MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION
Legislative Building – Room 4100
Carson City, Nevada
Grant Sawyer State Office Building – Room 4412
Las Vegas, Nevada
Thursday, November 19, 2015, 9:30 a.m.
MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission’s Audit Subcommittee
Date and Time of Meeting: November 19, 2015 – 9:30 a.m.
Place of Meeting: Legislative Building
Room 4100
401 South Carson Street
Carson City, Nevada

Note: Some members of the Subcommittee may be attending the meeting and other persons may observe the meeting and provide testimony through a simultaneous videoconference conducted at the following location:
Grant Sawyer State Office Building
Room 4412
555 East Washington Avenue
Las Vegas, Nevada

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

AGENDA

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

1. **Public Comment**
   (Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers. A person may also have comments added to the minutes of the meeting by submitting them in writing either in addition to testifying or in lieu of testifying. Written comments may be submitted in person or by e-mail, facsimile, or mail before, during, or after the meeting.)

2. **Approval of Minutes From May 4, 2015**

3. **Selection of Vice Chair of Audit Subcommittee of the Legislative Commission**

4. **Presentation of Audit Reports (NRS 218G.240)**
   a. Office of the Attorney General
      – Todd Peterson, Deputy Legislative Auditor; Richard A. Neil, Audit Supervisor
   b. Office of the State Treasurer, Unclaimed Property Program
      – Jane E. Bailey, Audit Supervisor, Eugene Allara, Deputy Legislative Auditor
   c. Department of Public Safety, Capitol Police
      – A. Lilliana Camacho-Polkow, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
   d. Department of Public Safety, Nevada Highway Patrol
      – Yette M. De Luca, Deputy Legislative Auditor; S. Douglas Peterson, Information Systems Audit Supervisor
   e. Department of Business and Industry, Manufactured Housing Division
      – Michael Herenick, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
   f. Department of Tourism and Cultural Affairs, Division of Museums and History
      – Tammy A. Goetze, Deputy Legislative Auditor; Richard A. Neil, Audit Supervisor
5. **Presentation of Six-Month Reports (NRS 218G.270)**
   - Paul V. Townsend, Legislative Auditor
     a. Department of Public Safety, Office of Director
        – Rocky Cooper, Audit Supervisor
     b. Department of Employment, Training and Rehabilitation, Rehabilitation Division
        – Shannon Ryan, Audit Supervisor
     c. Department of Health and Human Services, Use of Certain Assessments Paid by Counties
        – Jane Bailey, Audit Supervisor
     d. Department of Tourism and Cultural Affairs, Division of Tourism
        – Jane Bailey, Audit Supervisor
     e. Judicial Branch of Government, Supreme Court of Nevada
        – Richard A. Neil, Audit Supervisor
     f. Department of Corrections Information Technology Security
        – S. Douglas Peterson, Information Systems Audit Supervisor
     g. Department of Business and Industry, Nevada State Athletic Commission
        – S. Douglas Peterson, Information Systems Audit Supervisor
     h. Department of Education
        – Richard A. Neil, Audit Supervisor
     i. Department of Transportation, Information Security
        – S. Douglas Peterson, Information Systems Audit Supervisor

6. **National State Auditors Association Report on Nevada Legislative Counsel Bureau Audit Division's System of Quality Control**
   – Paul V. Townsend, Legislative Auditor

7. **Public Comment**
   (Because of time considerations, speakers are urged to avoid repetition of comments made by previous speakers. A person may also have comments added to the minutes of the meeting by submitting them in writing either in addition to testifying or in lieu of testifying. Written comments may be submitted in person or by e-mail, facsimile, or mail before, during, or after the meeting.)

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

*Notice of this meeting was posted in the following Carson City and Las Vegas, Nevada, locations: Blasdel Building, 209 East Musser Street; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Legislative Counsel Bureau, Las Vegas Office, Grant Sawyer State Office Building, 555 East Washington Avenue. Notice of this meeting was faxed, e-mailed, or hand delivered for posting to the following Carson City and Las Vegas, Nevada, locations: Capitol Press Corps, Basement, Capitol Building, 101 North Carson Street; Clark County Government Center, Administrative Services, 500 South Grand Central Parkway; and Capitol Police, Grant Sawyer State Office Building, 555 East Washington Avenue. Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.*

*Supporting public material provided to Subcommittee members for this meeting may be requested from the Audit Division of the Legislative Counsel Bureau at (775) 684-6815 and is/will be available at the following locations: Meeting locations and the Nevada Legislature's website at www.leg.state.nv.us.*
AUDIT SUBCOMMITTEE MINUTES
May 4, 2015
This is the first meeting in calendar year 2015.
This is the fifth meeting of the 2013–2014 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Assemblywoman Maggie Carlton, Chair, at 5:03 p.m., Monday, May 4, 2015, in Room 1214 of the Legislative Building, Carson City, Nevada, with a simultaneous videoconference to Room 4412E of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:
Assemblywoman Maggie Carlton, Chair
Senator David R. Parks, Vice Chair
Senator Ben Kieckhefer
Senator Moises (Mo) Denis
Assemblyman Michael C. Sprinkle

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:
Paul V. Townsend, Legislative Auditor
Rocky J. Cooper, Audit Supervisor
Lee Pierson, Deputy Legislative Auditor
Susie Young, Office Manager
The roll was taken. A quorum was present.

**Item 1 — Public Comment**

Chair Carlton called for public comment. There was none. She noted that this Subcommittee meeting was held to address and allow for discussion on certain issues pertaining to the audit report.

**Item 2 — Approval of minutes from December 2, 2014**

Chair Carlton called for a motion.

SENATOR DENIS MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF DECEMBER 2, 2014. THE MOTION WAS SECONDED BY SENATOR PARKS AND PASSED. (SENATOR KIECKHEFER WAS ABSENT FOR THE VOTE.)

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

a. Department of Health and Human Services, Division of Health Care Financing and Policy

Paul V. Townsend, Legislative Auditor, stated the audit on the Division of Health Care Financing and Policy (DHCFP) was part of the regular audit program schedule approved by the Legislative Commission.

Lee Pierson, Deputy Legislative Auditor, began his presentation with a brief overview of the Division. The Division administers two major federal health coverage programs, Medicaid and the Children’s Health Insurance Program (CHIP). The largest program is Medicaid, which provides health care to low-income families, the aged, blind, and the disabled. The CHIP in Nevada is known as Nevada Check Up and provides health care coverage to low-income, uninsured children who are not eligible for Medicaid. The Patient Protection and Affordable Care Act was signed into law on March 23, 2010. The Act includes expanding Medicaid to individuals and families with incomes up to 133% of the federal poverty level, including adults without disabilities and without dependent children. Medicaid enrollment has expanded significantly from approximately 314,000 in July 2013 to 573,000 in July 2014, which was an 82% increase.

Mr. Pierson continued his presentation stating Medicaid funding is received from several sources including federal funds, state appropriations, and local governments. Ex. 1 in the audit report shows revenues and expenditures for fiscal years 2010 through 2014. Expenditures increased from approximately $1.65 billion in FY 2010 to $2.3 billion in FY 2014, or 39%. The State and federal government have made progress in recent years with preventing and detecting improper Medicaid payments. These efforts have included the Legislature providing funding for additional positions, changes in the Division’s organization, and independent contractors provided by the federal government for assistance. Ex. 2 in the report shows recoveries by Division staff and contractors over the last three fiscal years.

He stated the scope of the audit included a review of the Division’s paid claims data for behavioral health services during fiscal years 2013 and 2014, and dental services over
a two-year period. The objective of the audit was to determine if the Division had sufficient controls in place to detect and prevent fraud, abuse, and billing errors that resulted in Medicaid overpayments. Although the Division had strengthened its oversight of Medicaid payments since the last audit in 2008, certain areas were identified for needed improvements. Testing identified approximately $780,000 in overpayments from behavioral health claims, and more than $285,000 in overpayments from dental claims.

Based on the analysis of claims data, the Division overpaid about $780,000 in behavioral health claims during fiscal years 2013 and 2014. Behavioral health services reviewed included: basic skills training, crisis intervention, day treatment, and psychosocial rehabilitation services. Most of the overpayments, about $680,000, were identified for basic skills training (BST) and $100,000 in overpayments was for other behavioral health services. For each of these services, daily service limits are established by Medicaid policy. A variety of life skills are taught to recipients through BST, such as learning how to manage daily life, social and communication skills, hygiene, time management, and independent living.

Prior to January 2014, Division policy allowed for up to 4 hours of BST services per day based on the recipient’s needs. However, the audit found that providers billed and were paid for more than 4 hours per recipient on the same day. Ex. 3 in the audit report shows examples of six claims where the Division paid for more than 4 hours of BST on a single day. During the audit, the Division recognized there were problems with overutilization of BST services. Among policy revisions made in January 2014, BST was reduced to a maximum of 2 hours per day for each recipient and prior authorization was required. It was found that providers continued to be paid for more than 2 hours of BST per recipient on the same day. Ex. 4 shows six claims with service dates in April, May, and June 2014, where the Division paid for more than 2 hours of BST. Of the $680,000 in BST overpayments identified during fiscal years 2013 and 2014, $547,000 occurred from January to June 2014. Overpayments occurred because the Division’s computer system, Medicaid Management Information System (MMIS), lacked sufficient edits to identify billings exceeding daily limits. Edits are designed to help ensure that claims are processed within proper parameters and in compliance with Medicaid policy. For example, the Division has restricted daily service limits for BST to 2 hours per day. A proper edit would stop claims billed for more than 2 hours of BST per recipient on the same day.

The Division plans to implement edits or other controls to help ensure payments do not exceed daily limits; however, the MMIS technology is old and cannot always be updated in a cost-effective manner. Currently, the Division is pursuing a replacement for MMIS. Two recommendations were made regarding the behavioral health overpayments.

Mr. Pierson continued his presentation reviewing improperly billed dental claims. The Division’s computer system also lacked sufficient edits to prevent overpayments to dental providers submitting incorrect or excessive claims. One dental provider overbilled Medicaid by submitting multiple claims for procedures that should be billed on a per visit basis. For other procedures, the number of claims submitted per patient per
day by this provider was excessive when compared with other dentists' claims. In addition, some x-rays were taken with greater frequency than allowed by policy. It is estimated that more than $285,000 was overpaid to this provider during fiscal years 2012 and 2013.

When performing sorts and queries of paid dental claims data, one dentist was identified who submitted a large number of claims for certain procedures when compared to other providers. Ex. 5 shows a comparison of five procedures billed by one dentist to that of the total billed by all dentists during fiscal years 2012 and 2013. To elaborate further, Ex. 5 shows one dentist submitted 80% or more of all claims statewide for the treatment of dental complications, office visits for observation, and pulp vitality tests. This dentist also submitted the most claims for the treatment of dental pain and photographic images (not x-rays). Based on a review of claims data, this dentist incorrectly submitted multiple claims for procedures that should be billed on a per visit basis. In other cases, the number of claims submitted per patient on the same day of service were excessive when compared to other dentists' claims. For example, this same dentist submitted approximately 4,200 claims or about 48% of all claims submitted statewide for the emergency treatment of dental pain. Billing guidance indicates this procedure should be billed on a per visit basis. Unlike other providers, this dentist submitted multiple claims for the same patient on the same day. For example, 24 claims for the treatment of dental pain were submitted for one patient on the same day. It was found that the other dentists typically submitted one claim per patient per day. Based on the review of the claims data, it was estimated that the Division overpaid this dentist nearly $124,000 for the emergency treatment of dental pain during fiscal years 2012 and 2013.

Mr. Pierson pointed out that this dentist also submitted approximately 4,400 or 21% of all claims for oral/facial photographs taken with a camera. This dentist typically submitted many claims for photographs of the same patient on the same day. For example, during fiscal year 2013, 32 patients received 20 or more photographs on the same day. One patient was photographed 32 times on the same day. It is estimated that this dentist was overpaid more than $67,000 for the photographs during fiscal years 2012 and 2013. The Division's management was notified of the dentist with multiple billing issues, overpayments, and discussed insufficient computer edits with staff. The Division was also provided claims information for further investigation, and according to the Division, an investigation of this provider has been initiated.

Mr. Pierson concluded his presentation stating the audit report contains four recommendations to address dental overpayments, the audit methodology, and the Division's response to the six recommendations.

Chair Carlton thanked Mr. Pierson for his presentation. She asked if the Subcommittee members had any questions on the audit report.

Assemblyman Sprinkle queried as to how the claims are itemized on a per hour basis and how it is utilized. He was concerned a claimant could bill for 44 hours in one day and requested clarification on how the billing is processed.
Mr. Pierson responded that BST is billed in units of 15-minute increments. The bills are received with the number of units listed along with the patient name and date of service. Certain bills with errors have been processed, because the system does not have an edit in place to stop such payments inaccurately being handled.

Assemblywoman Carlton invited Division representatives to testify on the subject.

Responding to Assemblyman Sprinkle’s previous question, Sandie Ruybalid, Chief of Information Services, DHCFP, stated that claims are received on a patient level with a procedure code that designates the BST units in 15-minute increments. The current system does not have a daily edit. A cost-benefit analysis is being explored, which will be addressed in the corrective action plan.

Following up to his previous question, Assemblyman Sprinkle further queried if the assumption could be made that the billing errors are caused by a simple mistake that is not identified by the computer program, or if it could be an intentional mistake to pay for services that were not rendered.

In response, Mr. Pierson pointed out that there could be a variety of reasons as to why the billing errors occur. Reasons for the billing errors at the provider level include typographical errors when the bill was sent into the Division and confusion between the difference of units and hours. For example, BST for 2 hours (8 units) could accidentally be inputted as 8 hours (32 units) of BST; however, a deliberate attempt to bill incorrectly is a possibility.

Assemblyman Sprinkle suggested that there needs to be a measure in place to capture the errors, whether the mistakes are intentional or accidental, so overpayments are not made. He asked what steps would be taken if updates to the software are not feasible due to the age of the computer system.

Ms. Ruybalid stated post payment reviews could be conducted if it is not feasible to put edits into this system by utilizing staff for the recoveries. The primary approach would be to have edits built into the current system; however, an analysis by the Division on the feasibility needs to be completed in order to decide if it is appropriate to put that amount of funding into a system that would soon be retired.

Senator Denis verified that the current software was not designed with edits to prevent the entering of more than the approved daily limit.

Ms. Ruybalid affirmed Senator Denis’ statement. She stated that the services are authorized on a 90-day period with a total number of units. A secondary check would be needed to review a daily limit.

Responding to Senator Denis’ question regarding the 90-day limit versus the daily limit, Ms. Ruybalid stated that all services are prior authorized over a 90-day period and not examined on a daily level. More than two hours for BST can be prior authorized to meet a medical necessity, which increases the complexity for a system to interpret what information is appropriate and when it is not for certain cases.

Senator Denis asked if the edits were built in-house or if a consultant was used.
Ms. Ruybalid responded that the Division’s system is outsourced to a vendor which would require payment to the software engineers to build more edits to sort out the limits when billed.

In response to Senator Denis’ query regarding a timeline to implement a new system, Ms. Ruybalid stated that the Division is in the process of securing a procurement strategy, and that will extend the timeline out two to three years.

Senator Denis further queried as to if the checks would need to be completed manually on a daily basis if the system was not changed.

Ms. Ruybalid responded that there are a few options for post payment evaluations where reports could be ran and staff could follow-up with that information. She noted that recoveries could be completed when necessary if it is not feasible to process those in the system.

Chair Carlton opined that the cost-benefit analysis amount is not large when compared to the overall budget; however, it is money that could have been allocated for other purposes. She queried as to what components will be factored to determine the cost-benefit analysis in two to three years and the Division’s direction to ensure errors, such as the ones found in the audit report, do not happen again. She stated concern that the errors have not been tracked back to determine if it is across the board or with just a certain group of providers. If it is determined to be a certain group of providers, she would like to know what the recovery process might be, if it was a mistake or if it was intentional, and what the investigation might entail.

Ms. Ruybalid responded that those concerns will be evaluated and integrated into the corrective action plan. The Division’s multidisciplinary team will meet and conduct research to determine the best approach whether it be stricter policy, SUR recoveries, or a combination to provide the best solution.

Chair Carlton stated that she is concerned for potential ramifications, whether the billing errors were accidental or actual fraud, by Medicaid. She asked that depending on how Medicaid examines these findings, if there is anything the State may need to address to ensure the money is properly accounted for in the future. She was concerned a mistake like this could create further problems if it were to occur again.

Laurie Squartsoff, Administrator, DHCFP, responded that in regard to review of the findings from the audit and the corrective action plan, the Division continues to use the information received from the auditors. The Division’s SUR is working to determine if it is a particular group of providers having billing issues or if it is a trend in terms of intent of the claims. Part of the process and proposal is to examine the benefits of adding additional staff to assist with being more proactive with recoupments to the Division. Some policy changes have already been instituted regarding BST. The initial review of the program showed the expenditures for BST had grown exponentially. Based on the initial review, the Division instituted the prior authorization process so claims would have to be reviewed in advance. Additional training has taken place with providers to help them fully understand the intent of the program. There is continual outreach to the fiscal
intermediary to ensure that there is a clear understanding of what the program is and how claims should be sent to the Division.

Chair Carlton again queried as to any possible ramifications for the State from the federal government.

Ms. Squartsoff replied that if the Division finds there are overpayments to the providers, the SUR will work carefully with those providers to recoup those payments. Furthermore, since the Division was able to address these concerns in a timely manner, she was of the opinion there would not be any repercussions by the federal government.

Senator Kieckhefer asked if there was a specific type of patient associated with the BST. He commented on similar reductions in utilization of services that was seen with specialized foster care. He emphasized that billing should not stop for a group of children based on the outcome of the audit, which may have indirectly resulted in billing reduction used as a means to justify not spending on a new program.

Leah Lamborn, Administrative Services Officer IV, DHCFP, stated that BST is available for children and adults. BST was originally targeted to help the foster care children; however, it has grown exponentially. Only 25% of BST patients are foster and welfare children.

Senator Kieckhefer requested clarification that the overbilling was not just associated, for example, with foster care children.

Ms. Lamborn noted that she did not have details on the actual findings, but was of the opinion that it had affected all served population groups.

Chair Carlton requested the Division closely examine the types of patients associated with the overbilling and then provide that information to the Subcommittee.

Assemblyman Sprinkle commented that it appears there is a need to increase staff if the software is not potentially updated for 2 to 3 years. He posed the question if additional staff is something that should be considered by the Legislature.

Ms. Squartsoff replied that a request for an increase in staff levels has been included in the budget request for the 2015 Session.

Chair Carlton addressed the dental component of the audit. She opined that the situation with the particular dentist was theft, and it did not appear to be a simple billing error. She queried as to how the Division was going to address this particular case.

Ms. Squartsoff stated this particular case has been referred to the Division’s SUR. The team is working very diligently to determine if the fraud was intentional and is in need of further referral. As previously indicated, the Division is looking at adding the needed edits into the system so those particular billing codes can be identified, as well as adding the needed edits to be in compliance with the ADA requirements. The Division will place a higher priority on claims and bills that are received from dentists.
Chair Carlton opined the billing errors committed by this particular dentist did not appear to be a result of miscommunication. She noted it appeared this dentist had figured out how to manipulate the system, which is why he had 92% of the claims and had billed for more hours than are in a day. Furthermore, when the system is abused in such a manner that person should be held accountable.

Ms. Squartsoff concurred with Chair Carlton’s statement. She pointed out the importance to have a system in place to prevent the payment on inappropriate claims. In addition, should there be circumstances where the system does not have the necessary edits, there should be an adequate number of staff to conduct retrospective reviews of claims.

Chair Carlton expressed that she would like to see this person held accountable for his actions by multiple jurisdictions.

In response to Senator Kieckhefer’s questions regarding if the case with the dentist and if any other similar circumstances similar to that case were found, would they be turned over to the Office of the Attorney General (Office), Ms. Squartsoff replied that if it is found there was intent to defraud the agency, those claims and that provider would be turned over to the Medicaid Fraud Control Unit. She noted that with this case of the dentist, she would check on the details and provide a status report to the Subcommittee.

To further clarify her response to Senator Kieckhefer, Ms. Squartsoff stated the Division would need to determine whether to make the referral to the Office and follow-up on whether or not there was fraudulent intent.

Chair Carlton asked at what stage a referral would be made to the Board of Dental Examiners (Board).

Ms. Squartsoff replied that she would need to confirm the referral process from the Office to the Board.

Chair Carlton noted that the Subcommittee had made changes in the past trying to ensure that this information was received quickly and wanted to know when that does happen.

Ms. Squartsoff stated that the Division can provide that information as part of the corrective action plan. She expressed appreciation to the auditors for the opportunity to have the review. The Division’s intent is to maintain a program of high integrity.
Chair Carlton called for a motion to accept the report on the DHCFP.

SENATOR PARKS MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF HEALTH CARE FINANCING AND POLICY. THE MOTION WAS SECONDED BY SENATOR KIECKHEFER AND PASSED UNANIMOUSLY.

**Item 4 — Public Comment**

Chair Carlton called for public comment. There was none.

Chair Carlton thanked the Subcommittee members and staff for their hard work and adjourned the meeting at 5:37 p.m.

Respectfully submitted,

Susie Young, Office Manager

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Senator Ben Kieckhefer  
Chair of the Audit Subcommittee of the Legislative Commission

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Paul V. Townsend, Legislative Auditor and Secretary to the Audit Subcommittee of the Legislative Commission
LEGISLATIVE AUDITOR’S ANALYSIS
OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In December 2014, we issued an audit report on the Department of Public Safety, Office of Director. The Office filed its plan for corrective action in February 2015. NRS 218G.270 requires a report be issued within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Governor’s Finance Office on the status of the three recommendations contained in the audit report. As of September 2, 2015, the Finance Office indicated that two recommendations were fully implemented and one recommendation partially implemented. The partially implemented recommendation relates to improving controls to the vault inventory system by developing reports to monitor vault modifications.

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<th>Recommendation Number</th>
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<td>1</td>
<td>Establish controls to ensure modifications made to the vault inventory system are appropriate.</td>
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The Office of Director received legislative approval to upgrade its vault inventory system. The upgrade, anticipated to begin in the fall of 2015, will allow the generation of management reports that identify modifications made within the system. Full implementation of the audit recommendation is anticipated by the spring of 2016.

Because the Office is taking action to address the partially implemented recommendation, we have no questions for agency officials. We will continue to monitor the agency’s progress.

Respectfully Submitted

Paul V. Townsend, CPA
Legislative Auditor

PVT: sy
Enclosure
cc: Michael J. Willden, Chief of Staff, Office of the Governor
    James R. Wells, CPA, Director, Governor’s Finance Office
    Steve Weinberger, CPA, Administrator, Division of Internal Audits
    James M. Wright, Director, Department of Public Safety
    Jackie Muth, Deputy Director, Department of Public Safety
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
   Legislative Counsel Bureau

From: James R. Wells, CPA, Director
       Governor’s Finance Office

Date: September 2, 2015

Subject: Legislative Audit of the Department of Public Safety, Office of Director

On December 2, 2014, your office released an audit report on the Department of Public Safety (department), Office of Director. The department subsequently filed a corrective action plan on February 27, 2015. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

There were three recommendations contained in the report. The extent of the department’s compliance with the audit recommendations is as follows:

Recommendation 1

Establish controls to ensure modifications made to the vault inventory system are appropriate.

Status – Partially Implemented

Agency Actions – The department is establishing controls to ensure modifications made to the vault inventory system are appropriate. The department received legislature approval to upgrade its vault inventory system. The upgrade is anticipated to begin in fall 2015 and will allow the department to generate management reports that identify modifications made within the system. The department anticipates implementation of this recommendation by spring 2016.
**Recommendation 2**

*Develop a written plan that addresses all recommendations from the consultant's 2012 evidence vault report, and monitor the implementation progress of accepted recommendations.*

Status – Fully Implemented

Agency Actions – The department developed a written plan that addressed all recommendations from the consultant's evidence vault report. We reviewed the accepted recommendations and noted the department is actively monitoring the implementation progress of the accepted recommendations.

**Recommendation 3**

*Ensure seized currency is processed timely in accordance with the Department of Public Safety's policies.*

Status – Fully Implemented

Agency Actions – The department changed policies for processing seized currency. The time was changed from 48 hours to five business days. The department noted in its response that this was a more reasonable timeframe given staffing, training, and other considerations. Additionally, the evidence manager prepares a monthly statistics report to ensure all seized currency is processed timely. We reviewed seized currency transactions during the period March 2015 through June 2015 and found the department processed seized currency within the timeframe established by the enhanced policy.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

James R. Wells, CPA, Director
Governor’s Finance Office

cc: Mike Willden, Chief of Staff, Office of the Governor
James Wright, Director, Department of Public Safety
Jackie Muth, Deputy Director, Department of Public Safety
Steve Weinberger, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
Audit Highlights


Background

The mission of the Department of Public Safety (DPS) is to provide services in support of protecting citizens and visitors by promoting safer communities through prevention, preparedness, response, recovery, education, and enforcement. The Office of Director (Office) is located in Carson City.

The Office provides leadership and establishes policy for the Department. The Office oversees the operations and administration of eight divisions and three offices of the Department. In addition, the Office is responsible for administering the Department’s evidence vaults and forfeiture program.

The Office is funded primarily from cost allocation reimbursements from DPS divisions and forfeiture funds. During fiscal year 2014, cost allocation reimbursements totaled approximately $4 million and forfeitures $1.8 million. Expenditures for the same time period were approximately $5.8 million. The 2013 legislative approved budget included 44 authorized full-time positions for the Office.

Purpose of Audit

The purpose of this audit was to (1) evaluate the accuracy of the evidence vault inventory, and assess the adequacy of the inventory system access controls; and (2) determine whether seized currency is processed timely in accordance with DPS policy and state requirements.

This audit focused on evidence vault activities as of March 2014, and included forfeiture activities for fiscal years 2011 to 2013.

Audit Recommendations

This audit report contains three recommendations to improve controls over the Office’s evidence vault activities.

The Office accepted the three recommendations.

Recommendation Status

The Office’s 60-day plan for corrective action is due on March 2, 2015. In addition, the six-month report on the status of audit recommendations is due on September 2, 2015.

Office of Director

Department of Public Safety

Summary

The Office has made several improvements in recent years to ensure items submitted into the evidence vaults by enforcement officers are adequately tracked. Our testing of 450 items throughout the State verified adequate recordkeeping for items highly susceptible to theft. However, certain control activities for the evidence vault can be improved. For example, the Office does not have an adequate process to monitor changes to the vault inventory system to reduce the risk of fraud or errors. In addition, the Office needs to develop a plan to address all recommendations from an extensive review of the evidence vaults by a consultant. Lastly, most currency that was seized and subject to forfeiture was not processed timely in accordance with Department policy.

Key Findings

The Office has maintained sufficient inventory records to ensure items submitted into the evidence vaults by enforcement officers are adequately tracked. We traveled to Elko, Las Vegas, and Reno to verify the existence of items highly susceptible to theft. Our testing verified adequate recordkeeping for 448 of 450 items selected. Only two items did not have complete documentation to verify the location or proper destruction of the evidence. These missing items were relatively small quantities of drugs that were apparently checked out to a court in 2007. The Office has taken several steps to improve evidence vault controls. These steps include implementing a new inventory system in 2008, consolidating vaults in 2011, and hiring a vault manager. (page 4)

The Office does not have an adequate process to monitor changes made to the vault inventory system. Vault employees make frequent changes to the inventory system when evidence is received, moved, and destroyed. As of June 2014, 10 employees had the ability to modify all fields within the inventory system and could also access items in the vault. Since the inventory database fields can be modified at any time, there is an increased risk that errors or theft could occur and go undetected. Although it is common practice for vault employees to have access to both the inventory system and physical inventory, the Office should develop one or more compensating controls to improve vault oversight. For example, oversight can be accomplished by having management reports to monitor inventory changes. (page 5)

The Office needs to develop a plan to ensure all recommendations from an extensive evidence vault review are adequately addressed. In 2012, the Office hired a consultant for $68,900 to identify areas of improvement and ensure its vaults met recognized best practices. In May 2013, the consultant made 147 recommendations to improve evidence vault controls and processes. However, the Office prepared a written response to only the 40 most critical recommendations identified by the consultant. After we inquired about the recommendations not addressed, the Office agreed with the majority of these recommendations. Without a plan to address the recommendations, it is unlikely the maximum benefit from the consultant’s report will be realized. (page 7)

The Office needs to improve its efforts to ensure seized currency is processed timely. We reviewed 205 currency seizures and found that 124 (60%) were not deposited in the state forfeiture account or remitted to a federal enforcement agency within 48 hours. When seized currency is submitted into the vault, staff is responsible for depositing the currency or converting it into a cashier’s check to be sent to the controlling federal agency. Although the DPS policy is to deposit or convert the seized currency within 48 hours, we found the average time to deposit or convert seized currency was 27 days for the exceptions identified. Some seized currency was held for long periods before deposit or conversion. For example, $3,943 was held for almost 2 years. Timely processing is important because currency is highly susceptible to theft. During fiscal years 2011 to 2013, the DPS processed approximately $3.5 million in currency seizures. (page 9)
LEGISLATIVE AUDITOR’S ANALYSIS OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In October 2014, we issued an audit report on the Department of Employment, Training, and Rehabilitation, Rehabilitation Division. The audit report contained 12 recommendations to improve oversight, policies and procedures, and controls over rehabilitation services provided to participants. The Division filed its corrective action plan in December 2014. NRS 218G.270 requires a report be issued within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 12 recommendations contained in the audit report. As of July 2015, the Department of Administration indicated that eight recommendations were fully implemented and four recommendations were partially implemented. In October 2015, we requested the Division provide documentation regarding the four remaining partially implemented recommendations. Based on our review of documentation provided by the Division, we have determined that the four partially implemented recommendations are now fully implemented; therefore, we have no questions for agency officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

PVT: sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
Don Soderberg, Director, Department of Employment, Training and Rehabilitation (DETR)
Shelley Hendren, Administrator, Rehabilitation Division, DETR
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: James R. Wells, CPA, Director
Department of Administration

Date: July 6, 2015

Subject: Legislative Audit of the Department of Employment, Training and Rehabilitation - Rehabilitation Division

On October 6, 2014, your office released an audit report on the Department of Employment, Training and Rehabilitation (department). The department subsequently filed a corrective action plan on December 23, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

There were twelve recommendations contained in the report. The extent of the department’s compliance with the audit recommendations is as follows:

Recommendation 1

*Develop specific policies and procedures for determining when dental services will be provided. Policies, procedures, and enhanced controls should address the circumstances under which dental services will be provided when eligibility is dependent upon disabilities other than dental.*

Status – Fully Implemented

Agency Actions – The division developed specific policies and procedures and enhanced controls for determining when dental services will be provided, including circumstances under which dental services will be provided when eligibility is dependent upon disabilities other than dental. Data for nine months of fiscal year 2015 shows only $3,059 has been paid in dental services for the Ely office in comparison to $377,879 of dental services paid for fiscal years 2009-2013. We reviewed the dental claims paid for the Ely office and verified this amount to be correct. We sampled paid dental services...
and correlating Individual Plans of Employment (IPE) for the Ely office and determined the services were consistent with the division policy.

**Recommendation 2**

* Routinely monitor control systems to ensure policies and procedures are followed by staff.

Status – Partially Implemented

Agency Actions – The division reports they have a multi-pronged system to routinely monitor control systems to ensure policies and procedures are followed by staff. Starting in 2016, the implementation of an additional targeted review will be incorporated. Additionally, the division has developed a new statewide expenditure transaction review draft tool that is scheduled to be used July 2015. The division intends to use the review draft tool to help monitor control systems. The division anticipates this recommendation to be fully implemented by August 2015.

**Recommendation 3**

* Reduce approval levels for individual expenditure transactions to ensure oversight is adequate.

Status – Partially Implemented

Agency Actions – The division reports they have reduced approval levels for individual expenditure transactions to ensure oversight is adequate. The division has updated the Participant Policy and Procedures to reflect reduced approval levels for expenditure transactions. The updated policies and procedure are pending approval from the Nevada State Rehabilitation Council. The division anticipates this recommendation to be fully implemented by August 2015.

**Recommendation 4**

* Implement compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregate rehabilitation counselor activities.

Status – Partially Implemented

Agency Actions – The division reports it is implementing compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregating rehabilitation counselor activities by updating the work performance standards of the Field Accounting Assistants. As additional compensating controls, the division has
developed a new statewide expenditure transaction review draft tool that will be implemented in July 2015, and added a fifth targeted review to be completed by the quality control team starting in 2016. The division anticipates this recommendation to be fully implemented by August 2015.

**Recommendation 5**

*Strengthen controls over direct payments. Ensure appropriate supporting documentation is obtained and evaluated prior to payments being issued.*

**Status – Fully Implemented**

**Agency Actions** – The division strengthened controls over direct payments by updating its Participant Services Policy and Procedures Manual and ensuring appropriate supporting documentation is obtained and evaluated prior to payments being issued. We reviewed the policy and procedures to verify the changes as indicated. We sampled direct authorizations paid and correlating Individual Plans of Employment (IPE) and determined appropriate documentation is obtained and evaluated prior to payments being issued.

**Recommendation 6**

*Develop controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy.*

**Status – Fully Implemented**

**Agency Actions** – The division developed controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy that include the creation of an automated alert system for expenditures that exceed the amount approved in the IPE. We sampled expenditures that exceeded the amount approved in the IPE. For each sample tested, we reviewed the automated alert email, correlating IPE and expenditures, and authorization to ensure approvals are obtained as detailed in policy. We noted no exceptions.
**Recommendation 7**

*Develop policies and procedures detailing when IPE revisions are required and develop controls to ensure revisions are performed and submitted to the proper authority for review.*

**Status – Fully Implemented**

**Agency Actions** – The division developed policies and procedures detailing when IPE revisions are required and developed controls to ensure revisions are performed and submitted to the proper authority for review. Policies and procedures include the requirement that IPE’s are amended as necessary if there are substantial changes to the employment outcome, VR services, or the providers of those services. The Plan Cost Allocation Report was created in the division’s case management system, RAISON, to ensure revisions are performed and submitted to the proper authority for review. In addition, the division has implemented an automated alert system that directly notifies the Bureau Chief and District Manager of all expenditures that exceed the amount approved in the IPE. We sampled expenditures that exceeded the amount approved in the IPE and reviewed the automated alert email, correlating IPE, and authorization to ensure revisions are performed and submitted to the proper authority for review. We noted no exceptions.

**Recommendation 8**

*Maintain an inventory by recording all fuel cards and bus passes upon receipt. Include identifying characteristics of each card or pass, purchase, and distribution information.*

**Status – Fully Implemented**

**Agency Actions** – The division is maintaining an inventory by recording all fuel cards and bus passes upon receipt. The division developed a statewide log system to maintain an inventory by recording all fuel cards and bus passes upon receipt. We reviewed the log and noted it included identifying characteristics of each card or pass, purchase, and distribution information.
Recommendation 9

Perform inventory counts and reconciliations on a periodic basis to ensure fuel cards and bus passes are accounted for and properly safeguarded.

Status – Fully Implemented

Agency Actions – The division performs inventory counts and reconciliations on a periodic basis to ensure fuel cards and bus passes are accounted for and properly safeguarded. We reviewed the most current inventory counts performed by district managers for the Northern District on June 1, 2015, and the Southern District on June 5, 2015, and found the fuel cards and bus passes are accounted for and properly safeguarded.

Recommendation 10

Develop and enhance policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended.

Status – Fully Implemented

Agency Actions – The division developed policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended. The division developed a statewide log system to maintain an inventory by recording all fuel cards and bus passes upon receipt and district managers perform a periodic review of fuel cards and bus passes. We reviewed the most current inventory count documentation and noted the periodic review of control systems is being followed and working as intended.

Recommendation 11

Institute controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment.

Status – Partially Implemented

Agency Actions – The division instituted controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment. The division distributed a new policy to staff statewide that includes controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment. The division anticipates this recommendation to be fully implemented by August 2015.
Recommendation 12

Enforce existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance.

Status – Fully Implemented

Agency Actions – The division enforced existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance. We reviewed the fuel card and bus pass logs and verified submittal and review of mileage logs prior to providing continued fuel assistance. We noted no exceptions.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

James R. Wells, CPA, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
    Don Soderberg, Director, Nevada Department of Employment, Training and Rehabilitation
    Shelley Hendren, Administrator, Vocational Rehabilitation Division
    Steve Weinberger, CPA, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
Audit Highlights


Background
The Rehabilitation Division provides services to address disability assessment, training, treatment, and job placement for disabled Nevadans; bridging the gap between disability and self-sufficiency. The Division’s mission is to bring Nevadans together to promote barrier-free communities in which individuals with disabilities have equal access to opportunities for quality work and self-sufficiency. The Division is comprised of three bureaus, which include Vocational Rehabilitation, Services to the Blind and Visually Impaired, and Disability Adjudication.

The Division is primarily funded through federal grants and general fund appropriations. Total revenues for fiscal year 2013 amounted to nearly $40.5 million. Expenditures from the same time period were nearly $39.4 million. The bureaus of Vocational Rehabilitation and Services to the Blind and Visually Impaired accounted for $21.6 million in revenues and $20.7 million in expenditures during fiscal year 2013. The Division provides vocational rehabilitation and blind and visually impaired services from 15 offices located throughout the State.

Purpose of Audit
The purpose of our audit was to determine whether the Division (1) ensured vocational rehabilitation and blind and visually impaired service payments were properly approved, paid, monitored, and in accordance with Individual Plans of Employment, and (2) ensured Individual Plans of Employment were approved in accordance with Division policies and procedures.

This audit focused on the Division’s vocational rehabilitation and blind and visually impaired services between July 1, 2011, and March 31, 2013. We expanded our scope to prior fiscal years and through June 30, 2013, for dental services.

Audit Recommendations
This audit report contains 12 recommendations to improve oversight, policies and procedures, and controls over rehabilitation services provided to participants.

The Division accepted the 12 recommendations.

Recommendation Status
The Division’s 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

Rehabilitation Division

Department of Employment, Training and Rehabilitation

Summary
The Rehabilitation Division (Division) does not have adequate controls to ensure payments for vocational rehabilitation services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Division does not always ensure IPEs are approved in accordance with policies and procedures. For example, our review of rehabilitation activities found certain offices provided dental services at higher occurrence rates and as the sole or primary service. Had these offices incurred dental service rates similar to other offices, dental expenditures would have been $900,000 lower for fiscal years 2009 to 2013. These activities were not discovered by the Division because certain staff perform all of the functions for participant rehabilitation with little required oversight. Furthermore, when management review is required it is not always obtained and documented. These issues warrant stronger controls and review to ensure vocational rehabilitation activities are proper and utilized as intended.

The Division lacks controls over transportation activities to prevent or detect misuse, abuse, or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper. Our review of fuel cards and bus passes for the Southern District found the Division could not provide documentation detailing which participant, if any, received the fuel card or pass in 272 of 404 (67%) instances. These unaccounted for fuel cards and passes were worth nearly $19,000 of $24,000 reviewed. Transportation assistance can easily be misused and failure to establish adequate controls and enforce existing policies limits the Division’s ability to ensure services are being used for intended purposes.

Key Findings
Certain offices provided dental services at significantly higher occurrence rates than expected. For instance, the Ely office provided dental services to 41% of participants while most offices provided dental services to less than 7%. Nearly $378,000 or 35% of total service costs for the Ely office during fiscal years 2009 to 2013 were for dental services. (page 8)

Participants receiving dental services typically have a primary disability other than dental used for determining eligibility for vocational rehabilitation services. In several instances, dental services were the only, or vast majority, of all services rendered when other significant disabilities were noted for determining eligibility. (page 10)

Rehabilitation counselors are responsible for nearly all rehabilitation case activities with little required oversight by management. Current approval levels allow counselors to approve 97.6% of all expenditures resulting in a lack of adequate oversight of counselor duties required for a sound system of control. Counselors determine eligibility, prepare and approve IPEs, and approve invoices with little oversight. Implementing compensating controls or segregating counselor duties will reduce the risk of fraud and abuse occurring. (page 13)

Payments made from an outside bank account used to pay participants and vendors who are not established in the state accounting system were not always accurate or properly documented. Our review of eight direct purchases for a total of $16,909 identified four $1,299 that were not adequately supported or properly authorized in the IPE. (page 16)

IPEs were not always approved by the proper authority within the Division. The Division has adopted approval levels regarding the estimated amount to be spent on an IPE but relies entirely on counselors to submit IPEs needing management approval for review and the Division does not track whether approval is granted. (page 18)

Fuel cards and bus passes purchased in bulk were not inventoried or safeguarded upon receipt and not always tracked or logged when distributed to technicians or participants. Additionally, a periodic count and reconciliation of these negotiable items was not conducted. (page 23)

Of the 60 direct fuel purchases reviewed, we could not find a signed participant receipt for 41 (68%). In one instance, the Division paid for the same purchase twice when it was duplicated on an invoice from a fuel retailer. (page 24)

Division staff rarely require participants to account for fuel assistance received in either the Northern or Southern Districts. Out of 84 fuel assistance transactions, mileage logs were not collected for 78 (93%). Mileage logs are a critical control to ensuring state and federal resources are being used for their intended purpose and participants are receiving assistance for approved services only. (page 25)
LEGISLATIVE AUDITOR’S ANALYSIS
OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In October 2014, we issued an audit report on the Use of Certain Assessments Paid by Counties to the Department of Health and Human Services (DHHS). The audit report contained six recommendations to improve controls over assessment calculations and communication with counties. DHHS filed its plan for corrective action in January 2015. NRS 218G.270 requires a report be issued within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the six recommendations contained in the audit report. As of July 6, 2015, the Department of Administration indicated that five recommendations were fully implemented and one was partially implemented. Based on our subsequent follow-up with staff of the DHHS, we have determined that the partially implemented recommendation is now fully implemented, and we do not have any questions for agency officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

PVT:sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
    James R. Wells, CPA, Director, Office of Finance, Office of the Governor
    Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
    Richard Whitley, Director, DHHS
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
   Legislative Counsel Bureau

From: James R. Wells, CPA, Director
       Department of Administration

Date: July 6, 2015

Subject: Legislative Audit of the Department of Health and Human Services

On October 6, 2014, your office released an audit report on the Department of Health and Human Services (department). The department subsequently filed a corrective action plan on January 2, 2015. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

There were six recommendations contained in the report. The extent of the department’s compliance with the audit recommendations is as follows:

**Recommendation 1**

*Enhance policies and procedures to include the retention of underlying records for both the health assessments and the county youth assessments.*

Status – Fully Implemented

Agency Actions – The department has enhanced its policies and procedures to include the retention of underlying records for its assessments for at least three years. The department’s Division of Child and Family Services (DCFS) and Division of Public and Behavioral Health (DPBH) produced the retained records supporting the assessments for our review. We also reviewed the enhanced policies and procedures noting the provisions for a three year retention period.
**Recommendation 2**

*Develop policies and procedures describing each health assessment, including calculation, methodology for calculation, supervisory review of the calculation, and when revisions are necessary.*

Status – Fully Implemented

Agency Actions – DPBH developed policies and procedures that describe each health assessment, including calculation methodology and supervision. We reviewed the new policies and procedures submitted by the division for compliance.

**Recommendation 3**

*Follow state law, policies, and procedures for calculating county youth assessments.*

Status – Fully Implemented

Agency Actions – DCFS is now following state law, policies, and procedures for calculating county youth assessments. DCFS reports they prepare assessments for Youth Parole and Youth Alternate Placement based on information obtained from the Department of Education during the month of May each year. We reviewed DCFS’s calculations for accuracy and compliance.

**Recommendation 4**

*Revise policies and procedures to include supervisory review of county youth assessment calculations.*

Status – Fully Implemented

Agency Actions – DCFS policies and procedures for Youth Parole, Youth Alternative Placement, and Rural Child Welfare have been revised. The Administrative Services Officer III is responsible to approve all calculations.

**Recommendation 5**

*Communicate with counties the use of assessment revenues and services provided, and consider adopting regulations to assist counties with their understanding of the health assessments.*

Status – Partially Implemented

Agency’s Actions – DCFS has begun communicating with counties regarding the use of assessment revenues and services it provides. Staff report having met with the Nevada Association of Counties (NACO) to determine the counties’ informational needs and a committee to fulfill those needs. Future meetings on these matters are anticipated to be held
quarterly. DCFS has considered adopting additional regulations, but has concluded that existing statutes and the efforts with NACO should be sufficient.

DPBH communicates with counties the use of assessment revenues and services provided. Consumer Protection is meeting annually with county commissioners. Community Health plans to expand the description of assessment use in its biennial contracts.

**Recommendation 6**

*Review the listing of individuals receiving the Rural Child Welfare assessment’s statutory report on child protective services to ensure it is being sent to the appropriate county official.*

Status – Fully Implemented

Agency Actions – DCFS reports it reviews the listing of individuals receiving the statutory reports on child protective services. Staff reported an internet search of its county contact list for individuals receiving reports is performed annually to ensure the reports are properly delivered. Additionally, DCFS is now using certified mail to send these reports in order to track receipt.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

James R. Wells, CPA, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
Richard Whitley, Director, Department of Health and Human Services
Amber Howell, Administrator, Division of Child & Family Services
Marta Jensen, Acting Administrator, Division of Public and Behavioral Health
Danette Kluever, Deputy Administrator of Support Services, Division of Child & Family Services
Steve Weinberger, CPA, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
**Audit Highlights**


**Background**

During the 2013 Legislative Session, concerns were expressed regarding the Department of Health and Human Services’ use of certain county assessments, many of which were enacted in 2011. As a result, Assembly Bill 255 was passed. Assembly Bill 255 requires the Legislative Auditor to audit the Department’s use of assessments paid by counties pursuant to Nevada Revised Statutes 62B.150, 62B.165, 432B.326, and 439.4905.

The Department of Health and Human Services collects several county assessments. During the 2011 Legislative Session, the funding source for several programs or services shifted from the state General Fund to county assessments. These programs or services directly benefit the residents of the counties impacted.

Assembly Bill 255 specified the following five assessments administered by the Division of Public and Behavioral Health and the Division of Child and Family Services to be audited: Community Health Services, Consumer Health Protection, Rural Child Welfare, Youth Alternative Placement, and Youth Parole Bureau. From July 1, 2011, to December 31, 2013, the Department collected over $20.6 million in county assessments.

**Purpose of Audit**

The purpose of this audit was to evaluate the Department’s calculation and collection of assessments, and use of assessments paid by counties for the operation of regional facilities for the detention of children, activities of the Youth Parole Bureau, child protective services in rural counties, and health services provided in the counties. Our audit focused on assessment revenues and related expenditures for the 30-month period ending December 31, 2013.

**Audit Recommendations**

This audit report contains six recommendations to improve controls over assessment calculations and communication with counties. The Department accepted the six recommendations.

**Recommendation Status**

The Department’s 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

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**Use of Certain Assessments Paid by Counties**

Department of Health and Human Services

**Summary**

The Department of Health and Human Services’ use of certain assessments paid by counties complied with state law; however, stronger controls are needed over the calculation of assessments. We reviewed the assessment calculations for fiscal years 2012 through 2014 and found assessment calculations were not supported by adequate underlying records. Policies and procedures also lacked sufficient guidance regarding the calculation of certain health assessments. In addition, certain youth assessments were not calculated in compliance with state law. In contrast, we reviewed 144 county payments totaling over $12 million and found the Department of Health and Human Services collected and deposited assessment revenues in accordance with state requirements.

The Department used county assessment revenues as statutorily intended. We tested 225 expenditures totaling over $3.7 million and found transactions were properly approved, mathematically accurate, and properly recorded. Costs also related to the services being provided. Although assessment revenues were used as intended, communication with the counties about the use of assessment revenues and services provided can be improved.

**Key Findings**

Assessment calculations cannot be considered reliable unless they are supported by adequate underlying records. None of the five county assessments we audited were supported by sufficient underlying records. Either the documents provided did not support the amounts assessed or supporting documents could not be provided. Management indicated employee turnover led to supporting documents no longer being available. In addition, current policies and procedures do not provide adequate guidance to assist staff with developing and providing adequate support for assessment calculations. (page 5)

Written policies and procedures have not been developed for the health assessments. As a result, staff could not explain the differences we found in the number of food establishments used in the calculation of the Consumer Health Protection assessment. The support for the number of food establishments used in the assessment calculation was not retained. Although staff provided similar documentation to support the calculation, the number of food establishments indicated on this documentation did not match the number used in the assessment calculation. The difference between the number of food establishments on the documents was small, less than 1%; however, the difference did affect the distribution of the assessment between counties. Additionally, staff could not explain how the base contract amounts were calculated for the Community Health Services assessment. (page 9)

The calculation of certain youth assessments did not comply with state law. Incorrect student enrollment data was used in the calculation of the Youth Alternative Placement and Youth Parole Bureau assessments. As a result, counties were not assessed the proper amounts in fiscal years 2012 to 2014. State law requires the total number of pupils in the State in the preceding school year be used for the calculation of the Youth Alternative Placement assessment; however, we found the fiscal year 2012 assessment only included students enrolled in grades 7 through 12, and the fiscal years 2013 and 2014 assessments did not use student enrollment data from the preceding school year. We recalculated the correct assessment amounts and determined the largest differences for fiscal years 2012 through 2014 combined were Elko County being under assessed by $9,182, and Washoe County being over assessed by $13,414. In addition, state law requires the total number of pupils in grades 7 through 12 in public schools in the State for the preceding school year be used for the calculation of the Youth Parole Bureau assessment; however, we found the fiscal years 2012 through 2014 assessments incorrectly included private school students, and the fiscal year 2014 assessment did not use student enrollment data from the preceding school year. We recalculated the correct assessment amounts and determined the largest differences for fiscal years 2012 through 2014 combined were Clark County being under assessed by $29,549, and Washoe County being over assessed by $45,154. (page 10)

Better communication with counties is needed regarding the use of assessment revenues and services provided. We surveyed 10 counties regarding concerns they may have relating to these assessments, and several counties did not feel they had enough information to answer our questions. Counties stated that they pay their annual assessments, but receive very little or no correspondence to show how their money is being used and the services being provided to their counties. (page 23)
LEGISLATIVE AUDITOR’S ANALYSIS OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In April 2014, we issued an audit report on the Department of Tourism and Cultural Affairs, Division of Tourism. The audit report contained 10 recommendations: 9 to improve the Division’s activities related to the procurement of contractor services and contract management, and 1 recommendation to help ensure Nevada Magazine’s cash receipts are properly safeguarded. The Division filed its plan for corrective action in July 2014. NRS 218G.270 requires a report be issued within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the ten recommendations contained in the audit report. As of January 23, 2015, the Department of Administration indicated that nine recommendations were fully implemented and one was partially implemented. Based on our subsequent follow-up with staff of the Division of Tourism and review of pertinent documentation, we have determined that the partially implemented recommendation is now fully implemented, and we do not have any questions for agency officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

PVT: sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
    James R. Wells, CPA, Director, Office of Finance, Office of the Governor
    Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
    Claudia Vecchio, Director, Department of Tourism and Cultural Affairs
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
   Legislative Counsel Bureau

From: Julia Teska, Director
      Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Department of Tourism and Cultural Affairs

On April 28, 2014, your office released an audit report on the Department of Tourism and Cultural Affairs (department). The department subsequently filed a corrective action plan on August 27, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

There were ten recommendations contained in the report. The extent of the department’s compliance with the audit recommendations is as follows:

Recommendation 1

Ensure formal, state contracts are used to procure services.

Status – Fully Implemented

Agency Actions – The department updated its contracting process to ensure formal, state contracts are used to procure services. In addition, the department developed a comprehensive policy that integrates all regulations mandated by State Purchasing, NRS 333.165, NAC 333.150, SAM 0300 and the department’s internal controls. We reviewed a sample of contract payments made to vendors, both international and domestic, and verified each vendor had an active contract without exception. We also reviewed the contracting policy and our testing shows it is in line with state requirements.
Recommendation 2

*Solicit formal, competitive bids for vendor services when required by state law.*

Status – Fully Implemented

Agency Actions – The department developed purchasing and contracting policies to solicit competitive bids for vendor services when required by state law. We reviewed the policies and the purchasing guide and our testing shows it is in line with state requirements. We also reviewed RFPs for the international contracts due to bid in early 2015 and found the department was obtaining competitive bids for their contracts as required by state law.

Recommendation 3

*Ensure contracts are awarded pursuant to the RFP and based on total evaluation scores.*

Status – Fully Implemented

Agency Actions – The department worked closely with State Purchasing to ensure contracts are awarded pursuant to the RFP and based on total evaluation scores. The department represents it relies on Purchasing to direct the process. We reviewed a sample of contracts resulting from RFP bids and evaluation scoring. We verified criteria noted in the RFP were included on the scoring sheets and contracts were awarded to the highest scored bidder.

Recommendation 4

*Ensure payments have adequate, detailed documentation of the propriety of expenses.*

Status – Partially Implemented

Agency Actions – The department has instructed all its vendors to provide detailed expense reports that outline all expenses and adequate back-up documentation to ensure payments have adequate, detailed documentation of the propriety of expenses. The department is working to draft a procedure and associated budget tracking spreadsheet that can be used by all vendors to document completed work. We reviewed emails to vendors requesting more detailed invoices and verified the department is working towards getting all vendors to provide the required documentation.
Recommendation 5

Ensure contract maximums include all budgeted costs for each contractor, and properly record payments to the appropriate contract.

Status – Fully Implemented

Agency Actions – New contracts were developed for the international offices reflecting the total program costs to ensure contract maximums include all budgeted costs for each contractor. Additionally, the department has contract logs in place to ensure proper recording of payments to the appropriate contract. We reviewed a sample of contract payments made to vendors, both international and domestic, and traced them to the contract log to ensure payments were properly recorded to the appropriate contract and payments did not exceed contract maximums with no exceptions noted.

Recommendation 6

Ensure future contracts include terms that clearly specify deliverable requirements, and, when possible, tie payments to acceptance of deliverables.

Status – Fully Implemented

Agency Actions – The department has discussed with and continuously works with the Attorney General’s office to carefully review all its contracts to ensure future contracts include terms that clearly specify deliverable requirements, and when possible, tie payments to acceptance of deliverables. The department developed contracts for its international vendors that include stated deliverables and associated timeframes and will track its invoices and provide information about the timeframe of its invoice processing from date received to date processed with approval sign offs and any notes citing exceptions. Payments to all vendors are tied to work performance and measurable objectives as outlined in the scope of work attached to the contract, and vendors are required to provide either a monthly or quarterly activity report as required in the scope of work included in the contract. We reviewed a sample of contract payments made to both international and domestic vendors, and when applicable, traced payments to contract deliverables with no exceptions noted.
Recommendation 7

Ensure future contracts include specific due dates and deadlines for deliverables.

Status – Fully Implemented

Agency Actions – As noted in the Agency’s Actions for Recommendation 6 above, the department has discussed with and continuously works with the Attorney General’s office to ensure future contracts include specific due dates and deadlines for deliverables. We reviewed the department’s contracting policy and noted the department program managers are responsible for tracking contract requirements, obtaining vendor evaluations and discussing rebidding, if necessary, in addition to ensuring whether the vendor accomplishes the scope of work satisfactorily. Additionally, we reviewed upcoming RFPs and noted specific due dates and deadlines for deliverables.

Recommendation 8

Train contract monitors to properly review contractor invoices as required by agency policies.

Status – Fully Implemented

Agency Actions – The department trained contract managers to properly review contractor invoices as required by agency policies and developed an agency policy to ensure the contract monitor adequately reviews the contract and its processing. We reviewed the department’s contracting policy for the appropriate monitors’ duties. Discussions with staff disclosed training has been implemented to ensure correct monitoring and processing of contracts. We also reviewed training records of contract staff to ensure training completion and found the contract managers had attended the contract management class.

Recommendation 9

Ensure future contracts contain requirements for the timely submission of invoices, and develop internal policies and procedures for the timely review and payment of invoices.

Status – Fully Implemented

Agency Actions – The department developed a new invoicing process and hired an additional fiscal/operations person to help ensure future contracts contain requirements for the timely submission, review, and payment of invoices. We reviewed a sample of invoices and noted timely review and payment of invoices. Additionally, we reviewed upcoming RFPs and noted requirements for timely submission of invoices.
Recommendation 10

Develop policies and procedures to ensure the key duties of receiving, depositing, and reconciling cash receipts are properly segregated.

Status – Fully Implemented

Agency Actions – The department developed policies and procedures to ensure the key duties of receiving, depositing, and reconciling cash receipts are properly segregated. We observed the cash receipts cycle on Tuesday, January 6, 2014 and noted no exceptions.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
    Claudia Vecchio, Director, Department of Tourism and Cultural Affairs
    Steve Weinberger, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT

Background
The Nevada Commission on Tourism was created in 1983 to develop and implement a national and international marketing campaign. During the 2011 Legislative Session, the Legislature created the Department of Tourism and Cultural Affairs and placed the Division of Tourism (formerly part of the Nevada Commission on Tourism) within the Department. In addition, the Division includes the Nevada Magazine. There is also a Commission on Tourism that establishes policies and approves programs and budgets for the Division of Tourism.

The Division’s day-to-day operations are supervised by the Director of the Department of Tourism and Cultural Affairs. The Governor appoints the Director. The 2013 legislatively approved budget included 26 authorized full-time positions for the Division, and an additional 7.75 for Nevada Magazine.

The Division is funded by a 3/8 share of the one percent lodging tax established by the Legislature in 1983. In fiscal year 2013, the Division’s lodging tax revenue totaled $17.6 million. The Nevada Magazine accounts for its financial activities through an enterprise fund and exists on monies generated from magazine, calendar, and advertising sales. The Magazine’s fiscal year 2013 revenue totaled just over $1 million.

Purpose of Audit
The purpose of this audit was to determine whether: (1) the Division effectively procured, awarded, and managed contracts for services; and (2) Nevada Magazine properly controlled its cash receipts.

The primary focus of our work was fiscal year 2013. However, we performed follow-up work in certain areas through November 2013, and we included information from prior years in several areas.

Audit Recommendations
This audit report contains nine recommendations to improve the Division’s activities related to the procurement of contractor services and contract management. In addition, one recommendation was made to help ensure Nevada Magazine’s cash receipts are properly safeguarded.

The Division of Tourism accepted nine recommendations and rejected one recommendation.

Recommendation Status
The Division’s 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Department of Tourism and Cultural Affairs

Summary
When procuring contracts for services, the Division did not always follow state procurement requirements. For 2 of 10 contractors tested, the Division did not have formal state contracts. In addition, we found the Division did not select these contractors through a formal, competitive process as required by law. Furthermore, the Division’s selection of another contractor did not comply with the selection process described in the Request for Proposal. Failure to follow state procurement requirements could expose the State to unnecessary liabilities and costs, and does not ensure millions of dollars for professional services are awarded fairly.

The Division’s management of contracts was inadequate. Payments to contractors were made without adequate supporting documentation, payments to some contractors exceeded contract maximums, and some contractor invoices were not properly reviewed. Adequate oversight of contracts is critical to help ensure the Division receives those services it desires and that state tax dollars are spent effectively.

Nevada Magazine does not have adequate controls to safeguard its cash receipts. We tested Nevada Magazine’s receipt process for advertising revenue and found key activities were not properly segregated. In fiscal year 2013, the Magazine received over $598,000 in advertising receipts, or 57% of its revenues for the year. Although we did not identify missing funds, proper segregation of duties is important to help ensure agency assets are safeguarded.

Key Findings
For 2 of 10 contractors tested, the Division did not have state contracts. These contractors acted as brokers for purchasing traditional and digital advertising. Fiscal year 2012 and 2013 payments to one contractor were over $4.7 million, and payments to the other contractor were $2.3 million in fiscal year 2013. The Division used insertion orders to procure the services of these contractors. Insertion orders are written agreements to publish advertisements for established prices. However, insertion orders are not state contracts and do not ensure the State is adequately protected. (page 6)

The Division did not comply with state law for selecting these two contractors. Division management indicated a solicitation waiver and an emergency procurement authorization allowed them to award the services without competitive bids. However, the Division did not follow the requirements of the solicitation waiver or the state’s emergency procurement procedures. (page 7)

For 21 of 57 (37%) payments tested, contractors’ invoices lacked adequate supporting documentation. For example, the Division paid $2.3 million to purchase advertising space from media providers through a digital media advertising contractor, but did not have evidence from the publishers that the advertisements were placed, or the costs charged by the publishers. Proper supporting documentation is important to ensure only appropriate costs are paid. (page 11)

For 5 of 10 contractors tested, payments exceeded the contract maximums. Payments for the five contractors exceeded the maximums by over $660,000, and could be more because payments related to one contract were made to other contractors. Paying more than the contract maximum could force the Division to limit or eliminate expenditures in other program areas if adequate funding is not available. (page 14)

For the 57 contractor payments tested, we found several instances where contractor invoices were not properly reviewed, and some contractors were overpaid. For example, the Division paid $2,200 for travel expenses not allowed by the contract. Failure to properly review contractors’ invoices may result in payments for services and products that do not comply with contract terms. (page 17)

Some payments and obligations to the Division’s public relations and marketing contractor have, or will, result in itemized costs for some contract deliverables being exceeded. For example, Division payments and future obligations for production of television commercials could exceed $1.2 million, compared to the $537,000 specified in the contract. The terms for this contract included vague language regarding deliverables. When contracts do not clearly define deliverables, the State may not receive the services or products desired, and other contract services may not be realized. (page 18)

The Division has not fully realized deliverables contained in one contract. The contract terms indicated that, at the end of fiscal year 2013, the Division would have redesigned websites and a mobile application to help promote Nevada. However, neither of these deliverables were fully realized as of December 2013. At the end of fiscal year 2013, payments for website redesign and mobile application development totaled $125,500 and $69,200 respectively. (page 20)
LEGISLATIVE AUDITOR’S ANALYSIS OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In October 2014, we issued an audit report on the Supreme Court of Nevada that contained six recommendations. The Court accepted five of the six recommendations, and filed its plan for corrective action in December 2014. NRS 218G.270 provides that the Court shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Court on the status of the five accepted recommendations. The six-month report indicated the five recommendations were fully implemented, and we requested documentation from the Court Administrator for confirmation. From our review of the documentation provided, we concur that the five recommendations were fully implemented.

Therefore, we do not have any questions for Court officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

PVT:sy
Enclosure
cc: James W. Hardesty, Chief Justice, Supreme Court of Nevada
    Robin L. Sweet, State Court Administrator, Office of the Court Administrator
    Tracie Lindeman, Clerk of the Supreme Court, Supreme Court of Nevada
SIX-MONTH REPORT
Mr. Paul Townsend, CPA
Legislative Auditor
Nevada Legislature
401 South Carson Street
Carson City, Nevada 89701

RE: 6-Month Follow Up to 2014 Audit

Dear Mr. Townsend:

The purpose of this letter is provide an update on the status of the recommendations the Supreme Court accepted from the Legislative Counsel Bureau’s audit of the Judicial Branch, which was completed in 2014 and submitted to the Audit Subcommittee of the Legislative Commission on October 6, 2014. Much of the information this letter contains was previously provided; however, as requested by your staff, we are providing it again in this response.

Recommendation 2: Monitor procurement activities to ensure compliance with policies and procedures.

Status: Accepted and implemented

As stated in our procedures, all contracts and agreements require a completed and signed coversheet for the Director’s review before the Director applies final approval and signs the contracts and agreements. Since the audit recommendation was accepted, all contracts and agreements signed by the Director have been submitted to the Director with completed coversheets for the Director’s review prior to the final signature to execute the contracts and agreements is applied.

As stated in our procedures, two signatures verifying receipt of goods are required on packing slips before the accounting unit will voucher and pay invoices. We have reminded both staff and the accounting unit of this requirement. Packing slips are returned to staff if the required signatures are not documented. Invoices are not paid until the two signatures are obtained on the packing slip to support payment.
Mr. Paul Townsend, CPA
Follow-Up to LCB Audit Recommendations
March 9, 2015
Page 2

All departments of the Court have been reminded to follow all procurement policies and procedures. The procedures are readily accessible for all Court staff on the Supreme Court’s intranet. Court staff receives emails on an annual and sometimes semi-annual basis reminding them of the purpose and location of policies and procedures. We have included information on procedures in the orientation process for new employees.

**Recommendation 3:** Ensure checks and money orders are restrictively endorsed immediately upon receipt.

**Status:** Accepted and implemented

As stated in our procedures, all checks and money orders must be restrictively endorsed at the time they are received. The Clerk of the Court’s procedures have been updated to ensure processes and procedures are in place for the endorsement of all checks or money orders upon receipt whether in mail or at counter, as well as the use of the check log. The updated procedures have been in place since the audit recommendation was made.

**Recommendation 4:** Revise written procedures to ensure fees are properly recorded and reconciled to deposits in the state accounting system.

**Status:** Accepted and implemented

A check log is maintained in the Clerk of the Court’s office and is used for reconciliation purposes. A letter from the Clerk of Court to District Court Clerks was sent November 10, 2014, requiring them to submit quarterly reports of peremptory challenge fees submitted to the Supreme Court. The procedures of the Clerk of the Court have been revised to document the recording and reconciliation processes in relation to this recommendation.

**Recommendation 5:** Perform an annual inventory of equipment, including reconciliation to equipment inventory records.

**Status:** Accepted and implemented

The asset management policy, which notes annual inventories will be completed, was approved by the Executive Committee on December 23, 2014. The new asset management software has been implemented; initial data has been entered and custom reports prepared. The initial inventory was completed in November and several items were moved and added during the implementation of the Court of Appeals, which tested the procedures and required minor updates.

A property disposition report has been submitted to the State Purchasing Division to update the inventory records in their system. Our inventory procedures include reconciliation of the
inventory records in our internal system to the inventory records contained in the state’s inventory in order to ensure their records reflect the most current status of all equipment.

**Recommendation 6:** Enhance written procedures to ensure disposal of equipment is properly recorded and verified.

**Status:** Accepted and implemented

The asset management policy, which requires that a reconciliation of donated items will be completed, was approved by the Executive Committee on December 23, 2014. The written procedures for the asset management policy detail the process for reconciliation of donated items.

Our Judicial Branch Auditor has reviewed all the aforementioned procedures to confirm that the procedures adequately address the concerns expressed in the Legislative Audit.

Respectfully,

[Signature]

James W. Hardesty
Chief Justice

cc: Justice Mark Gibbons
Tracie Lindeman, Clerk of the Court
Robin Sweet, Director, Administrative Office of the Courts
Deanna Bjork, Manager of Budgets
Staci Anderson, Judicial Branch Auditor
Jim Wells, Interim Director of Administration
AUDIT HIGHLIGHT
Auditor

Highlights

Highlights of performance audit report on the Supreme Court of Nevada issued on October 6, 2014. Legislative Auditor report # LA14-20.

Background

The Nevada Judiciary is one of three branches of government. It consists of the Supreme Court, the State’s highest court, and three levels of trial courts: the district, justice, and municipal courts. The Supreme Court rules on appeals from the trial courts, determining if legal errors occurred in court cases, whether verdicts and judgments were fair and correct.

As of July 26, 2014, the Supreme Court had 150 filled positions. In addition, 89 judge positions are not filled.

Filing fees are collected when a special proceeding is brought to the Supreme Court. Expenditures for the Supreme Court and other accounts it administers were about $51 million in fiscal year 2014.

Purpose of Audit

The purpose of the audit was to determine whether the Supreme Court has effective controls over the procurement of goods and services, collection of peremptory challenge and court filing fees, and safeguarding of equipment.

This audit focused on the 12-month period ending March 31, 2014, and prior years for some procurement and equipment activities.

Audit Recommendations

This audit report contains six recommendations to improve controls over the procurement of goods and services, collection of certain fees, and safeguarding of equipment.

The Supreme Court accepted five recommendations and rejected one recommendation.

Recommendation Status

The Supreme Court’s 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

Summary

In general, the Supreme Court has adequate controls over the procurement of goods and services. However, the Supreme Court can improve oversight of its procurement activities. Specifically, it needs to take additional action to help ensure multiple bids or quotes are obtained when selecting vendors. From our testing of the procurement of goods and services, we found that most procurements did not have documentation showing multiple bids or quotes were requested. As a result, the Supreme Court cannot demonstrate it received the best product at the best price. In addition, internal procurement policies and procedures were not always followed. Adequate oversight of procurement activities is important to help ensure the Court receives those goods and services desired, and that its interests are protected.

The Supreme Court has effective controls to ensure the timely deposit of peremptory challenge and filing fees. We tested 90 transactions and found these fees were deposited timely. However, additional controls are needed to reduce the risk of loss of these fees. Specifically, checks need to be restrictively endorsed immediately upon receipt, and recorded and reconciled properly. During fiscal year 2014, the Court received over $565,000 in peremptory challenge and filing fees.

The Supreme Court needs to strengthen its controls over equipment. We found the Court did not properly track its equipment, and as a result its equipment records were not accurate. In addition, the proper disposal of some equipment, such as computers and monitors, could not be verified. Adequate controls in these areas are important to help ensure equipment is properly safeguarded, including items with a high susceptibility to theft or loss, such as laptop computers.

State property records indicate the total acquisition cost of items held by the Court is over $4.1 million.

Key Findings

For 13 of 20 (65%) procurements tested, the Supreme Court did not solicit multiple bids or quotes, or did not document they were requested. The value of these procurements totaled over $598,000. When competitive procedures are not used to select vendors, the Supreme Court does not have assurance it receives the best product at the best price. For example, one vendor that performs janitorial services has been under contract with the Supreme Court since 2006. The vendor’s contract was amended in 2011, but multiple bids were not requested. (page 5)

The Supreme Court has developed procedures to help control its procurement activities. Our testing of over $1.8 million in procurements of goods and services found procedures were often followed. For example, all 10 procurements of goods tested received the proper approvals before being purchased, and payments were made after the execution of the contract. However, staff did not always follow policies and procedures, including those requiring contract summary sheets and documenting receipt of goods. (page 7)

We tested 30 filing fee and 60 peremptory challenge fee transactions and found the correct fee amount was collected and deposited timely. However, key controls to log, restrictively endorse, and reconcile receipts were not performed or performed timely. Our testing did not identify missing funds; nevertheless, additional controls over cash receipts are needed to help ensure they are not lost or stolen. (page 9)

The Court did not perform an annual inventory of equipment. According to the Court’s records, its most recent inventory of information technology (IT) equipment was performed in February 2012. In addition, staff were not sure when the last inventory of non-IT equipment was performed. Nevertheless, our testing of equipment did not find significant problems. However, the Court has less assurance equipment is properly safeguarded when physical inventories are not performed. (page 12)

Our testing of the Court’s disposal of IT equipment found discrepancies between the Court’s disposal lists and the receipts provided by the entity receiving the equipment. In addition, the Court does not have a receipt for one disposal documenting the entity received the equipment. Policies and procedures do not address the process needed to verify items approved for disposal were disposed of properly. Without adequate controls over the disposal of equipment, the Supreme Court’s excess equipment could be stolen or given away improperly. (page 13)
LEGISLATIVE AUDITOR’S ANALYSIS OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In April 2014, we issued an audit report on the Department of Corrections, Information Technology Security. The Department filed its plan for corrective action in June 2014. NRS 218G.270 requires a report be issued within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the six recommendations contained in the audit report. As of January 23, 2015, the Department of Administration indicated all six recommendations were fully implemented. Therefore, we have no questions for agency officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

cc: Michael J. Willden, Chief of Staff, Office of the Governor
    James R. Wells, CPA, Director, Office of Finance, Office of the Governor
    Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
    E. K. McDaniel, Interim Director, Department of Corrections
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
   Legislative Counsel Bureau

From: Julia Teska, Director
   Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Department of Corrections Information Technology Security

On April 28, 2014, your office released an audit report on the Department of Corrections Information Technology Security, Management Information System (MIS unit). The department subsequently filed a corrective action plan on June 30, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the MIS unit to comply with audit findings.

There were six recommendations contained in the report. The extent of the MIS unit’s compliance with the audit recommendations is as follows:

Recommendation 1

Ensure critical updates to desktop computers are monitored for successful installation.

Status – Fully Implemented

Agency Actions – The MIS unit is ensuring critical updates to desktop computers are monitored for successful installation. The MIS unit reports all its desktop computers have been replaced with Windows 7 computers and that the computer configurations are set to automatically update the Windows software. Additionally, desktop computer updates are monitored from the Windows server. We reviewed the update logs on the Windows server for 21 randomly selected computers and noted more than ninety-nine percent of the updates had been completed. The uncompleted patches were non-critical patches for Windows 2003.
Recommendation 2

Ensure database software is kept current with vendor security update releases.

Status – Fully Implemented

Agency Actions – The MIS unit is ensuring database software is kept current with vendor security update releases. The MIS unit reports both of its database administrators are now registered with Oracle and receiving quarterly update notifications. On December 11, 2014 we observed the database update list and noted the last update occurred on November 8, 2014.

Recommendation 3

Upgrade to a more current Oracle database product when a compatible version of the NOTIS application is implemented on the Department’s network.

Status – Fully Implemented

Agency Actions – The MIS unit upgraded the Nevada Offender Tracking Information System (NOTIS) to a newer tracking system called Elite which allowed upgrading the Oracle database from level 10G to level 11G. We observed the new upgrades are functioning as intended.

Recommendation 4

Implement a system to ensure all desktop computers have current virus protection.

Status – Fully Implemented

Agency Actions – The MIS unit implemented a system to ensure all desktop computers have current virus protection. The MIS unit reports installing Sophos endpoint software on all its desktop computers and that Sophos automatically updates virus protection software. We reviewed the update logs in the Sophos software management window for 21 randomly selected computers and noted all of the updates had been completed.

Recommendation 5

Train staff to be aware that photocopiers contain hard drives that store processed information and this information should be erased when a photocopier is replaced.

Status – Fully Implemented
Agency Actions – The MIS unit trained staff to be aware that photocopiers contain hard drives that store processed information and this information should be erased when a photocopier is replaced. The MIS unit reports emailing information technologies staff, facility Business Managers, and department purchasing staff new policies and procedures informing them of data removal requirements. We confirmed receipt of the email with the department’s purchasing staff and obtained a copy of the new policies and procedures.

**Recommendation 6**

*Implement procedures to ensure that photocopiers are configured to not store processed data as indicated in the state security standards.*

**Status – Fully Implemented**

Agency Actions – The MIS unit implemented procedures to ensure that photocopiers are configured not to store processed data as indicated in the state security standards. Department staff reports that multi-functional devices, including those with copying ability, on the network have the ability to be configured to overwrite data immediately. MIS unit staff also reports that “On Demand Image Overwrite” procedures are used when machines are removed. Additionally, MIS unit staff reports that hard drives from off-network copiers that cannot be configured are removed and destroyed.

We reviewed administrative regulations dated December 17, 2013, and noted the requirement for data to be removed prior to shipping to a third party. We also observed multi-function configurations noting the “Immediate Job Overwrite” function was enabled. Additionally, we observed a destroyed hard drive that the MIS unit reported had been removed from a copier.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

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*Julia Teska*

Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
    James Cox, Director, Department of Corrections
    Steve Weinberger, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
Audit Highlights


Background
The mission of the Nevada Department of Corrections is to protect the public by confining convicted felons according to the law, while keeping staff and inmates safe. The Department currently manages 18 adult correctional institutions located throughout the State, housing approximately 13,000 inmates. These institutions include seven correctional centers (prisons), nine conservation camps, one restitution center, and one transitional housing center.

The Department’s Management Information Systems (MIS) unit’s mission includes keeping the Department’s technology infrastructure current, providing proficient IT support staff, and providing its statewide facilities with a network infrastructure.

The MIS unit has a current staff of 25 full-time employees and is organized into an MIS Chief’s office and four subordinate sections that include: 1) Applications Support, 2) Infrastructure Support, 3) Help Desk, and 4) Telecommunications.

Purpose of Audit
The purpose of this audit was to determine if the Department’s information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems.

This audit included a review of information technology systems and practices at the Department of Corrections during calendar year 2013. The scope of this audit did not include certain information system controls related to the Department’s Nevada Offender Tracking Information System (NOTIS) which were part of LCB audit LA14-02, issued in February 2013.

Audit Recommendations
This audit report contains six recommendations to improve information security controls. These recommendations include three recommendations to improve installation of software security updates, one recommendation to improve virus protection, and two recommendations to improve protection of information stored on photocopier hard drives.

The Department accepted the six recommendations.

Recommendation Status
The Department’s 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Department of Corrections
Information Technology Security

Summary
The Department needs to strengthen information system controls to ensure adequate protection of information systems and the data processed therein. Software security updates were missing in desktop computers as well as in the Department’s mission critical database application software that supports its inmate information system. In addition, some Department computers did not have current virus protection. State security standards require virus protection software be installed on each computer to protect from computer viruses that typically come from the Internet or infected emails. Furthermore, controls were not in place to ensure sensitive data stored in Department photocopiers are erased. This information is stored when employees make copies, fax, scan, or print documents on these machines. This data must be deleted prior to the photocopiers being replaced or there is a risk that sensitive information could remain on the copiers’ hard drives when they leave agency control.

Key Findings
Many Department desktop computers were not receiving monthly operating system security updates. We found that 52 of the 211 desktop computers tested, or 25% of our sample, had not received their Windows updates in over three months or showed large gaps between prior update installations. State security standards require agencies to begin implementing critical security patches within three working days from the date the vendor releases the software patch. Computers without current software security patches represent weaknesses in a computer network that can be exploited by a malicious entity to gain unauthorized access to a computer or computer network. (page 3)

Several database applications from Oracle were missing security updates. Similar to desktop computer operating systems, computer applications such as database software also need to be updated when software vendors issue security patches. These updates had not been installed in over 6 months. These database applications needing security updates included those supporting the Department’s offender sentence calculation database, its data warehouse, its document management database, and its Nevada Offender Tracking Information System (NOTIS). Unpatched database application software increases the risk of unauthorized access to the system’s confidential data. (page 4)

Some Department computers did not have current virus protection. Eleven of the 211 computers tested, or 5% of our sample, lacked adequate virus protection. State security standards require virus protection software be installed on each computer to protect from computer viruses that typically come from the Internet or infected emails. The software needs to be periodically updated with new virus definitions. These definitions allow the software to more easily identify and protect from current virus threats. Employees whose computers do become infected will lose productive time while their computers are purged of the infected files. In addition, some malware that infects computers is capable of gaining access to sensitive information that resides on the infected computer or elsewhere on the network. (page 6)

Controls were not in place to ensure sensitive information stored in Department photocopiers is erased. This information is stored when employees make copies, fax, scan, or print documents on these machines. This data must be deleted prior to the photocopiers being replaced or there is a risk that sensitive information could remain on the photocopiers’ hard drives when they leave agency control. The Department does not currently have a policy or procedure that addresses the data stored on these office photocopiers. Without a policy to educate and guide staff actions, there is increased risk that confidential information will remain on these devices after they leave agency control. (page 7)
LEGISLATIVE AUDITOR’S ANALYSIS
OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In April 2014, we issued an audit report on the Department of Business and Industry, Nevada State Athletic Commission. The Commission filed its plan for corrective action in July 2014. NRS 218G.270 requires a report be issued within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 11 recommendations contained in the audit report. As of January 23, 2015, the Department of Administration indicated eight recommendations were fully implemented and three were partially implemented. Based on our subsequent follow-up with staff of the Nevada State Athletic Commission, we have determined that the partially implemented recommendations are now fully implemented and we do not have any questions for agency officials.

Respectfully Submitted,

Paul V. Townsend, CPA
Legislative Auditor

PVT: sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry (DBI)
Robert Bennett, Executive Director, Nevada State Athletic Commission, DBI
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor
   Legislative Counsel Bureau

From: Julia Teska, Director
      Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Nevada State Athletic Commission

On April 28, 2014, your office released an audit report on the Nevada State Athletic Commission (commission). The commission subsequently filed a corrective action plan on July 23, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the commission to comply with audit findings.

There were 11 recommendations contained in the report. The extent of the commission’s compliance with the audit recommendations is as follows:

**Recommendation 1**

*Contact the State Board of Examiners for approval to refund the overpayment of license fees collected for closed-circuit telecast events.*

Status – Fully Implemented

Agency Actions – The commission discussed the refund with the budget office and the LCB auditor and they determined that since the two promoters have upcoming events, it would be preferable to apply credits for the overpayment to each promoter’s account instead of issuing refunds. We reviewed supporting workpapers submitted by the commission and determined the credits were properly applied to each promoters account in settlement of the overpayment.
**Recommendation 2**

*Develop procedures to ensure license fees for closed-circuit telecast events are calculated correctly.*

**Status – Fully Implemented**

**Agency Actions** – The commission developed a new procedure to ensure license fees for closed-circuit telecast events are calculated correctly. We reviewed the commission's fee calculations for closed circuit telecasts and live events and determined the fees were properly calculated.

**Recommendation 3**

*Develop procedures to address current practices for preparing reports used for license fees and to ensure fees are collected timely.*

**Status – Fully Implemented**

**Agency Actions** – The commission developed procedures to address current practices for preparing reports used for license fees and to ensure fees are collected timely. The new procedure specifically states that promoters are required to pay license fees no later than 20 days after the event and designates a specific employee with the responsibility of ensuring the fees are paid in accordance with NRS 467.109.2.

**Recommendation 4**

*Develop procedures to ensure money received from promoters is deposited in the Athletic Commission’s Agency Account, in accordance with NRS 467.080.*

**Status – Fully Implemented**

**Agency Actions** – In lieu of developing procedures in accordance with NRS 467.080, the commission adopted a new policy of accepting only bonds from promoters. They will no longer accept cash or certificates of deposits; therefore, no additional procedures will be developed. We reviewed the letters sent to promoters by the commission and discussed the commission’s procedures with staff. Based on our review and discussions, it appears that the commission closed all the deposits with the outside bank and returned the money on deposit to the promoters with a request they maintain a $10,000 refund bond for as long as they retain their licenses.
Recommendation 5

Close the certificates of deposit opened in an outside bank account and either deposit the money with the State Treasurer, or require promoters to file a bond or other form of security authorized by statute.

Status – Fully Implemented

Agency Actions – The commission closed the certificates of deposits opened in an outside bank account and returned the money to the promoters. We reviewed the letters sent out by the commission stating they have closed all the accounts and will no longer accept certificates of deposits.

Recommendation 6

Obtain guidance from the Department for assistance in physically securing the server in accordance with state security standards and NRS 603A.210.

Status – Fully Implemented

Agency Actions – The commission stated the server has been moved to a secure location in the Grant Sawyer Building. We independently confirmed with Enterprise Information Technology Services staff that access to the room housing the server now requires a key which is controlled by EITS and Capitol Police.

Recommendation 7

Contact the department to identify and remove all files containing unencrypted personal identifying information from the Department’s server that are accessible through the commission’s file server.

Status – Fully Implemented

Agency Actions – The commission stated they requested assistance from the department’s IT to identify and remove all files containing unencrypted personal identifying information (PII) accessible through the commission’s file server. Discussions with staff disclosed that all the unencrypted PII have been removed from the commission’s file server.
**Recommendation 8**

Update procedures to ensure records are available to support results reported for each performance measure.

Status – Partially Implemented

Agency Actions – The commission stated policies and procedures for ensuring records are available to support results reported for each performance measure are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission’s policies and procedures. The commission anticipates full implementation of these procedures by June 30, 2015.

**Recommendation 9**

Track data to support each performance measure for increased efficiency when reporting results.

Status – Partially Implemented

Agency Actions – The commission stated that policies and procedures for tracking data to support each performance measure for increased efficiency when reporting results are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission’s policies and procedures. The commission anticipates full implementation of these procedures by June 30, 2015.

**Recommendation 10**

Revise procedures to ensure supporting documentation for performance measures is retained for at least 3 fiscal years.

Status – Fully Implemented

Agency Actions – The commission has adopted the department’s policy and procedure regarding records retention, which requires that records be retained for six years.
Recommendation 11

Develop controls to ensure reported results are accurate.

Status – Partially Implemented

Agency Actions – The commission stated policies and procedures for developing controls to ensure performance measure reported results are accurate are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission’s policies and procedures. The commission anticipates full implementation of these procedures by January 31, 2015.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
   Bruce Breslow, Director, Department of Business and Industry
   Lisa Figueroa, ASO IV, Department of Business and Industry
   Steve Weinberger, Administrator, Division of Internal Audit
AUDIT HIGHLIGHT
Audit Highlights


Background

The Nevada State Athletic Commission administers and enforces state laws and regulations pertaining to unarmed combat for the protection of the public and to ensure the health and safety of the contestants. The Commission’s mission is to regulate all unarmed combat contests or exhibitions. Generally, unarmed combat includes boxing, kickboxing and mixed martial arts. The Commission was established in 1941 and became part of the Department of Business and Industry in 1993.

The Commission consists of five members appointed by the Governor, an executive director, and four staff. The Commission maintains one office in Las Vegas. In fiscal year 2013, the Commission regulated 110 events, issued 1,957 licenses, and collected $4,083,797 in permit and license fees which were deposited directly into the General Fund. During the same time, the Commission expended approximately $955,000.

Purpose of Audit

The purpose of the audit was to evaluate: (1) financial and administrative practices in place to carry out applicable laws and regulations, (2) information security controls to protect the confidentiality, integrity, and availability of sensitive information and information systems, and (3) performance measures, including reliability of reported results. Our audit focused on management controls during fiscal years 2010 – 2014, and included a review of a money received from promoters for licenses issued or renewed since calendar year 2003. The audit also focused on performance measures and reported results for fiscal year 2012.

Audit Recommendations

This audit report contains 11 recommendations to improve: (1) financial and administrative practices and to ensure money received from promoters is deposited in accordance with statutes, (2) the protection of sensitive information, and (3) oversight for the reliability of performance measures used in the state’s budget process.

The Commission accepted the 11 recommendations.

Recommendation Status

The Commission’s 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Nevada State Athletic Commission

Department of Business and Industry

Summary

The Nevada State Athletic Commission can make improvements to its financial and administrative practices regarding license fees and deposits of money. The Commission did not always calculate license fees correctly and did not incorporate all complimentary tickets issued when preparing its calculation. Also, the Commission did not deposit money received from promoters with the State Treasurer as required by statute. Instead, the money was deposited in an outside bank account. Furthermore, there is no record the Commission received approval from the State Board of Finance to open an outside bank account to deposit money received from promoters.

The Commission needs to better protect sensitive information. We found the server used for file storage was not physically secured, as required by state security standards. In addition, we found unencrypted personal identifying information (PII) was accessible through the server.

The Commission can take steps to strengthen its oversight for the reliability of performance measures used in the state’s budget process. Some measures used in the budget process for fiscal year 2012 were not adequately supported by underlying records and the reported result for one measure was inaccurate.

Key Findings

The Commission did not calculate license fees for closed-circuit telecast events in accordance with statute. For 7 of 12 closed-circuit telecast events reviewed, we found the Commission calculated fees at a rate of 6 cents for each $1 received for admission instead of 4 cents. The Commission’s incorrect calculation of license fees resulted in the collection of overpayments totaling over $55,000. In addition, the Commission has not documented procedures to ensure fees are collected accurately and timely. (page 3)

The Commission did not deposit money received with the State Treasurer, as required by statute. The Commission received this money from applicants prior to issuing a promoter license to hold an unarmed combat event. Money the Commission receives from applicants may be used to satisfy any obligation incurred by the promoter during a contest or exhibition. All money the Commission receives from applicants, to satisfy any obligation incurred by the promoter, must be deposited in the Athletic Commission’s Agency Account. However, the Commission deposited money received with an outside bank account. In addition, there is no record of approval from the State Board of Finance allowing the Commission to deposit money in an outside bank. (page 6)

The Commission’s file server was not adequately secured. Specifically, the server was stored on a desk in an open area of the Commission’s office. During our audit we observed individuals from the public enter and pass the open area in the Commission’s office where the server is located. In addition, files containing unencrypted personal identifying information (PII) were accessible through the Commission’s file server. We identified several files containing approximately 1,000 social security numbers and names of state employees, including personnel reports. (page 9)

Reported results for five performance measures were not adequately supported by underlying records. The Commission’s records to support results were either not available to verify calculation of a performance measure or data was not tracked. In addition, the reported result for the measurement of fees collected timely was not accurate. (page 11)
LEGISLATIVE AUDITOR’S ANALYSIS
OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701

In December 2014, we issued an audit report on the Department of Education (DOE). The Department filed its plan for corrective action in March 2015. NRS 218G.270 requires a report be issued within 6 months after the plan for corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Governor’s Finance Office on the status of the 18 recommendations contained in the report. As of September 2, 2015, the Finance Office indicated that 14 recommendations were fully implemented and 4 were partially implemented. The partially implemented recommendations relate to class-size reduction funds provided by the Department to school districts. These four recommendations were expected to be fully implemented when policies and procedures were finalized and provided to us by September 30, 2015.

<table>
<thead>
<tr>
<th>Recommendation Number</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Develop policies and procedures for monitoring class-size reduction reports submitted by the school districts. This should include steps to help ensure the reports contain all required information and are accurate.</td>
</tr>
<tr>
<td>15</td>
<td>Provide guidance to the school districts regarding CSR reporting requirements.</td>
</tr>
<tr>
<td>16</td>
<td>Develop policies and procedures for reviewing variance requests to ensure reporting requirements are met.</td>
</tr>
<tr>
<td>17</td>
<td>Develop policies and procedures for the distribution of class-size reduction funds. This includes retention of supporting documents and review of work performed to determine amounts allocated to school districts.</td>
</tr>
</tbody>
</table>

Question

1. Has the Department finalized policies and procedures related to Recommendations Nos. 14 to 17? If not, when will they be finalized?
When the Department provides the policies and procedures related to the above recommendations, we will review them to ensure the recommendations are fully implemented.

Respectfully Submitted,

[Signature]

Paul V. Townsend, CPA
Legislative Auditor

PVT:sy
Enclosure

cc: Michael J. Willden, Chief of Staff, Office of the Governor
    James R. Wells, CPA, Director, Office of Finance, Office of the Governor
    Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
    Steve Canavero, PhD, Interim Superintendent of Public Instruction, DOE
    Mindy Martini, Deputy Superintendent for Business and Support Services, DOE
MEMORANDUM

To: Paul Townsend, Legislative Auditor  
Legislative Counsel Bureau

From: James R. Wells, CPA, Director  
Department of Administration

Date: September 2, 2015

Subject: Legislative Audit of the Department of Education

On December 2, 2014, your office released an audit report on the Department of Education (department). The department subsequently filed a corrective action plan on March 7, 2015. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

There were eighteen recommendations contained in the report. The extent of the department’s compliance with the audit recommendations is as follows:

**Recommendation 1**

*Adopt regulations that establish a procedure for the notification, tracking, and monitoring of the status of criminal cases involving licensees, per NRS 391.055.*

Status – Fully Implemented

Agency Actions – The department adopted regulations that establish a procedure for the notification, tracking, and monitoring of the status of criminal cases involving licensees, per NRS 391.055. We reviewed the Adopted Regulation of the Department of Education LCB File No. R031-14, effective October 24, 2014, and noted adopted regulations approved by the Legislature, procedures for notification, tracking, and monitoring the status of criminal cases involving licensees.
Recommendation 2

Revise procedures for tracking, monitoring, and revoking teacher licenses to provide for supervisory oversight and help ensure timely monitoring.

Status – Fully Implemented

Agency Actions – The department revised procedures for tracking monitoring, and revoking teacher licenses to provide for supervisory oversight and help ensure timely monitoring, which were put in place July 1, 2014. We reviewed the two revocation case files processed within our review period. One case processed within five days and the other within the same day of notification of arrest; both were sent to the Deputy Attorney General’s office, pending legal action.

Recommendation 3

Revise written procedures to help ensure revocation case files include documentation of significant events and actions taken by agency personnel.

Status – Fully Implemented

Agency Actions – The department revised written procedures to help ensure revocation case files include documentation of significant events and actions taken by agency personnel. We reviewed the two revocation case files and noted documentation of significant events and actions taken by agency personnel.

Recommendation 4

Revise policies and procedures to issue provisional licenses with a 120-day maximum and obtain a signed statement from all applicants indicating they understand the conditions under which the provisional license is issued.

Status – Fully Implemented

Agency Actions – The department revised policies and procedures to issue provisional licenses with a 120-day maximum and obtain a signed statement from all applicants indicating they understand the conditions under which the provisional license is issued. The department discontinued the issuance of provisional licenses effective July 1, 2014. We reviewed the department’s policy noting the stated changes.
Recommendation 5

Revise policies and procedures for tracking criminal history reports. This should include steps to help ensure timely and accurate entry of license information in the information systems, and management oversight.

Status – Fully Implemented

Agency Actions – The department revised policies and procedures for tracking criminal history reports to include steps to help ensure timely and accurate entry of license information in the information systems, and management oversight. The audit noted the department took an average of 60 days for reviewing criminal history reports and an 82 day overall processing time. We reviewed ten licensee criminal history tracking records and noted timely and accurate processing of criminal history reports. Our testing shows an average of a three day review of criminal history reports and entry of license information in the information systems and an average of a 56 day overall processing time.

Recommendation 6

Revise procedures to help ensure criminal history reports are reviewed timely.

Status – Fully Implemented

Agency Actions – The department revised procedures to help ensure criminal history reports are reviewed timely. The audit noted the department took an average of 60 days for reviewing criminal history reports. We reviewed ten licensee criminal history tracking records and noted an average of a three day review of criminal history reports and entry of license information in the information systems.

Recommendation 7

Consult with legal counsel and develop a definition of moral turpitude to be applied to applicants and licensees that have been convicted of non-felony crimes.

Status – Fully Implemented

Agency Actions – The department consulted with legal counsel and developed a definition of moral turpitude to be applied to applicants and licensees that have been convicted of non-felony crimes. We reviewed the department’s matrix guide to be applied to applicants and licensees and noted different types of offenses of moral turpitude listed and corresponding action to be taken.
**Recommendation 8**

*Develop policies and procedures for reviewing and approving applications. This includes providing management information for monitoring the timeliness of reviewing applications.*

**Status – Fully Implemented**

**Agency Actions** – The department developed policies and procedures for reviewing and approving applications to include providing management information for the monitoring the timeliness of reviewing applications. The audit noted it was taking in excess of 120 days to process applications. The department states in its status report it has a six to seven week processing timeframe for reviewing and approving applications, including background processing. We reviewed twenty applicant records and found the average processing time was within this timeframe.

**Recommendation 9**

*Develop policies and procedures for the collection, safeguarding, and depositing of license fees.*

**Status – Fully Implemented**

**Agency Actions** – The department developed policies and procedures for the collection, safeguarding, and depositing of license fees. We reviewed six deposits to verify they were deposited timely and properly recorded; we noted one exception to the timeliness of the recording of the deposit. The agency represents it was still implementing procedures at the time of the deposit. Our testing notes this may be an isolated incident because the department has since had consistent timely recording of deposits.

**Recommendation 10**

*Provide guidance to the school districts in developing a class-size reduction plan that includes all statutorily-required elements and considers elements used by other states.*

**Status – Fully Implemented**

**Agency Actions** – The department provided guidance to the school districts in developing a class-size reduction plan that includes all statutorily-required elements and considers elements used by other states. We reviewed the class-size reduction plans submitted to and approved by the State Board noting all required elements.
Recommendation 11

*Develop policies and procedures for monitoring class-size reduction plans. This includes steps to help ensure class-size reduction plans are properly reviewed.*

Status – Fully Implemented

Agency Actions – The department developed policies and procedures for monitoring class-size reduction plans including steps to help ensure class-size reduction plans are properly reviewed. We reviewed the class-size reduction plans submitted and approved by the State Board noting evidence of proper review. Additionally, we reviewed the department’s summary sheet of all the districts’ plans and the Request for Variances to help ensure plans are properly reviewed.

Recommendation 12

*Determine the data that must be monitored by each school district and used to measure the effectiveness of the implementation of its plan to reduce pupil-teacher ratios.*

Status – Fully Implemented

Agency Actions – The department determined the data that must be monitoring by each school district and use to measure the effectiveness of the implementation of its plan to reduce pupil-teacher ratios. We reviewed the department’s “Data to Monitor” form distributed to the school districts noting data variables each district was required to report to measure the effectiveness of the implementation of its plan to reduce pupil-teacher ratios.

Recommendation 13

*Develop a method for determining which school districts have elected the “plus two” provision and inform those districts of the additional reporting requirements.*

Status – Fully Implemented

Agency Actions – The department developed a method for determining which school districts have elected the “plus two” provision and informed those districts of the additional reporting. Per discussion with the department’s management analyst, the “plus two” program is no longer in place and was replaced with new legislation, Senate Bill 515 Section 14, which allows for available money to provide sufficient number of teachers to achieve pupil-teacher ratios as stated in the bill.
Recommendation 14

Develop policies and procedures for monitoring class-size reduction reports submitted by the school districts. This should include steps to help ensure the reports contain all required information and are accurate.

Status – Partially Implemented

Agency Actions – The department is developing policies and procedures for monitoring class-size reduction reports submitted by the school districts including steps to help ensure the reports contain all required information and are accurate. Copies of the policies and procedures will be provided to the Legislative Council Bureau and the Department of Administration by the end of the first quarter of FY 2016.

Recommendation 15

Provide guidance to the school districts regarding CSR reporting requirements.

Status – Partially Implemented

Agency Actions – The department will provide guidance to the school districts regarding CSR reporting requirements. The department is developing policies and procedures for monitoring class-size reduction reports submitted by the school districts including steps to help ensure the reports contain all required information and are accurate. Copies of the policies and procedures will be provided to Legislative Council Bureau and the Department of Administration by the end of the first quarter of FY 2016.

Recommendation 16

Develop policies and procedures for reviewing variance requests to ensure reporting requirements are met.

Status – Partially Implemented

Agency Actions – The department is developing policies and procedures for reviewing variance requests to ensure reporting requirements are met. Copies of the policies and procedures will be provided to Legislative Council Bureau and the Department of Administration by the end of the first quarter of FY 2016.
Recommendation 17

Develop policies and procedures for the distribution of class-size reduction funds. This includes retention of supporting documents and review of work performed to determine amounts allocated to the school districts.

Status – Partially Implemented

Agency Actions – The department is developing policies and procedures for the distribution of class-size reduction funds including retention of supporting documents and review of work performed to determine amounts allocated to the school districts. Copies of the policies and procedures will be provided to Legislative Council Bureau and the Department of Administration by the end of the first quarter of FY 2016.

Recommendation 18

Communicate the annual class-size reduction funding expectations to the school districts, including the minimum number of teachers funded.

Status – Fully Implemented

Agency Comments – The department communicated the annual class-size reduction funding expectations to the school districts, including the minimum number of teachers funded for Fiscal Year 2015. The department represents it will continue to communicate this information on an ongoing basis. We reviewed the email sent to all the school districts dated October 27, 2014 with the CSR Model for Fiscal Year 2015 noting the funding expectations to the school districts, including the minimum number of teachers funded. The degree of ongoing compliance with these recommendations is the responsibility of the department.

James R. Wells, CPA, Director
Governor’s Finance Office

cc: Mike Willden, Chief of Staff, Office of the Governor
Dale Erquiaga, Superintendent of Public Instruction, Department of Education
Mindy Martini, Deputy Superintendent for Business and Support Services, Department of Education
Steve Weinberger, CPA, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
Department of Education

Summary
The Office of Educator Licensure plays a critical role, along with school districts, in ensuring teachers and other educators in Nevada schools are qualified. We found the Office needs to strengthen its processes for revoking licenses, issuing provisional licenses, and tracking and reviewing criminal history reports. Improvements to these processes will help ensure timely action for criminal cases involving licensees. In addition, increased monitoring is needed to help ensure licensing applications are processed timely. Nevertheless, the Office has taken steps to address legislative concerns regarding customer service, document security, and other operational issues.

The Department could improve its controls over the class-size reduction program. We found the Department’s oversight of class-size reduction plans and other class-size reduction information submitted by the school districts was not adequate. Better oversight would provide more accurate information to decision makers and stakeholders. Further, the process for distributing class-size reduction funds needs strengthening.

Key Findings
The Office does not have an adequate revocation process for licensees convicted of crimes. Specifically, the Office did not adopt regulations to help ensure it was notified timely when a licensee had been arrested. As a result, our testing of 13 revocation cases found the number of days from the arrest date to when the Office became aware of the arrest ranged from 1 to 1,200 days, with an average of 367 days. Further, once the Office was notified of an arrest, it did not always monitor such cases and revoke licenses in a timely manner. (page 6)

The Office did not properly issue or monitor provisional licenses. We found provisional licenses were issued for 1 year instead of the 120-day maximum allowed under state regulations. Further, the information systems used to track the status of provisional licenses were not reliable and criminal history reports were not always reviewed timely. As a result, the process to invalidate a license when an applicant has a criminal history is not always timely or effective. (page 9)

The Office has not exercised its authority to invalidate or revoke a license when a crime involving moral turpitude has been committed. The Office’s practice during the audit was to invalidate a provisional license upon learning that a licensee has been convicted of a felony. However, state law also authorizes the Office to take licensing action against persons convicted of non-felony crimes involving moral turpitude. Our review of NRS identified several examples of non-felony crimes (gross misdemeanors and misdemeanors) that could be considered crimes of moral turpitude. (page 13)

The Department’s oversight of class-size reduction (CSR) plans can be enhanced. Our review found the Department did not receive sufficient information from the school districts regarding their CSR plans. Further, the Department did not require districts to provide plans that included items required by statute. For example, all school districts are required to demonstrate how they will reduce pupil-teacher ratios within the limits of available funding. We found the Department did not receive such information from any of the school districts. Without proper monitoring of CSR plans, there is an increased risk that districts will not maximize progress towards achieving class-size reduction. (page 19)

The Department did not effectively monitor quarterly class-size reduction reports and variance requests submitted by school districts. These reports aid the Department in overseeing the CSR program and are required to be posted on districts’ websites. Further, Department staff summarize this information and submit it to the State Board of Education and the Interim Finance Committee. We found instances when reports had errors and did not include all required information. Inaccurate reports submitted to decision makers reduce accountability over the State’s CSR program. (page 22)

The Department’s process for distributing class-size reduction funds has control weaknesses. Specifically, the Department needs written policies and procedures for calculating how CSR funds are distributed to the school districts. The Department is responsible for distributing $381 million in CSR funds during fiscal years 2014 and 2015. Determining the amount distributed to each school district involves a very large number of calculations and data from many different sources, but the calculations are not reviewed and lack supporting documents. Additionally, the Department did not communicate its funding expectations to the school districts, such as the minimum number of teachers they were expected to employ with CSR funds. This increases the risk that funds will not be used as intended. (page 25)
LEGISLATIVE AUDITOR’S ANALYSIS
OF SIX-MONTH REPORT
November 9, 2015

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In December 2014, we issued an audit report on the Department of Transportation, Information Technology Security. The Department filed its plan for corrective action in March 2015. NRS 218G.270 requires a report be issued within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Governor’s Finance Office on the status of the eight recommendations contained in the audit report. As of September 2, 2015, the Finance Office indicated five recommendations were fully implemented and three were partially implemented.

Based on our review of the six-month report and additional procedures we conducted, one of the partially implemented recommendations is now fully implemented with two remaining partially implemented. The two partially implemented recommendations listed below relate to locking telecommunications rooms and procurement cards.

<table>
<thead>
<tr>
<th>Recommendation Number</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>7</td>
<td>Ensure all telecommunications and radio rooms have locked doors.</td>
</tr>
<tr>
<td>8</td>
<td>Implement the proposed revisions to the Department’s procurement card policy and ensure these changes are being followed by all purchase card holders throughout the Department.</td>
</tr>
</tbody>
</table>

Regarding Recommendation No. 7 on locking telecommunications and radio rooms, the Finance Office indicated the rooms were unoccupied and the doors were not locked. The agency indicated the rooms were left unlocked due to construction work and the need for contractors to have access to the rooms.

Question

1. What controls does the Department intend to implement to ensure these rooms are locked?
Members of the Audit Subcommittee  
of the Legislative Commission  
November 9, 2015  
Page 2

Regarding Recommendation No. 8 on implementing revisions to the procurement card policy, the Finance Office indicated the policy has been revised. However, the digital signing device used for purchases does not prevent the same person from completing and approving a purchase requisition form. Furthermore, the Finance Office was told the same person orders and receives purchases in many cases.

Question

2. What steps does the Department plan to take to ensure the proper segregation of duties for the digital signing device?

3. What controls can the Department implement to ensure segregation of duties for purchases, or documenting and following up on cases where only one person is available?

Respectfully Submitted,

Paul V. Townsend, CPA  
Legislative Auditor

PVT:sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor  
    James R. Wells, CPA, Director, Office of Finance, Office of the Governor  
    Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor  
    Rudy Malfabon, PE, Director, Department of Transportation
SIX-MONTH REPORT
MEMORANDUM

To: Paul Townsend, Legislative Auditor  
Legislative Counsel Bureau

From: James R. Wells, CPA, Director  
Department of Administration

Date: September 2, 2015

Subject: Legislative Audit of the Department of Transportation – Information Security

On December 2, 2014, your office released an audit report on the Department of Transportation (department). The department subsequently filed a corrective action plan on March 2, 2015. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

There were eight recommendations contained in the report. The extent of the department's compliance with the audit recommendations is as follows:

**Recommendation 1**

*Revise the current process used by help desk staff to disable terminating users’ network accounts to ensure that all departing employee or contractor computer accounts are disabled timely.*

Status – Fully Implemented

Agency Actions – The department implemented a process to disable former employee and contractor systems access. Transportation Policy 1-3-14 requires notification of the IT helpdesk staff to disable terminated users' network accounts to ensure that all departing employee or contractor computer accounts are disabled timely. We reviewed the policy and interviewed staff to verify implementation and employee understanding. No exceptions were noted.
Recommendation 2

Implement a periodic backup procedure to identify and disable former staff computer accounts that have not been disabled when they left employment.

Status – Fully Implemented

Agency Actions – The department implemented a backup procedure that identifies and disables former employee accounts. We interviewed helpdesk staff regarding their periodic backup procedures and reviewed documentation on the notification process to identify and disable former employee accounts. No exceptions were noted.

Recommendation 3

Identify sensitive positions Department-wide needing criminal background investigations.

Status – Fully Implemented

Agency Actions – The department identified sensitive positions department-wide needing criminal background investigations. We reviewed a list dated July 29, 2015 which identified 127 sensitive positions needing criminal background investigations.

Recommendation 4

Conduct criminal background investigations on all positions identified as sensitive as people are hired or promoted into those positions.

Status – Partially Implemented

Agency Comments – The department reports they have fully implemented this recommendation by updating their transportation policy, and creating a list that identifies positions requiring background investigations.

Auditor Comments – Although the department created and finalized a list of all positions identified as sensitive on July 29, 2015, we were unable to verify that background investigations are being performed because no contractor or employee has been hired since the procedure became effective.

Recommendation 5

Ensure temperature sensing hardware is installed and operational in key server and telecommunications rooms to provide alerts to staff of temperature conditions that exceed equipment operation ratings.
Status – Fully Implemented

Agency Actions – The department installed temperature sensing hardware called NetBotz in key server and telecommunications rooms to provide alerts to staff of temperature conditions that exceed equipment operation ratings. We observed the temperature reading on one of the sensing hardware and noted no exceptions.

**Recommendation 6**

*Revise the after-hours notification system to ensure key IT staff are immediately notified when server room temperatures exceed recommended alert levels.*

Status – Fully Implemented

Agency Actions – The department revised the after-hours notification system to ensure key IT staff are immediately notified when server room temperatures exceed recommended alert levels. We reviewed a sample of the after-hours notifications and determined email alerts are sent to key IT staff.

**Recommendation 7**

*Ensure all telecommunications and radio rooms have locked doors.*

Status – Partially Implemented

Agency Comments – The department reports all telecommunications and radio rooms have locked doors and a sign was placed on the Fallon communications room stating that the door must remain locked at all times. In addition, janitorial staff were instructed to keep the doors locked when not in use.

Auditor Comment - We visited the telecommunications and radio rooms in Fallon and Fernley. We noted both rooms were unoccupied and the doors were not locked. Staff reported the Fernley telecommunications and radio room is not routinely kept locked due to the construction occurring on the building and the contractor requiring access to complete the electrical and plumbing. We were also told that department staff in Fernley leave the room unlocked on Fridays for the contractor.

**Recommendation 8**

*Implement the proposed revisions to the Department’s procurement card policy and ensure these changes are being followed by all purchase card holders throughout the Department.*

3
Status – Partially Implemented

Agency Comments – The department reports the proposed revisions to the procurement card policy have been implemented.

Auditor Comment – We sampled procurement card expenditures from each district. For each sample tested, we reviewed the requisition form to ensure the purchaser is not also the receiver as stipulated in their policy.

Although the policy has been revised and the procurement card sample tested had no exceptions, we believe control weaknesses remain. The DocuSign program we reviewed in Fallon does not prevent the same person from completing and approving a purchase requisition form. Additionally, staff report the same person orders and receives the purchase at least fifty percent of the time.

The degree of ongoing compliance with these recommendations is the responsibility of the agency.

James R. Wells, CPA, Director
Governor's Finance Office

cc: Mike Willden, Chief of Staff, Office of the Governor
    Rudy Malfabon, Director, Nevada Department of Transportation
    Steve Weinberger, CPA, Administrator, Division of Internal Audits
AUDIT HIGHLIGHT
Audit Highlights


Background

The mission of the Nevada Department of Transportation is to provide a better transportation system for Nevada through unified and dedicated efforts. The Department has numerous offices located throughout the State. These locations include administrative offices, maintenance stations, and construction offices. The primary administrative locations include the Department headquarters located in Carson City, and the three district offices located in Las Vegas (District 1), Reno/Sparks (District 2), and Elko (District 3).

For fiscal year 2014 the Department was authorized 1,782 full-time employees statewide. In addition, the Department had expenditures of over $616 million for fiscal year 2014.

Purpose of Audit

The purpose of this audit was to determine 1) if the Department’s information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems; and 2) if the controls on the use of procurement cards were adequate to reasonably mitigate the risks of fraudulent use.

The primary focus of our audit work included the systems and practices in place from January through September of 2014. However, our procurement card audit work included a review of selected procurement card transactions from prior to June of 2013.

Audit Recommendations

This audit report contains eight recommendations to improve the security of the Department’s information systems and its procurement card procedures.

The Department of Transportation accepted the eight recommendations.

Recommendation Status

The Department of Transportation’s 60-day plan for corrective action is due on March 2, 2015. In addition, the six-month report on the status of audit recommendations is due on September 2, 2015.
NATIONAL STATE AUDITORS ASSOCIATION REPORT ON NEVADA LEGISLATIVE COUNSEL BUREAU AUDIT DIVISION’S SYSTEM OF QUALITY CONTROL
State of Nevada
Legislative Counsel Bureau Audit Division
Quality Control Review
For the Period
January 1, 2014 through June 30, 2015
August 14, 2015

Mr. Paul Townsend, CPA, CIA
Legislative Auditor
State of Nevada
401 S. Carson Street
Carson City, Nevada  89701-4747

Dear Mr. Townsend:

We have reviewed the system of quality control of the State of Nevada’s Legislative Counsel Bureau – Audit Division (the office) in effect for the period January 1, 2014 through June 30, 2015. 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 performing and reporting in conformity with applicable professional standards in all material respects. 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 professional 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 professional 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 design matters in the system of quality control or all compliance matters with the system. 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 the State of Nevada’s Legislative Counsel Bureau – Audit Division in effect for the period January 1, 2014 through June 30, 2015 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with Government Auditing Standards in all material respects. Audit organizations can receive a rating of pass, pass with deficiency(ies), or fail. The State of Nevada’s Legislative Counsel Bureau – Audit Division has received a peer review rating of pass.

Concurring Reviewer  
External Peer Review Team  
National State Auditors Association

Team Leader  
External Peer Review Team  
National State Auditors Association