prompt removal of users who are no longer in the Department's service in order to reduce the risk of someone gaining unauthorized access to the state's network and data.
- The Department had 16 laptop computers used by DETR field auditors that contained unencrypted records from employer payroll files. State IT security standards require such confidential information be encrypted to prevent unauthorized disclosure if the laptop is lost or stolen.
- Computer tapes containing confidential new hire data were not encrypted while being sent from employers and returned from DETR through the U.S. Postal System. Staff indicated these tapes are not erased after processing. State law requires agencies to implement reasonable security measures to protect the confidential information they collect.
- Twenty-seven former employees, partners, and contractors retained access to DETR's computer network after they had left the service of the Department. State IT security standards require the prompt removal of users who are no longer in the Department's service in order to reduce the risk of someone gaining unauthorized access to the state's network and data.
- The Department does not conduct routine background investigations on staff with access to IT systems or sensitive data. Background investigations are required by state information technology standards to ensure that unsuitable individuals do not gain access to confidential information or sensitive systems.
- Sixteen of 144 computers sampled did not have current antivirus protection. The virus definition files

on these computers ranged in age from 25 to 421 days old. State IT security standards require virus definition files be kept current to ensure that threats from the Internet will not corrupt state computing resources.

- DETR's internal firewall could be improved in both configuration and management. Compliance with best practices such as those issued by the Center for Internet Security will facilitate routine maintenance and administration of the firewall.
- We found 16 of 32 laptops sampled did not have wireless configurations recommended by industry best practices. In addition, none of the laptop users indicated they had received security awareness training related to the risks of using wireless networking. Without secure configuration or risk awareness training, the likelihood of sensitive laptop data being accessed by unauthorized persons is increased.
- Four application developers had direct update access to production data on the Rehabilitation Division's primary application. Access to production data should be restricted to properly segregate incompatible functions. By allowing application developers update access to production data, the risks of accidental or intentional corruption of the corresponding data is increased.
- Network servers at 4 of the 15 locations we examined did not have adequate physical security. These servers were not properly secured in locked rooms. State IT security standards require access to these

servers be restricted to prevent accidental or intentional damage.

- The Department's network group policy settings allowed six unsuccessful log-in attempts before a network account was locked rather than the state standard of three. Locking an account after several unsuccessful login attempts prevents password guessing by unauthorized persons. Password controls represent fundamental security controls that prevent unauthorized access to computer networks.

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## Recommendations to Improve State Government

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Audit reports issued over the biennium contained 219 recommendations to improve the operations of state government. All of those recommendations were accepted by agency officials. Many of the recommendations address ways to eliminate waste, increase collection of revenues, enhance program effectiveness, improve accountability and ensure compliance with state laws and regulations.

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## Follow-Up on Audit Recommendations

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Chapter 419, Statutes of Nevada, 1987 (AB 540), provides for a follow-up process on audit recommendations. Sixty days after an audit report becomes a public document, the agency audited must file a report outlining a plan of action to implement the recommendations. Six months later, a status report must be filed indicating what recommendations in the audit report have been implemented, what recommendations have not been implemented, and the reason why they have not been implemented.

The judicial branch and statewide elected officials file their six-month status reports directly with the Legislative Auditor. The Department of Administration prepares six-month status reports on executive branch agencies and files the reports with the Legislative Auditor. The Legislative Auditor analyzes the reports and submits them to the Audit Subcommittee, Legislative Commission, and the Interim Finance Committee. Some agencies may be requested, based on the status of recommendations, to return to future meetings of the Audit Subcommittee and provide further information regarding recommendations partially or not implemented. This process provides further assurance recommendations made by the Audit Division will be properly implemented.

For the biennium ended December 2010, we received 24 six-month status reports containing 279 recommendations. Our analysis of these status reports and additional information provided to the Audit Subcommittee through the follow-up process indicates that 275 recommendations processed during the biennium were fully implemented. Two of the six-month reports, containing four partially implemented recommendations, remained in the follow-up process at the end of the biennium.

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## Uniform System of Internal Control

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The Department of Administration, in accordance with Chapter 774, Statutes of Nevada, 1987 (SB 341), issued regulations in January 1988 requiring each state agency to develop a uniform system of internal accounting and administrative control. Chapter 774 also provides that we include in our biennial report a list of those agencies audited that have not developed internal control systems. The agencies identified as not having developed appropriate internal accounting and administrative control systems in audits issued between January 1, 2009, and December 31, 2010, are:

PEACE OFFICERS' STANDARDS AND TRAINING COMMISSION  
DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION,  
INFORMATION TECHNOLOGY SECURITY  
DEPARTMENT OF BUSINESS AND INDUSTRY, FINANCIAL  
INSTITUTIONS DIVISION  
DEPARTMENT OF HEALTH AND HUMAN SERVICES, HEALTH DIVISION  
- INSPECTION PROGRAMS  
OFFICE OF STATE PUBLIC DEFENDER  
DEPARTMENT OF BUSINESS AND INDUSTRY, REAL ESTATE DIVISION  
OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY  
PROGRAM  
DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES,  
INFORMATION TECHNOLOGY SECURITY  
DEPARTMENT OF ADMINISTRATION, PURCHASING DIVISION  
ALCOHOLIC BEVERAGE AWARENESS PROGRAM FINES  
(DEPARTMENT OF TAXATION)  
DEPARTMENT OF ADMINISTRATION, MOTOR POOL DIVISION  
PUBLIC UTILITIES COMMISSION  
STATE DEPARTMENT OF AGRICULTURE  
PROGRAMS FOR INNOVATION AND THE PREVENTION OF  
REMEDICATION  
DEPARTMENT OF TAXATION, INSURANCE PREMIUM TAX  
OFFICE OF SECRETARY OF STATE  
DEPARTMENT OF BUSINESS AND INDUSTRY, INFORMATION  
TECHNOLOGY SECURITY  
CONTRACTS WITH CONSULTANTS (A.B. 463) (DEPARTMENT OF  
ADMINISTRATION)

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## Count of Money in State Treasury

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NRS 353.060 requires the Legislative Auditor to count the money in the State Treasury at least annually. During this biennium, we conducted the money count on June 30, 2009, and June 30, 2010. Money count reports are filed with the Secretary of State and presented to the Audit Subcommittee. The following schedule summarizes the money and securities in custody of the State Treasurer as of the close of business, June 30, 2010.

Custodian	On Hand	On Deposit With Financial Institutions (A)	State Owned Securities (B)	Securities Held For Safekeeping
State Treasurer	\$ --	\$ --	\$ 2,227,440,726.98	\$ --
State Treasurer	--	--	--	1,046,168,722.84
Wells Fargo	--	160,254,123.46	--	--
Bank of America	--	221,135,316.79	--	--
Nevada State Bank	--	164,027.85	--	--
JP Morgan Chase	--	19,039,702.76	--	--
Nevada Bank and Trust	--	4,616.83	--	--
	<u>\$ --</u>	<u>\$ 400,597,787.69</u>	<u>\$ 2,227,440,726.98</u>	<u>\$ 1,046,168,722.84</u>

Note: (A) The amounts reported on deposit with financial institutions represent the institution's balance and have not been reduced by outstanding checks or increased by deposits in transit.

(B) Securities are reported at fair market value as determined by the safekeeping entity as of the close of business on June 30. Fair market value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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## Activities That Support and Enhance the Audit Function

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### **P**rofessional Development

We place great importance on retaining and developing qualified staff. The Audit Division encourages and provides the opportunity for all staff members to develop their professional skills to the fullest extent. Government auditing standards require auditors to complete 80 hours of continuing professional education and training every two years. In meeting this requirement, continuing education and training is provided and includes such topics as current developments in audit methodology, governmental accounting, assessment of internal controls, principles of management and supervision, financial management, statistical sampling, performance auditing, program evaluation, and data analysis.

The Audit Division maintains a professional reference library to provide timely professional and technical assistance on accounting, auditing, and program evaluation issues to staff. This also facilitates the development of office policies and procedures relating to professional standards and practices. The ongoing revision of the Audit Division audit manual has resulted in numerous changes to procedures to increase the effectiveness and efficiency of the audit process, while ensuring compliance with applicable professional standards.

As part of professional development, we actively support auditors seeking professional certification and advanced degrees. All of our professional staff are either certified public accountants or have masters degrees.

### **Q**uality Assurance

Every three years the Legislative Auditor contracts with an external organization to perform a quality control review of the Audit Division's operations. The most recent review was completed in August 2009. We are pleased to report the office received an unqualified opinion on the review, (Appendix A) indicating that our system of quality control is appropriately comprehensive and suitably designed to ensure reasonable compliance with professional audit standards.

### **I**nformation Technology

The Audit Division continues to update and expand its computer capabilities to meet the challenges created by information technology. Information Technology is an important part of state operations. Most major functions of government are computerized to some degree. Therefore, Audit Division staff must be knowledgeable about software applications and systems. The Audit Division continually improves on methods used to review computerized operations including personal computers, distributed networks, and mainframe systems.

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## Other Significant Issues

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### Federal Audit Requirements

The Federal Government, in 1979, transferred the responsibility for auditing federal programs to the state level. As a result, the Legislature, in 1981, created the Audit Subcommittee to address this issue. Public Law 98-502, known as the Single Audit Act of 1984, was enacted to strengthen the audit requirement. The Act was subsequently amended in 1996 in an attempt to further streamline the audit process.

The Audit Subcommittee has authorized the Legislative Auditor to contract with public accounting firms to audit these federal programs. The financing of contract audits is provided through the Department of Administration and the Audit Division's budget. During the fiscal year ended June 30, 2009, federal financial assistance expenditures totaled over \$3.8 billion.

### Governmental Accounting Standards Board

The Governmental Accounting Standards Board (GASB) was created in 1984 as a separate, standard-setting body for financial accounting and reporting by state, county, and municipal governmental entities. The GASB promulgates standards which are generally accepted accounting principles applicable to governmental entities. We will request, through the budgetary process, that the Legislature continue to assist in the support of the Governmental Accounting Standards Board.

### School District Reviews

Chapter 482, Statutes of Nevada 2005, provides that to the extent money is made available by the Legislature, every six years each school district undergo a review of its financial management principles unless an exemption is granted by the Legislature. The Legislative Auditor assists the Legislature with selecting school districts for review and also provides the State Board of Education with a list of qualified consultants to perform these reviews. In addition, the Legislative Auditor reviews the final report from each review and the plan for corrective action adopted by the school district. The Legislative Auditor then determines the extent to which the plan has been carried out, and submits a report of this determination to the Legislature.

### Child Welfare Responsibilities

Chapter 70, Statutes of Nevada 2007, requires child welfare agencies to submit case files to the Legislative Auditor of children who suffer a fatality or near fatality if the child had prior contact with the agency. The Legislative Auditor is required to review the information to determine whether the case was handled in a manner consistent with state and federal law and to determine whether any procedures could have assisted in preventing the fatality or near fatality. This statute also requires the Legislative Auditor to provide certain information about the fatality or near fatality to a member of the public upon request.

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## Other Significant Issues

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Chapter 2, Statutes of Nevada 2009, requires the Legislative Auditor to conduct reviews, audits, and unannounced site visits of residential children's facilities. These facilities include both governmental and private facilities which have physical custody of children pursuant to the order of a court. The purpose of the reviews is to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities and whether the facilities respect the civil and other rights of the children in their care.

# APPENDICES

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## Appendix A

# External Quality Control Review

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## National State Auditors Association

August 14, 2009

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

Dear Mr. Townsend:

We have reviewed the system of quality control of the State of Nevada Legislative Counsel Bureau Audit Division (the Office) in effect for the period January 1, 2008 to June 30, 2009. A system of quality control encompasses the Office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the Office. Our responsibility is to express an opinion on the design of the system, and the Office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the Office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the Office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the Office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of State of Nevada Legislative Bureau Audit Division in effect for the period January 1, 2008 to June 30, 2009 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Edward L. Shulder, CPA  
Team Leader  
National State Auditors Association  
External Peer Review Team

Deborah Loveless, CPA, CGFM  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

449 Lewis Hargett Circle, Suite 290, Lexington, Kentucky 40503-3590, Telephone (859) 276-1147, Fax (859) 278-0507  
444 N. Capitol Street, N.W. Suite 234, Washington, DC 20001, Telephone (202) 624-5431, Fax (202) 624-5473  
[www.nasact.org](http://www.nasact.org)

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## Appendix B

### Schedule of Audit Reports Released

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<u>Report Number</u>	<u>Audit</u>
10-01	Peace Officers' Standards and Training Commission
10-02	Department of Employment, Training and Rehabilitation, Information Technology Security
10-03	Programs for Innovation and the Prevention of Remediation
10-04	Department of Business and Industry, Division of Financial Institutions
10-05	Department of Health and Human Services, Health Division - Inspection Programs
10-06	Office of State Public Defender
10-07	Department of Business and Industry, Real Estate Division
10-08	Report on Count of Money in State Treasury - June 30, 2009
10-09	Office of the State Treasurer, Unclaimed Property Program
10-10	Department of Personnel, Statewide Payroll System
10-11	Office of State Controller, Accounts Receivable
10-12	Department of Conservation and Natural Resources, Information Technology Security
10-13	Department of Administration, Purchasing Division
10-14	Alcoholic Beverage Awareness Program Fines
10-15	Review of Governmental & Private Facilities for Children
10-16	Department of Administration, Motor Pool Division
10-17	Public Utilities Commission
10-18	Department of Agriculture
10-19	Department of Transportation
10-20	Programs for Innovation and the Prevention of Remediation
10-21	Board of Parole Commissioners
10-22	Department of Taxation, Insurance Premium Tax
10-23	Office of Secretary of State
10-24	Report on Count of Money in State Treasury - June 30, 2010
10-25	Department of Business and Industry, Information Technology Security
10-26	Review of Governmental and Private Facilities for Children - December 2010
10-27	Contracts With Consultants (A.B. 463)

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## Appendix C

### Statutory Citations – Legislative Auditor

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#### NRS

- 218E.205 Priorities and limitations on studies and investigations.
- 218E.240 Legislative Commission: Audit Subcommittee.
- 218F.100 Creation and composition; appointment of Director and chiefs of divisions.
- 218F.110 General powers and duties.
- 218F.150 Officers and employees of Legislative Counsel Bureau not to oppose or urge legislation; exceptions, conditions and limitations on disclosure of information.
- 218G.010 Legislative declaration.
- 218G.030 Legislative Auditor: “Agency of the state” defined.
- 218G.100 Legislative Auditor: Qualifications.
- 218G.110 Legislative Auditor: Powers and duties.
- 218G.120 Regular and special audits and investigations.
- 218G.130 Legislative Auditor to keep file of reports and releases; confidentiality of working papers from audit.
- 218G.140 Report of improper practices following audit.
- 218G.150 Report of inadequacy of fiscal records.
- 218G.160 Biennial report of Legislative Auditor.
- 218G.200 Audits of state agencies required, duty of agency personnel to assist in audit.
- 218G.210 Books and records of agencies of State: Availability to Legislative Auditor.
- 218G.220 Legislative Auditor: Request for financial statements from agencies of State.
- 218G.230 Audits: Discussion of preliminary audit report with head of agency audited; presentation of final report when Legislature in session.
- 218G.240 Audits: Presentation and distribution of final report; restriction on disclosure.
- 218G.250 Audits: Notice to agency of acceptance of final report; submission of plan for corrective action.

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## Appendix C

### Statutory Citations – Legislative Auditor (continued)

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#### NRS

- 218G.260 Audits: Order for withholding money from agency for failure to submit or comply with plan for corrective action.
- 218G.270 Audits: Report on carrying out of recommendations of Legislative Auditor; review of report.
- 218G.330 Audits required by Federal Government: Arrangements with Legislative Auditor; payment of cost of audit; Audit Contingency Account.
- 218G.340 Audits required by Federal Government: Legislative Auditor or private firm may be chosen to conduct audit; procedure for selecting firm; combining of audits.
- 218G.350 Audits to ensure compliance with federal regulations: Selection of firm to perform audit; submission, presentation and distribution of report.
- 218G.400 Preparation of balance sheets by and audit of fiscal records of certain boards; payment of costs; removal of state officer or employee for failing to prepare balance sheet, conduct audit or maintain necessary fiscal records.
- 218G.450 Special audits of certain entities which receive public money.
- 218G.550 Notification of Legislative Auditor of fatality or near fatality of child; review of information; cooperation with Legislative Auditor by agency.
- 218G.555 Legislative Auditor to disclose certain data and information by request; exceptions.
- 218G.570 Performance audits of governmental facilities for children.
- 218G.575 Inspection, review and survey of governmental facilities for children and private facilities for children.
- 218G.580 Scope of inspection, review and survey.
- 218G.585 Duty of facilities to cooperate with inspection, review and survey.
- 218H.400 Reports by registrant; audit or investigation.
- 277.200 Text of compact. (Tahoe Regional Planning Agency)
- 353.060 Count of money in state treasury by Legislative Auditor.

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## Appendix C

### Statutory Citations – Legislative Auditor (continued)

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<u>NRS</u>	
353.065	Count of securities and money in custody of State Treasurer.
353.070	Actual money only to be counted.
353.075	Report to be filed following count.
353.080	Failure of Legislative Auditor to perform duties: Penalties.
353.325	Distribution of audit report of state agency.
353A.020	System of accounting and control for agencies: Adoption; elements; modification; development of procedures.
353A.045	Duties of Chief of Division of Internal Audit. Consult with Legislative Auditor.
385.3789	Submission of annual reports by Commission; biennial audit of programs by Legislative Auditor.
387.613	Selection of school districts for financial management review and selection of consultants to conduct reviews.
387.639	Review of school district's report concerning progress on corrective action plan.
387.644	School district's reporting when exempt from review.
463.1593	Regulations concerning financial practices licensees: Duties of Legislative Auditor. (Gaming)
482.38277	Certain charitable organizations to prepare and file certain documents with Commission on Special License Plates; Commission to provide documents to Legislative Auditor; duties of Legislative Auditor with respect to forms and information.
482.38278	Legislative Auditor to present final written report to Commission on Special License Plates; distribution of report; contents of report.
645A.050	Duties of commissioner. (Escrow Agencies and Agents)
645B.060	Duties of commissioner. (Mortgage Brokers and Mortgage Agents)
645E.300	Duties of commissioner. (Mortgage Bankers)
692A.117	Confidential Records. (Title Insurance)

# Appendix D

## 2010 – 2012 Basic Audit Program

STATE OF NEVADA  
LEGISLATIVE COUNSEL BUREAU  
LEGISLATIVE BUILDING  
401 S. CARSON STREET  
CARSON CITY, NEVADA 89701-4747  
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LEGISLATIVE COMMISSION (775) 684-6800  
JOHN OCEGUERA, *Assemblyman, Chairman*  
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821  
BERNICE MATHEWS, *Senator, Co-Chair*  
STEVEN HORSFORD, *Senator, Co-Chair*  
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August 3, 2010

Members of the Legislative Commission  
Legislative Building  
Carson City, Nevada

Schedule I lists the audits we currently have in progress. In accordance with NRS 218E.205, we are requesting your approval to continue these audits as we may not be able to present all of them to the Audit Subcommittee of the Legislative Commission by the start of the 2011 Session.

In accordance with NRS 218G.120, we are requesting your approval of a basic audit program, which is set forth in Schedule 2. The timing as to when we can start the audits is contingent upon the availability of the audit staff and additional requirements that may be placed upon us by the Legislative Commission and Legislature.

The proposed audits were selected using a risk assessment process. This process considered such factors as the length of time since the last audit, amount of agency revenues and expenditures, legislative and public interest, prior problems, and agency or program complexity. The audits are designed to provide information to improve public accountability and facilitate decision-making by the Legislature or those responsible for corrective action. Audit objectives may include determining if an agency is operating in an economical or efficient manner, or determining the extent to which a program achieves a desired level of program results. Audit objectives can also include evaluating agencies' compliance with laws and regulations, and determining if appropriate information technology security controls are in place to protect sensitive information against unauthorized use.

Respectfully requested,

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

Paul V. Townsend, CPA  
Legislative Auditor

PVT:da  
Enclosures

APPROVED AT THE LEGISLATIVE COMMISSION MEETING ON AUGUST 13, 2010

Legislative Counsel Bureau  
Audit Division  
Audits in Progress  
August 13, 2010

Schedule 1

- Aging and Disability Services Division
- Department of Agriculture
- Department of Business and Industry – Information Technology Security
- Contracts with Consultants (AB 463)
- Gaming Control Board
- Motor Pool Division
- State Board of Parole Commissioners
- Programs for Innovation and the Prevention of Remediation (NRS 385.3789)
- Public Utilities Commission
- Review of Governmental and Private Facilities for Children (AB 103)
- Secretary of State
- Department of Taxation
- Department of Transportation
- Statewide Single Audit
- Report on Count of Money in State Treasury
- Labor Commissioner
- Office of Veterans' Services

Legislative Counsel Bureau  
Audit Division  
Proposed Audits  
August 2010 through December 2012

Schedule 2

**State Agencies**

Department of Administration

- Buildings and Grounds Division

Department of Business and Industry

- Housing Division
- Division of Industrial Relations
- Division of Insurance
- Taxicab Authority

Department of Conservation and Natural Resources

- Division of Environmental Protection
- Division of Forestry
- Division of State Lands
- Division of State Parks
- Division of Water Resources

Department of Education

Department of Employment, Training and Rehabilitation

- Employment Security Division

Department of Health and Human Services

- Division of Child and Family Services
- Division of Health Care Financing and Policy
- Division of Mental Health and Developmental Services
- Division of Welfare and Supportive Services

Department of Information Technology

Department of Motor Vehicles

Department of Public Safety

- Director's Office

Agency for Nuclear Projects

Office of Energy

Public Employees' Benefits Program

Supreme Court

Commission on Tourism