



**NEVADA LEGISLATURE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
(Nevada Revised Statutes [NRS] 218E.240)**

**MINUTES
January 16, 2025**

The second meeting of the Audit Subcommittee of the Legislative Commission for the 2023–2024 Interim was held on Thursday, January 16, 2025, at 9:08 a.m. in Room 1214, Nevada Legislative Office Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 165, Nevada Legislative Office Building, 7230 Amigo Street, Las Vegas, Nevada.

The agenda, minutes, meeting materials, and audio or video recording of the meeting are available on the Subcommittee's [meeting page](#). The audio or video recording may also be found at <https://www.leg.state.nv.us/Video/>. Copies of the audio or video record can be obtained through the Publications Office of the Legislative Counsel Bureau (LCB) (publications@lcb.state.nv.us or 775-684-6835).

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Senator Marilyn Dondero Loop, Chair
Senator Skip Daly, Vice Chair
Senator Robin Titus
Assemblymember Natha Anderson
Assemblymember Richard DeLong

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Daniel Crossman, Legislative Auditor, Audit Division
Todd Peterson, Chief Deputy Legislative Auditor, Audit Division
Eugene Allara, Audit Manager, Audit Division
Jennifer Otto, Audit Manager, Audit Division
Tammy Goetze, Audit Manager, Audit Division
Shirlee Eitel-Bingham, Information Security Audit Manager, Audit Division
Amanda Barlow, Deputy Legislative Auditor, Audit Division
Katrina Humlick, Deputy Legislative Auditor, Audit Division
Lupita Cruz, Deputy Legislative Auditor, Audit Division
Parker Cole, Deputy Legislative Auditor, Audit Division
Hailey Cornelia-Swift, Child Welfare Specialist, Audit Division
Jennifer Graves, Office Manager, Audit Division
Darlene Magner, Administrative Assistant, Audit Division

Items taken out of sequence during the meeting have been placed in agenda order.

AGENDA ITEM I. – CALL TO ORDER AND OPENING REMARKS

[Chair Dondero Loop called the meeting to order. She welcomed Members, presenters, and the public to the Nevada Legislature Audit Subcommittee of the Legislative Commission meeting.]

Senator Marilyn Dondero Loop (Chair):

Good morning. Ok, every room is different, so we have to get ourselves ready to go. Welcome to the second meeting of the Audit Subcommittee this Interim and thank you all for being here. This is like the practice session for Session, so, here we go! Ms. Graves, will you please call the roll?

Jennifer Graves (Office Manager, Audit Division):

[Ms. Graves called roll and a quorum was present.]

Chair Dondero Loop:

And special thanks, again, to all of you who are here and participating. For those individuals on Zoom, this chat feature is only to be used for communication with BPS for technical assistance. It is not to be used for any communication between Members or by presenters unless you are requesting technical assistance from BPS. Before we begin, as a reminder, for the benefit of the audience and those wishing to speak, we'll have two periods of public comment today; one at the beginning and one at the end of the meeting. Public comment is limited to 2 minutes per speaker. There are four ways to provide public comment, all of which are listed on the Agenda. The number that you will be calling is (888) 475-4499 then enter the meeting ID, which is 83539889786 followed by a #; you may email comments to LCAudit@lcb.state.nv.us; if you would like to mail comments to the Audit Division, you may mail at 401 South Carson Street, Carson City, Nevada 89701; or you may fax (775) 684-6435. As always, this meeting will be recorded and made available on the Legislative website.

AGENDA ITEM II. – PUBLIC COMMENT

We will start with the first Agenda Item, Public Comment. And so welcome to public comment here in Carson City. Is there anyone who would like to make public comment? In Las Vegas, is there anyone who would like to make public comment? BPS, I'll go to you. Is there anyone online?

BPS:

Chair, the public line is open and working but there are no callers to participate at this time.

AGENDA ITEM III. – APPROVAL OF THE MINUTES FOR THE MEETING ON SEPTEMBER 10, 2024

Chair Dondero Loop:

All right, thank you very much. All right, we will go to Agenda Item III, the Approval of the Minutes for the Meeting on September 10, 2024. Members, I hope you have had a moment to look at them. And are there any questions,

comments, or changes regarding the minutes? If not, I'll take a motion to approve the Minutes.

SENATOR SKIP DALY (VICE CHAIR) MOVED TO ACCEPT THE AUDIT SUBCOMMITTEE MINUTES OF THE SEPTEMBER 10, 2024 MEETING.

ASSEMBLYMEMBER NATHA ANDERSON SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM IV. – PRESENTATION OF AUDIT REPORTS ([NRS] 218G.240)

Chair Dondero Loop:

All right, we will go on to Agenda Item IV, Presentation of Audit Reports. And we will start with Mr. Crossman. Please go ahead when you're ready.

Daniel Crossman (Legislative Auditor):

Thank you, Chair. For the record, Dan Crossman, Legislative Auditor. Under Agenda Item IV today, we have four performance audit reports we will be releasing. These reports have been kept confidential until presented today at the Audit Subcommittee. Copies of these reports will be available on our website following today's meeting. I'd first like to start by thanking my team and as well as the state agencies that are involved in today's audits. There's a lot that goes into a performance audit, both on our side and on the agencies' sides, and the cooperation of agencies has been much appreciated throughout the audit process. Similar to the statement I made at our last meeting in September, I just want to recognize that all agencies, especially those today, who we are reporting on, work ever so hard every day to provide critical services to the state of Nevada and to fulfill their missions. The job of the Audit Division is to identify opportunities for improvement and that is our focus. While finding areas for improvement is our goal, much of the good work, things that are being done well, is not something we generally report on, and I just wanted to recognize the hard work that is done by the agencies. We appreciate them and recognize their efforts. With that, Chair, I'll turn it back to you to introduce the first report.

AGENDA ITEM IV. A – DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, NEVADA DIVISION OF FORESTRY, FOREST FIRE SUPPRESSION BUDGET ACCOUNT (LA26-04)

Chair Dondero Loop:

Thank you very much and we will start with the Department of Conservation and Natural Resources, Nevada Division of Forestry, and Forest Fire Suppression Budget Account. Please go ahead when you are ready.

Katrina Humlick (Deputy Legislative Auditor):

Good morning, Chair and Members of the Audit Subcommittee. For the record, I am Katrina Humlick, Deputy Legislative Auditor. I am here today to present the report on the Nevada Division of Forestry's Forest Fire Suppression budget account. This audit was required of the Legislative Auditor by Senate Bill 480, Chapter 334, Statutes of Nevada 2023.

I will begin my presentation with background information starting on page 1. The Nevada Division of Forestry (or NDF) is responsible for the supervision and coordination of all forestry and watershed work on state and private lands in Nevada, including fire control. The Forest Fire Suppression Program covers expenses necessary for the protection of life, property, and natural resources from fire, flood, and other disasters and emergencies. Different types of fire suppression activities incur costs for the State, but many are reimbursable depending on the incident type. Many of our findings in this report are focused on the expenditures and reimbursements associated with Out-of-State Off Jurisdiction Fires.

An Out-of-State Off Jurisdiction Fire is a fire that does not start or spread onto Nevada land; costs are fully reimbursable and can have the fastest turnaround for reimbursement. Incurred costs come from NDF or WFPP cooperator resources that are engaged to provide services on these fires. Reimbursement comes from the state where the fire is located, the US Forest Service, the Bureau of Land Management, or another government agency.

On the bottom of page 2 and continuing on page 3, the Forest Fire Suppression budget account is funded with General Fund appropriations, county receipts, and reimbursements from the Federal Government and other states. The budget account currently comingles the accounting activities associated with fire suppression on Nevada lands and those fires where Nevada provides fire suppression assistance to others on lands outside of the State's financial responsibility. When the volume and severity of fire incidents results in insufficient funds in this budget account, supplemental funding can be requested through the State Board of Examiners' Reserve for Statutory Contingency Account and the Interim Finance Committee's Contingency Account. During the 2023 Legislative Session, NDF requested a supplemental General Fund appropriation for a projected cash shortfall for wildland fire response expenditures. NDF indicated the cash shortfall resulted from delays in reimbursement collections. The Legislature appropriated \$14.9 million to NDF under Senate Bill 480. Exhibit 2 on page 4 shows NDF's revenues and expenditures over the last 6 fiscal years for the Forest Fire Suppression budget account. An important pattern to notice is the disparity between fire suppression costs and fire reimbursement revenues within a fiscal year and for subsequent years, and the increase in IFC transfers and State appropriations. There should be a corresponding increase in fire reimbursement revenues in subsequent years after a year with high Out-of-State Off Jurisdiction fire suppression costs, but this is not clearly apparent with the current budget structure. According to NDF, 2022 and 2023 were historically low fire years in Nevada, but the high fire suppression costs did not reflect this in the budget account.

Continuing on page 4, as of June 30, 2024, NDF had 205 filled positions, with 19% of those filled positions being seasonal firefighting positions. NDF is staffed with 14 accounting positions. Within the 14 accounting positions are 6 staff assigned to NDF's Incident Business Unit, or IBU. The IBU has the primary responsibility for processing fire incident billings and invoices for reimbursement. The IBU has experienced significant turnover in these six positions.

Continuing on page 5, we discuss the scope of our audit, which included a review of NDF's billing and administrative functions primarily during fiscal years 2019 through 2024. Our audit objective was to evaluate NDF's billing, collection, and payment practices for the Forest Fire Suppression budget account.

Page 6 begins the first chapter discussing our findings related to unbilled out-of-state fire expenditures for reimbursement. NDF did not provide proper oversight

over the Forest Fire Suppression account. Specifically, millions of dollars in fully reimbursable out-of-state fire incident expenditures were not billed. It is important to note that these are expenditures NDF already paid; therefore, there would be no additional funding or authority needed for these out-of-state fires. All that is lacking is for the reimbursement request to be submitted to the appropriate jurisdiction. At the bottom of page 6, Exhibit 3 summarizes the unbilled out-of-state fire expenditures found during our audit which I will talk more about throughout this presentation.

At the top of page 7, we calculated over \$32 million in reimbursable expenditures which NDF had not billed for reimbursement from responding to other state fire incidents that occurred during fiscal years 2020 through 2024. Timely billing of reimbursable out-of-state fire expenditures is important because these costs are initially paid from General Fund dollars before collecting reimbursement from other jurisdictions. Unreimbursed payments to fight out-of-state fires amounted to more dollars than what was needed to cover the costs to suppress in-state fire incidents in fiscal year 2023.

At the bottom of page 7 and continuing to page 8, we note in our sample of 168 incidents, we found 166 were out-of-state incidents that occurred between fiscal years 2020 and 2023, and over \$22.8 million in expenditures were paid by NDF to its WFPP cooperators but were not invoiced for reimbursement. In addition, NDF did not seek reimbursement for its own costs of fighting on these out-of-state incidents, which totaled approximately \$1.2 million for personnel and equipment. Moreover, in fiscal year 2024, we identified over \$7.3 million of additional expenditures recorded in the state accounting system, paid by NDF to WFPP cooperators for responding to out-of-state incidents. As of October 2024, NDF had not billed to be reimbursed for these WFPP expenditures that were paid for fiscal year '24 responses. Additionally, throughout our audit period, there may be additional reimbursable expenditures we have not identified due to poor record keeping practices by NDF. Exhibit 4 on page 8 shows the cumulative unbilled reimbursements for out-of-state fire incidents that were paid between July 1, 2020, through June 30, 2024.

On the top of page 9, we found that for some out-of-state fire incidents that NDF did bill, the invoices contained errors or did not include allowable costs. Specifically, we found 3 out of 15 (or 20%) sampled invoices were not billed accurately, resulting in an underpayment to NDF of over \$542,000. When brought to management's attention, NDF indicated that supplemental invoices would be sent for these 3 incidents.

On the bottom of page 9 and continuing on page 10, we note uncollected out-of-state fire expenditures inflated supplemental funding needs. According to NDF management, out-of-state incidents can have the fastest turnaround for payment. Our review of selected billings confirmed that these reimbursement payments to NDF were generally made timely. No lengthy wait times are necessary, as NDF and WFPP cooperators' staff and equipment sent out-of-state are considered assets for hire and expenditures paid are fully reimbursable. However, if NDF does not seek reimbursement timely, NDF can experience budget shortfalls.

Between fiscal years '21 through '24, NDF submitted 11 separate requests for supplemental funding from the Interim Finance Committee or the Legislature due to budget shortfalls in the Forest Fire Suppression budget account, totaling over \$44 million. Exhibit 5, on page 11, shows 4 fiscal years of forest fire suppression expenditures, one-time appropriations, and the accumulated unbilled reimbursements for out-of-state fire incidents found during our audit period. The

green line on this exhibit shows the accumulated unbilled reimbursable expenditures NDF paid with General Funds but had not billed for reimbursement. This demonstrates supplemental funding requests could have been significantly lessened during this period if reimbursements were billed timely.

At the bottom of page 11 and continuing to page 12, we discuss the need for controls over reporting accurate accounts receivable. NDF did not record accounts receivable in accordance with Generally Accepted Accounting Principles or in accordance with the State Controller's policies and procedures. Due to the lack of invoicing by NDF, it only reported about \$760,000 in receivables in fiscal year '23 for inclusion in the State's Annual Comprehensive Financial Report. Based on our testing, we estimate over \$20.3 million in accumulated accounts receivable amounts should have been reported. Page 13 contains our 4 recommendations to timely invoice reimbursable out-of-state incidents and improve related processes and to properly record and track accounts receivable.

Chapter 2 begins on page 14, where we discuss how improvements are needed over the budgeting for fire suppression expenditures.

At the bottom of page 14 and continuing to page 15, we discuss how separately accounting for the different fire suppression costs would help clarify NDF's budget needs and help identify deficiencies in its collection practices for fully reimbursable out-of-state costs. A lack of clear separation of different fire revenues and expenditures contributed to the inability of NDF's staff and decision-makers to identify the cause of NDF's budget problems. The unbilled out-of-state expenditures identified during our audit are not the ultimate responsibility of Nevada financially; however, they are recorded in the same budget account as in-state fire suppression costs which are Nevada's responsibility.

Continuing on the bottom of page 16, we discuss that a change to the budget formula used to calculate NDF's funding needs is needed to reflect Nevada's firefighting costs. Specifically, out-of-state fire costs should be removed and calculated separately from the in-state cost-share and FMAG fire costs. On page 17 we point out that different budget amounts were calculated by the agencies involved when determining the '24 - '25 biennium budget for the Forest Fire Suppression account, and documentation for certain adjustments made to the 5-year average calculation had not been retained by NDF for the last three biennium. Our recommendations to improve budgeting practices for the Forest Fire Suppression account are found at the bottom of page 17 and continue to page 18.

Chapter 3 begins on page 19, where we note fire bills were not processed accurately. At the bottom of page 19, our fiscal year '22 and '23 testing identified 30% of the WFPP cooperator invoices to NDF contained errors, which resulted in NDF overpaying \$250,000. In fiscal year '24, all 10 WFPP cooperator invoices tested tied to supporting documentation and were free of mathematical error. Continuing on page 20, we identified a state agency's personnel rate calculations contained mathematical errors in the invoices billed to NDF for fiscal years '21 through '23 resulting in NDF overpaying by approximately \$34,000. While these amounts may not be as significant as some of our other findings, ensuring the accuracy of payments is critical when utilizing the State's limited resources.

In the middle of page 20, we note that NDF does not review WFPP cooperator billing rates for reasonableness. For example, one cooperator billed an administrative processing fee of 15% of the total invoice charges, which resulted in NDF paying an administrative fee of over \$49,000 for one invoice. We also

found cooperators billed different rates for similar pieces of fire equipment. Although different rates are allowed, large variations in rates need further review by NDF to ensure rates are based on a reasonable calculation of actual costs. Exhibit 6 on page 21 shows examples of different administrative fees billed by WFPP cooperators in our audit sample.

At the bottom of page 21, we discuss how in-state cost-share fire calculations were not adequately reviewed. Specifically, we found 4 out of 9 (or 44%) final adjudicated cost-share amounts were incorrectly calculated by NDF. Based on our testing, we estimate that NDF underbilled other jurisdictions by approximately \$614,000. When brought to management's attention, they indicated they were working with their federal partners to re-adjudicate these cost-share fires. At the bottom of page 22 and continuing to page 23, we discuss the inaccurate incident records found in three different areas where NDF recorded incident data during our audit. Our recommendations to enhance NDF's reviews of cooperator and state agency invoices and to improve incident record keeping begin at the bottom of page 23 and continue on to page 24.

Page 25 contains Appendix A, which is a copy of Senate Bill 480 from the '23 Legislative Session.

Page 26 contains Appendix B, which is a map of Nevada showing the approximate location of the current WFPP cooperators that were active during the '23 - '25 biennium.

Page 27 contains Appendix C, which shows incident locations and costs corresponding to NDF and WFPP cooperator out-of-state unbilled responses that were paid during fiscal years '21 through '24.

Our audit methodology is listed in Appendix D, located on pages 28 through 32. NDF's response to our audit is located in Appendix E, beginning on page 33. NDF accepted all 13 recommendations.

This concludes my presentation; I would be happy to answer any questions at this time.

Chair Dondero Loop:

Members, do you have any questions? Senator Titus, we'll go to you first.

Senator Robin Titus:

Thank you, Madam Chair, and thank you very much for a very detailed report. I am basically in shock of what I'm hearing and what I'm seeing and very disappointed in the Department, but we have to have solution. So, my first question is when was the last time the Division of Forestry was audited? Because what I'm seeing is a significant amount of money in the last 4 years and I'm just wondering how long has this been going on?

Eugene Allara (Audit Manager):

Good morning, through the Chair to Senator Titus, Eugene Allara, Audit Manager, for the record. We did an audit approximately 5 years ago of NDF. I do not believe it focused on the billing practices though. I think it was focused more on the nurseries, et cetera.

Senator Titus:

So, we don't know if this has been ongoing?

Eugene Allara (Audit Manager):

It's been a long time.

Senator Titus:

Ok, thank you for that. Second, as a physician, I know that if I don't bill in a certain amount of time, it doesn't matter that I find the bill, there's a set date that I can bill. Now, are we looking at that with these agencies too; that we've missed the opportunity to bill for them?

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. Through you, Chair, to Senator Titus, we did request from the federal agency representative with the Forest Service, if some of the bills, 26 of them, were still able to be paid and she said that they were still able to be paid. And according to the NDF management, they won't deny payment, but that would have to be confirmed once we submit the bills to them.

Senator Titus:

Ok, thank you. I have other questions, but I'm sure everybody else does too. Thank you, Madam Chair.

Chair Dondero Loop:

Thank you. I will go ahead and go to Assemblywoman Anderson and then we'll come to this side.

Assemblymember Natha Anderson:

Thank you, Chair. Thank you for the presentation. This is my first time going through this. So, my question kind of comes from page 19 and then also through other areas when you refer to the sampling. In this case, it happened to be the 30% that resulted in accumulating errors, and I know that there are other pages also that had that. Is there a trigger where then the Department has to look at all of the invoices or is it only the ones that the audit points out that will be looked at for possible errors?

Chair Dondero Loop:

And you may go directly to the Member.

Eugene Allara (Audit Manager):

Thank you, Assemblymember Anderson, for the record. I think that would be a management decision. We follow our standards and our best practices as far as sampling and projecting, but to correct the errors or to see the extent beyond that, it would have to be a management decision on how many they went back and looked at in total.

Assemblymember Anderson:

Thank you. And I don't know if that's appropriate, or not, to ask the managers to come up to answer that, Chair, since again, this is my first time.

Chair Dondero Loop:

It's ok. I think what we're going to do is if you'll just ask the questions, then we'll go through the Committee and then at some point, I believe we'll have to have some other answers and that will be a little more succinct, I believe. Ok. Senator Daly, go ahead.

Senator Skip Daly (Vice Chair):

Thank you, Madam Chair, and I'm not sure if my questions are for you guys or for the Division of Forestry, but it had to do with existing mutual aid agreements. How are those drawn up? Do we have mutual aid agreements with out-of-state agencies? I know we go and provide the resources with the requests, proper requests, and various things, and then we bill later. We don't say 'you gotta give me the money first before I help you put out the fires'. So, I don't know on those – and are the reimbursement rates set or is it a blank check? And then obviously when we get billed. So, I think some of my questions are more for the agency on how those procedures work because I don't know if you guys know?

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. Senator Daly, my understanding they have a Master Cooperative Agreement with the Federal Government, which allows them to respond to other state's fires if it is a federal fire. They do have state-to-state agreements with California and Arizona. Set rates, it's according to the WFPP what they pay them would be what they would bill. Actual cost is what it should be based on.

Vice Chair Daly:

So, there is an agreement in place on what the reimbursements are going to be done, both in federal and then within the state, we have similar agreements with different fire agencies within the state?

Katrina Humlick (Deputy Legislative Auditor):

That's my understanding is the master agreement covers the NDF staff and WFPP cooperators to go to the other states and then they submit their bills to NDF for payment.

Vice Chair Daly:

A separate question. So, I understand the federal. You go state-to-state, there's a federal agreement or a master agreement that spells it out, and a lot of that, if there's an emergency and the Federal Government's paying for some of it, then they are going to reimburse the agency to do some of that stuff. But I am saying, if it is completely within Nevada and Nevada Division of Forestry calls Reno firefighters, or Sparks, or Clark County, are there in-state mutual aid agreements established with set rates similar to the master federal agreement?

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. There aren't set rates but there are cooperative agreements with the WFPPs.

Vice Chair Daly:

So, there's not set rates, so it's a little bit different there. Similar to Senator Titus' questions, there's a time limit on when we can submit these bills. I know there are under insurance and medical claims but, are similar issues here? And then, for the ones where we were overbilled, can we go back and ask for that money back?

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. Senator Daly, they have 180 days in the Master Cooperative Agreement to submit an invoice to the Federal Government. We were told that's a loose deadline and they could still bill for these, and they can always submit a supplemental bill for the amounts we found, is my understanding.

Vice Chair Daly:

Ok. And then I know throughout the audit a lot of the explanations from the Department were 'well, we have staffing issues', 'we have new people' and 'we can't get new people.' So, unless you know what's the problem hiring new people, and to me, that's a pretty weak excuse. There should have been — this Division has been in place for a long time — there should be some institutional knowledge. There should be people training other people. There shouldn't have been that big of a void that we didn't bill for \$32 million over 4 years, in my opinion. So maybe you can't answer for them, but I have that question on what were they doing and how did they get there?

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. They were fully staffed when we started our audit; two did leave during and one left after. They do have some turnover problems. I don't know the root cause. They also had a new fire billing system they were implementing during '23.

Vice Chair Daly:

Well, maybe we'll have to get em' up here to answer that.

Chair Dondero Loop:

Thank you very much and we'll go to Assemblymember DeLong.

Assemblymember Richard DeLong:

Thank you, Chair. I apologize, it's taking me a little while to get my jaw off the table. Shocked at the amount. On Appendix C, page 27, you've broken out the amounts by state. But in answering a question to, I think Senator Titus, you talked about the Forest Service and being able to get reimbursements back from the Forest Service. Of the \$31.4 million, what amount, or what percentage of that, is actually with the Forest Service in BLM (Bureau of Land Management)

versus the individual states? And then I'll have a follow up depending on your answer.

Katrina Humlick (Deputy Legislative Auditor):

Katrina Humlick, Deputy Legislative Auditor, for the record. We were unable to determine who was responsible for these fires, given the record keeping. But most, I assume, most would be federal. But the Division would need to.

Assemblymember DeLong:

That's it, Chair, thank you.

Chair Dondero Loop:

Thank you very much. And I have a couple of questions, myself. So, and I'm going to go back to the January IFC meeting agenda, there's a work program on that upcoming January IFC, and this may be a Kacey KC question or a Director Settlemeyer, I'm not sure who wants to take this. But in that meeting, the Nevada Division of Forestry is requesting a General Fund advance of approximately \$11 million to cover costs incurred in the Forest Fire Suppression account and we just heard the Division is \$32 million in expenses that are fully reimbursable. So why is it that the Division is asking for a General Fund advance instead of seeking reimbursement for that response for out-of-state incidents? And I believe I probably need somebody from the Division to come up here to answer that question.

Go ahead when you're ready please.

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

This is Director. Is that hot now? Ok.

Chair Dondero Loop:

When it's red. It's opposite. When it's red, it's hot in here.

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

I'm sorry, you have some new toys that I'm not familiar with. I apologize. My name is Director James Settlemeyer for the Department of Conservation and Natural Resources. Madam Chair, do you? Sorry, I apologize. Chair, would you like me to answer the questions, yours first, then go back to the previous ones? Or how would you like me to.

Chair Dondero Loop:

Yes, go ahead and answer mine and then we can have a discussion because I do have another question for you. I know that we're all, our heads are spinning up here, and partly because when I hear that you have 14 people that are staffing that Audit Department, it is, I believe that is what the information said. Just a minute. On page 4, NDF is staffed with 14 accounting positions. So, I just can't understand how 14 people can all miss the same thing, right? So anyway, go ahead and answer my question that I asked about the January IFC and then we'll go from there.

James Settelmeyer (Director, Nevada Department of Conservation and Natural Resources):

Thank you, Chair. Also with me is Kacey KC, the State Forester, Firewarden. So, once we acquire the \$32 million, if we are able to acquire the \$32 million back, that goes immediately to the General Fund. That does not come back to the Department of Conservation and Natural Resources, nor does it come to the NDF budget. It will go immediately to the General fund in my recollection. Therefore, it's not available for us to use for expenses such as the most recent fires to date. So that's, that question, I will allow Kacey KC to follow upon that, if that's ok, Chair?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you. For the record, Kacey KC. I would first like to start by saying we did appreciate the auditors and the time they spent in this complicated budget account. They did work well with us. We did provide everything that we had available, and I just wanted to state that. I can go through all of your questions in order. I wrote them down and I am happy to understand. I do hear what you're saying. I first want to tell you that we own this issue and we are working on it today and have been for the last 4 years. I want to start with why the General Fund advance, to your question, Senator Dondero Loop. Right now, currently, so they were talking about 24 bills, we have not paid all of our bills. We cannot pay today for current fire years because the complication, one of the complications, as you guys have seen me before you many times, in this budget account, is I only have an override to the amount of authority that I have. The authority is based on a 5-year average. And we actually brought this to the December IFC. We requested to have it moved in December. It got bumped to January. So, in the beginning of December, we were unable to pay any more current fire year bills. That does make it hard, if you can't pay your bills, to get reimbursed in time but that is not an excuse for these ones that hadn't been paid. We are not paying any bills today because unfortunately, and fortunately, there is a new system. We went in, in the negative. And so, though we have authority in prior year fire bills, the new system does not recognize that authority yet. So right now, we are unable to pay any of our debts, past or present fire years, which makes it very complicated. Do you want me to run back through the other questions?

Chair Dondero Loop:

I would like to ask my second question, if you don't mind, just because it's more current. You know, it doesn't go unnoticed to me. I mean, I know that everyone knows that, you know, there's always a soft place in my heart for Forest Fire Division. My brother was a long, 50 year or more, Forest guy and we have a lot of fires going on in California right now that are being fought. I recognize all that, but I also know that this is exactly why, last Session, I put in the audit information, because I think it's important that if we're going to support you, we have to know what's going on. And I think that it's just time that we come full circle. So, the Governor's recommended budget that was just submitted to the Legislature includes a supplemental appropriation request of \$18.6 million to cover costs in the Forest Fire Suppression account for the remainder of fiscal year, you know, 2025. So, why is that supplemental appropriation being requested when there's, once again, the \$32 million in expenses that are fully reimbursable? And I understand you're saying that they go to the General Fund, but I need some clarification on that.

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question and again, for the record, Kacey KC, State Forester, Firewarden. I do understand. I worked with your brother. I understand what you're asking. We always put a supplemental in. We don't know the amount at the time because we don't know when the reimbursements are going to come in. And, though, we might have said that all out-of-states are more timely reimbursed, right now, the state of Utah is 2 years out from their reimbursements with the Federal Government. Back to one of the earlier questions, so we just can't guarantee when those reimbursements are coming in. To answer an earlier question, and I think it was Senator Daly; on the mutual aid agreements and set rates. We do have a Mutual Aid Law 414A. It's set under the Department of Emergency Management as they had mutual aid. So, we don't have to have individual agreements. We have a law that allows us in the first 24 hours of a fire to send the closest available resources and not bill each other. The goal being, get the fire out within that 24 hours. And we have a 98% success rate in getting that out. Those are not billable unless it's crews or aircraft. Crews and aircraft are always billable. We do have agreements with 33 individual fire districts through our Wildland Fire Protection Program. That's what allows us to move them off-district. It's, to note, and part of the complication, it's a swiss cheese model, that's how we got here. Part of the complication is the Federal Government used to, very kindly, hold our debt when it came to out-of-state fires or firefighters coming into the state of Nevada for a state fire, a fire that starts on my jurisdiction. In 2018 they we are audited and they no longer could carry our debt, and it's rightfully so. So we asked, and we made these agreements with local government, to actually take on this debt. So, our actual workload increased tremendously when we took this on in 2020 full-time. So, on behalf of local government, moving them in, moving them out, and just to clarify, there are only six people in the audit unit fully focused on incident billing. The other 14, or the other half of the folks, work in the rest of our budget accounts. However, we do train everybody, kind of, throughout all of these processes. So right now, we have two of them helping as we're down three. We were down three, now we are back up to five today. I'm still trying to hire one. The leader position in these, there was an earlier question on institutional knowledge, it does not exist in the fire billing side. So, accounting side, it's fairly simple, if you're at the lower-level positions, they're looking at bills for accuracy. What they don't know necessarily, so they're looking through stacks and stacks of paper historically, which is why we transitioned into a automated billing system. That automated billing system transferred fully in fiscal year '23. We had to work with the contractor. So, these six people were also the same six transition team moving this into an automated system. Every year there were invoices going out. We did bring in money in every year. It's just that out-of-state ones got lost. What I read in the audit, and also surprised me, our leader at the incident/business side, she is new, she was an under-fill at the time. We could not find a qualified applicant to fill the position. She hadn't been there a year. Almost everybody rotates out in this unit. In the last 5 years, we have had very few of them for more than a year. She thought that there was new language added into the master agreement that anything under \$5,000 was not billable. So, and my assumption and what was said in the audit, is they were looking at these out-of-state responses, they didn't meet that threshold. But that wasn't, they didn't apply to that. So, there was a learning curve for us in the training department. We have since worked with our federal partners, but I want to go back to the earlier question. I think at one point, we did talk to Katrina about this. As she said earlier, we only have a state-to-state agreement with California and Arizona. So, if that billing is state-to-state, like what is happening right now on the Palisades and the Eaton Fire, that will be a state-to-state billing. I will bill Cal Fire directly. Every other thing you saw in there, that's all federal agreements. It's all under the master agreement. Those

are all federal billings. They are not state-to-state agreement billings. So, everything that is owed, I'd say about 90% or 95% of what you see on the owed list, is the Federal Government.

Chair Dondero Loop:

And I understand what you're saying, but if you're not following those general accepted accounting principles, and you're not billing, you're not going to get reimbursements. It's not going to happen. You know, I mean, if a doctor does not bill, they're not going to get paid. It's just the way it is. And also, I just want to make a clarification because I think the money does go into their account. I don't think it goes straight into the General Fund, so, you know, we need to have some guarantee that you're going to start billing right away.

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

So, and if I may? It does come into. Again, for the record, Kacey, KC, State Forester, Firewarden. It comes into our account as revenue. It isn't usable to then turn around. So many times, you've seen us in this Catch-22. So, if we have billed over \$18 million dollars as of today, or we have invoiced, for reimbursement, \$18 million dollars as of today. If that money were to come in a month's time, it would go into a revenue account. I would then have to go to IFC to get a work program to make it usable in the categories necessary. So, it does cause delays in getting that. And if it comes in closer to the end of the fiscal year, that money does not carry forward in our account, it gets swept back to the General Fund, which I think is what my boss was saying. And so, it gets swept back and then we start again with the \$4.5 million in cash and the somewhere near \$12 million in authority and override possibility. So that is correct, it's just delayed in order to move those things through.

Chair Dondero Loop:

Right. And I will just reiterate that you can't make those requests if you haven't invoiced, that's all. And I'm not trying to be difficult. I'm just trying to get to the bottom of this because we were talking about years and years and years. And we know that forest fires are an issue. We know that you have to cross bill. We know that you have to wait. We know that it's federal. We know all that, but we have to do our end. We have got to be more diligent to do our end here in Nevada. And so, if, like I said, it doesn't, honestly, it doesn't matter whether you have 14 people or you have two people, if they're not following the accounting principles and they're not billing and they're not doing those things, we're not going to get the money. That's just, you know, simple math and I don't know, Business 101 maybe, I don't know. But, you know, we're getting ready to go into a Session where you're going to be asking for that, and we can't justify that when we have all this going on. So, Assemblymember DeLong.

Assemblymember DeLong:

Thank you, Chair. Just a point of clarification. You said you've billed \$18 million. Is that \$18 million of the \$31.4 or is that a different \$18 million?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question. And again, for the record, Kacey KC, State Forester. It is partly of the \$32 million. About \$3 million of it is an in-state cost-share agreement. There are other things that we would get reimbursed for, and again, for the record, we understand and hear you. That is what we are focused on. We

are auditing every bill. We are going back. Our intent, as we moved out of a paper system into an automated system in '23, was to go back. We are about 95% through '23, both from a paying bills — we are done paying bills — we're going to give it one last call — but we are 98% through the invoicing of reimbursables. We're moving into '24. We also hired a contractor. She came in 2 weeks ago. She is a former employee of ours. She understands to come back into the paper billing side. She is auditing everything. We're not finding the errors that were found in some of the samples, and we are correcting all of those. She's going to be starting billing, we talked to her today, by the end of the week for the older fires, the out-of-state fires. I do, again, want to reiterate that in every year, we did invoice other things, not out-of-state, some out-of-state, but somehow these ones got missed.

Assemblymember DeLong:

So, you said you're caught up to, essentially caught up, to 2024. That means there's, based on the table on page 27, there's almost \$10 million from '21, '22, and '23. Are you saying you have gone through all of those, and you've billed all those?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question. Again, for the record, Kacey KC. We have invoiced for reimbursement, almost all of '23. That's where we're focused right now. We have not paid all of '24's bills. And so, we have to package them. If we sent multiple assets to California, we package them into one bill for the state of California, and/or, if we send them to Washington and we go through the Federal Government, we need to package all of those into one. We have not paid all of our '24 bills. They're held up and not being able to be paid at this time. But we are moving into '24 after we finish '23. Which my hope is we're done by the end of this month with '23 and we move into '24 and we're done with '24 by the end of the month for the stuff that we have sitting billable. We still have to pay some bills in order to get reimbursed for other bills.

Assemblymember DeLong:

What about the \$6 million from '21 and '22? Those are even older bills. Why aren't you focusing on that also?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question. We are. That's what the contractor is focused on. We didn't want to focus all of our new employees, who are brand-new, many of them still in probation, in that unit. All six are new. We wanted to focus them in the new system, the automated system. We're having the contractor go back. She is working on that right now.

Chair Dondero Loop:

Just a reminder, will you please make sure you state your name for the record?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Yes.

Chair Dondero Loop:

All right. We will go to Senator Titus and then to Senator Daly.

Senator Titus:

Thank you, Madam Chair, for the opportunity to ask a few more questions. I see there's multiple levels here that I'm not sure we've actually separated, there was an error and delay in our billing for our services to federal agencies, other states, et cetera. Then there was an error in our billing for those that we did bill that we were overpaid. And then what I've heard from you in the past is that we haven't paid the people that billed us for their services. And I don't know that we've addressed that. I know over the many years I've been on the budget committees, there were issues with the Angora fire where private contractors came in and provided a service, a bulldozer, et cetera, and then they billed the state of Nevada, and they weren't getting reimbursed. And so, we focused on you reimbursing them. But I don't really see that in this audit on — are we current on the people that — have we paid our bills to the people that gave service to the state of Nevada versus the state of Nevada sending our folks over to help. There's different budgets here and I'm just curious. I haven't really heard. Are we current on what we owe folks? We're not behind years, are we?

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

This is Director James Settlemeyer, for the Department of Conservation and Natural Resources. Madam Chair, to you, through you, or am I allowed to go direct?

Chair Dondero Loop:

Please go straight to the Member.

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

Thank you, Chair. Senator Titus, so I am going to try to go back chronologically a little bit. So, in 2020, the previous administration made the wise decision that we needed to get out of paper records because it takes too long to bill, and it is very cumbersome and problematic. As the bill comes in, they have to sit there and then code the particular individual to a particular fire or how much time they spent on-time, off-time. Was it on federal land? Was it on state land? And it gets very complicated. Where a computerized system would be much wiser. So, in 2020, the decision, to my knowledge, was made correctly to switch to an electronic system. Unfortunately, it took them 3 years to switch to that electronic system. As far as the aspect that you had asked earlier of being able to pay, you know, back the bills. Yes, we've reached out to them, and we can bill backwards. One of the issues that I found interesting when talking to the State Fire Marshal was the concept that there are certain fires which are called FMAGs (Fire Management Assistance Grants), which are dealing with FEMA (Federal Emergency Management) and are, you know, reimbursable. But in that realm, she has up to like, 30 days, to start the invoicing procedure in form of paperwork to have the agreement to have this fire qualified and then has additional time to get the bills in, sometimes up to 100 days, or extensions can be granted, and the bills can be even longer because sometimes it takes a while for all the bills to come in. Because we're in a similar situation where I recently had a fire, and you don't worry about much other than getting the fire out and you don't think about

anything. My insurance agent hasn't returned my phone call for 2 weeks. But anyways, that being said, that is part of the issue we're running across, is timing, getting, you know, everything gathered and back. So, when we go backwards to the 2020, 2021, 2022, which are still on the old system, trying to get the new people that are now trained up on the electronic system to go backwards and learn how to use an abacus, basically, is problematic. That's why we've chosen, after finding out this audit, we are very grateful for the Audit Division's work for bringing this to light of day, so we could go backwards and find someone. We contracted with a previous employee. She's coming in. It is felt that we will be able, in 6 months, to deal with all the back billings of 2020, 2021, 2022. Which I don't know how she is going to do it. It's a very large lift to go back to those bills to that day because, again, she has to go back all through paper invoices and sort them out to get it done.

Senator Titus:

Follow up if I might, Madam Chair?

Chair Dondero Loop:

Please.

Senator Titus:

So, that doesn't really, thank you for that. And again, I drove by your hay barn, and I understand your issue there. It doesn't answer my question though, Director, regarding, are we current on paying the folks that have supported the state of Nevada? Have we gotten better about reimbursement for those folks?

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

I'm getting there, so, sorry for being long-winded. It reminds me of being in a previous position and we had the Nevada Fire Safe Council, and it took 12 years for the Federal Government to pay people that we owed. And at the final analysis with the bankruptcy judge, it drove me nuts, that we literally double paid some people and didn't pay some people at all.

Senator Titus:

I think that was the Angora Fire, if I remember correctly.

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

I'll have to ask for that clarification of that fire.

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

And thank you, for the record. Kacey KC, for the record, and for the question, Senator Titus. No, we have not paid all of our cooperator bills. We carried, every year, in the past 4 years, or so, we have carried debt forward because we were unable to pay because of the 5-year average issue. Unfortunately, it's very hard to average, and no fire season looks the same as the other. So, we do the average, but it's never right, and so I'm always sitting before you — sometimes I'm not even asking for money — I'm sometimes just asking for a shift in authority between past years and current years. And so, no we have not. On

December, we, well, we came before you, we got money, we paid everything that was sitting in there. There's multiple bills sitting in the payment system right now, to be paid, then we'll go into a reimbursement effort. But no, we are not paying our bills right now. No bills are being paid. We can't. And that's a function of the new system because of the override issue. We used to have an override up to the authority available, but in CAT 10 we don't have any authority available, which is why we brought the work program before you for December, but now it's in January. So that's been an issue for us is timely, being able to pay when we're constantly having to shift and adjust. And thus, that does cause delays, but I don't want to make excuses. That does not excuse why we didn't ask for money back into 2020. We did carry about \$4 million of debt, of fire billing debt, into fiscal year '24 which ate our entire budget in the month of July. And then we were, then, and we've had stops and starts. These same six people are dealing with those angry aircraft owners and cooperators. Which is why we do see a large amount of turnover. They get yelled at a little more than the average fiscal person in our Division. I don't mean to make light of it, it is serious. And so, and we're not the only state having this issue. Fully funding a suppression account for all states has been challenging, if you've read the news lately. Oregon, California, Washington — all states are going through this. We are seeing more fire; we are seeing more fire affecting more communities; we're seeing greater costs. The rates are set, the rates are actuals. We only bill for what we pay but it is costly and just to kind of give a picture of how it starts. It starts at a local dispatch center. It comes into 911. They're using a Mutual Aid, you know, Agreement, and they are basically calling the closest available resources. We are not looking at cost at that time. We are looking at who is readily available, qualified, and able to put the fire out. Once it goes beyond 24 hours, the Incident Commander, if it goes beyond 24 hours, we then expand. So, we still manage it out of a Wildland Fire Dispatch Center, which we own two of in the State, we have five total, their inter-agency. We are one state who does have local government now in those Dispatch Centers. That transition happened 3 years ago. It was the same six people who made that transition. We had to get them all into our training system. There was a lot of work to get that to happen, but it was the right thing to do. We needed to actually call closest available resources, not federal resources from afar, driving past your local government fire districts. So, once we exhaust all of the assets that are in a local dispatch center, we then move up into the GACC (Geographic Area Coordination Center). So, it is the geographical area, four states, then we start ordering through, you know, Utah, Wyoming. We are seeing who has available assets. And then when we exhaust that, we end up in a national ordering system. And so, they prioritize daily. With the Davis fire, we were prioritized nationally number one, which is why you saw the aircraft and the assets that you saw. Had California had this Palisades fire at the same time, we would not have been prioritized as high, and we would have been struggling to get the resources available. So just so you know. And all of our agreements tier into that master agreement. The master agreement with the federal partners is how we get to that national level. The compacts, if approved, will allow a state-to-state movement. It's a little faster and maybe more timely in reimbursement depending on the state and their budget availability at the time.

James Settelmeyer (Director, Nevada Department of Conservation and Natural Resources):

Madam Chair, Director Settelmeyer, for the record. May I return to the previous question that was asked by Assemblywoman Anderson to address her concerns on her question?

Chair Dondero Loop:

Let me jump to Senator Daly first and then let's go back. Thank you.

Vice Chair Daly:

Thank you, Madam Chair. And thank you for some of the answers. You answered some of my basic questions. And going to what our Chair was saying is, we're getting put in a position where there is like a no win for us. And I understand you guys feel that no win as well. What I did hear, is what I am thankful for, is that when there is a fire, someone calls for service, someone is going. We're not talking about the money at this time, although, it is a factor that every agency has to be able to pay their bill. The rest of it, what I heard is that you guys are aware of these intricacies, these areas where we should be doing better. We can anticipate certain things. We know that there's going to be this type of delay. We know we can't control the Federal Government, when they're going to pay, and various things. You hear FEMA comes in and it says, 'hey, we're going to declare an emergency and we're going to help with this.' I know on the Palisades fire, you saw Governor Newsom, you know, talking with the President saying we're going to reimburse at 100% rather than 90, or whatever other levels set. That timing on when they get the money is a gaping, it is a black hole. Who knows, right? You got changes in administration, you got all kinds of things happening. So, you don't know for sure. But it seems to me we should be able to anticipate these things a little bit better. We should put ourselves in the state to say we need to make sure we have the resources, reserves, whatever it might be, from the State so we can pay our bills. Cause you'll get to a point where it's a private contractor that has a plane or somebody that has an asset that says, 'I haven't been paid for the last three times I went to your state, so I'm not going.' And that person's in business and it's, you know, multimillion dollar plane, and every time he goes up in the air, it's, you know, a million bucks. And he's not getting paid. It's kind of hard for them to front that, so you can't blame them either at some point. But it puts us in a position when you guys haven't billed, and abacuses are not that hard to figure out. So, they should be able to go back and figure that out. You are coming to us and saying, 'hey, we got to have money to put out these fires' and I don't think you can find anyone up here that says, 'no, we don't want you to put out the fires.' So, we're not going to do that. But at the same time, you put us in a situation, because we're also supposed to be responsible and looking after the state dollars that people pay to get these services and when we're not paying our bills, it puts us at greater risk. And I think that's where our Chair was trying to say is, you know, we're going to fight the fires. I mean, I think we gotta. But if we don't have confidence on the other side and people don't have confidence that the State's operating efficiently and spending the money the way they're supposed to. So, I just have, you know, those concerns. And I understand the staff overturn and all that kind of stuff but what I just heard you say is that you have all of these interest keys, you know, other states in the same position. We go to the master agreements if there's a fire in Utah, because we do not have a state agreement. Rates are set. We have to bill. I mean, we have to get the money. We have to put ourselves in the best position to have the reserve, have the authority, to have whatever, and make those requests, which is, you know, reasonable, so we can pay our bills so we're in the best position when we need resources to come here. That people want to come here to do our stuff. It's just, you know what to do, so I'm just saying, why aren't we doing it and asking the right questions and asking for the right authority instead of chasing our tail here.

James Settelmeyer (Director, Nevada Department of Conservation and Natural Resources):

This is Director Settelmeyer from the Department of Conservation and Natural Resources. I greatly appreciate what this audit has brought to the light of day that I did not know. And once I found out, I was beyond troubled. We need to do a better job, I agree. That is why we went back to 2020 when this started, and we hired someone to come in and work on that. The greater amount of money that is recoverable for the state of Nevada is actually in '23/'24, and that's why we are focusing those trained individuals in that realm — to make sure that we get those invoices dealt with and paid because those are the firemen, firefighters, assets, whatever, that must be paid for the work that they have done. So, we're focusing there on getting those bills paid, which again, we're coming to IFC here this month, and we're also making sure to get those invoices sent out for reimbursement for the state of Nevada. And we have the other individuals coming online that we talked to the Governor's Office about to get authority to make sure to bring people back that know the other system. They can focus on that for the year 2020, 2021, 2022 when the problem started. So, we can get this dealt with. It is our goal and objective to get this done in the next 6 months so that we can get all 2020, 2021, 2022 dealt with and get those off the books. So then we can put more focus on the '24. But I am grateful that Kacey KC and her team has stepped forward on the 2023 and basically has that 90 - 95% done, depending on which way you look at it. But I will allow the State Forester, Firewarden to follow up more on that. Thank you, sir.

Vice Chair Daly:

And just real quick, thank you, understood. And the word execution is a verb, excuse me. And so, we want you to execute, right? Because we don't want to have to have an execution.

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you. I feel very executed. But, again, for the record, Kacey KC. And I do want to state — and it's again, not to make excuses — we do own this issue. The billing system was a one-way street. And so, as you go into a new automated system, you find all the problems when you go in. We had the contract let in 2020. We got a fully, well semi-functional system, in 2022 that we were testing with a few departments. And then we had to get all of these departments across the State loaded into the system. All their rates, all their people, all their apparatus. We went to each of those districts to do that — same six people had to go help them — and so that, in 2023, everything would be in this automated system. A lot of the recommendations that you see are semi-fixed by having an automated system. A paper system, where we're having files, is untenable, and we knew that. So, as we moved into this, but what we learned when this was brought to our attention, on some of these out-of-state bills that hadn't been billed, while other things had been invoiced, these out-of-states had not, I don't know why, what we learned, is the billing system was a one-way street. So, we didn't even have until October of 2024, a way to bill back in the new system. So, we had to work with the contractor. We had to get the Federal Government loaded into the system, which there was a trust issue there. They weren't sure that our system was going to work for their stronger systems. They loved the billing system. It makes it much, much faster. We are seeing great efficiencies in the system, but what's required right now, so that we can actually look at the data; how long has this bill been sitting? The new system will flag you if it's been sitting too long, if we have paid it and we haven't invoiced it. We're working on all that. But in October, we had the ability to bill back, which is when you saw us

push \$18 million in bills and today pushing more and more bills. We wanted to get all the bills in the new system because we don't want to have to try to dig through 40,000 files of 7,000 files in multiple states because it wasn't working. And so, part of that, unfortunately, is manual entry for us into the system. We have to take a paper bill and manually enter it into the system. All of these things take time. But again, not to make excuses. We are working on the back billing. We had been invoicing in every year. In this audit, for some reason, these out-of-states had not been invoiced and we are working on that today.

Chair Dondero Loop:

Thank you very much. And I would just say that, you know, I may pay my bills online, but if I can't pay my bills online, I might have to pay them by check. So, there's still paper bills. So, somebody needs to make a list and check it twice and pay the darn bills so that we get money in this state because we're taking all the money that we have given and it's going somewhere else. So, I appreciate your answers. It's just been going on for 3 years and it's going to be really hard to justify to other Members, not, you know, I'm not the only person up here, we have all these Members from different places in the State, even, that are all saying the same thing. And so, I think it's just really important that we get this under control so that we don't have to go through this. I guess that's all I can say. And I believe everybody's questions have been answered.
Assemblymember?

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

Madam Chair, I appreciate everything you have said. This is Director Settlemeyer. The question that Ms. Anderson had earlier was one that, 'when we found mistakes, did we pull back?' And I'd like to address that question if I could, Madam Chair.

Chair Dondero Loop:

Ok. She thought Director KC answered it but go ahead.

James Settlemeyer (Director, Nevada Department of Conservation and Natural Resources):

Once we found out the errors, it was a decision of Kacey KC to pull back all the bills and then re-analyze them, correct the errors, and then double check them and then send them on from there. So, yes, we did try to correct everything, and we are doing our best to try to address all the issues that you have raised. We are not happy in any way, shape, or form. I am definitely not happy, and we're going to try to have this rectified within 6 months as far as the 2020, 2021, '22, '23, '24. Once we get some funds, we will pay the bills, then we can invoice. We have to pay the bill to invoice. Thank you, Chair.

Chair Dondero Loop:

Thank you. One more quick question from Assemblymember DeLong and then we'll close this out.

Assemblymember DeLong:

Thank you very much, Chair. I just want to get something on the record. There are 13 recommendations in this audit. I would like to hear from you what's your

plan for, are you going to address all the recommendations and what's your timing for addressing them all?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question, Assemblyman DeLong. For the record, Kacey KC. We accepted all 13. We have implemented many of them already. We have all of our policies updated. We do have to update a few for how we actually use GARP. GARP is the new federal reporting system. How we actually put on the invoices owed, the reimbursements, when we actually count them as reimbursements. And so, we do need to update for that. We are working on all of them right now. I did try to address in the responses that many of them, work are complete. Some of them still will take some time. One of the ones is, you know, working with GFO (Governor's Finance Office) and LCB (Legislative Counsel Bureau) Fiscal on what we're going to do with out-of-state costs and if we want to separate them or keep them or how that would work. So, we are working on all of them today.

Chair Dondero Loop:

Thank you very much. I have one quick question on the map on page 26. I'm looking at all the cooperators and I'm just curious, I see like everybody in there that is a fire, and I don't see North Las Vegas. Is that an error or is that they did not join that cooperative?

Kacey KC (State Forester/Firewarden, Nevada Division of Forestry):

Thank you for the question, Chair Dondero Loop. Again, for the record, Kacey KC. North Las Vegas was in the WFPP. This cycle of the new contract, they dropped out. They don't have a lot of wildland urban interface fires within their footprint. And so, they didn't see the value of paying into a system like that. However, part of the value is they didn't get to go to California because they weren't in, and they don't have, so, when the Federal Government got audited, they don't have agreements directly any longer with — so, the Forest Service, the BLM, Fish and Wildlife Service, that's through us to them, so they can't respond in those ways. So, they actually are talking about coming back in. We did have, we got Mount Charleston in, we're almost at full participation across the State.

Chair Dondero Loop:

Perfect. Thank you. That's exactly what I wanted to hear. So, thank you. All right, before I take a motion, Mr. Crossman?

Daniel Crossman (Legislative Auditor):

Thank you, Chair. For the record, Dan Crossman, Legislative Auditor. I just wanted to make just a couple quick closing statements on this. I've had a couple of questions about the audit follow-up process. So, I want to just address that for everybody now, which will apply to all these audits. Sixty working days after today's meeting, the agencies are required to submit a plan of corrective action. What you see in the back of the report is their response to the recommendations and sometimes it includes some description of corrective actions being taken, but the more detailed report will come 60 days from now. And then 6 months following that, there is a 6-month report on the status of the recommendations, and that report is issued by the Governor's Finance Office, Division of Internal Audit. They will then submit that to us, we review it, and we will probably follow up with the agencies and then that report we will bring to a future meeting of the Audit Subcommittee. So, we'll have this opportunity to talk about this just a little

bit more at some point. So that's the audit follow-up process. And then just one other thing, I wanted just to make clear — and we appreciate everyone's contributions today — I just wanted to highlight and bring to the attention that these bills were paid. So, the \$30 some million we're talking about were paid with General Fund monies. And so, when we talk about going to the Legislature and requesting money to pay more bills, at the same time, that request could be, in some of these cases, had they have been billed, a request for authority to spend that money to pay those bills. So, when we talk about the General Fund money, or the money coming in going straight to the General Fund — that same mechanism where we asked for General Fund money — is the same mechanism we ask for authority to utilize the reimbursements when we get them. So, just wanted to put that on the record. Thank you.

Chair Dondero Loop:

Thank you very much, Mr. Crossman. All right, and with that, I will take a motion to approve this report.

ASSEMBLYMEMBER DELONG MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, NEVADA DIVISION OF FORESTRY, FOREST FIRE SUPPRESSION BUDGET ACCOUNT.

VICE CHAIR DALY SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM IV. B – NEVADA DEPARTMENT OF TRANSPORTATION, STOCKROOM PURCHASES, MATERIAL STOCKPILE MANAGEMENT, AND MECHANIC PRODUCTIVITY (LA26-02)

Chair Dondero Loop:

All right, we will move on to IV. B, the Nevada Department of Transportation, Stockroom Purchases, Material Stockpile Management, and Mechanic Productivity. Welcome Ms. Barlow and Mr. Peterson.

Ok, welcome, and please go ahead when you're ready.

Amanda Barlow (Deputy Legislative Auditor):

Good morning, Chair Dondero Loop, and Members of the Audit Subcommittee. For the record, my name is Amanda Barlow, Deputy Legislative Auditor. I will start with some background information, which begins on page 1. The mission of NDOT (Nevada Department of Transportation) is to provide, operate, and preserve a transportation system that enhances safety, quality of life, and economic development. NDOT maintains a fleet of over 2,000 pieces of heavy equipment, and 700 vehicles. NDOT is comprised of four primary Divisions including Administration, Engineering, Operations, and Planning. The Equipment Division, Materials Division, and Maintenance and Asset Management Divisions, which are the primary focus of our audit, fall under the Operations Division. NDOT is also divided into three districts based on geography. Exhibit one on page 2 shows the distribution of districts and maintenance stations.

Continuing on page 3, NDOT has equipment repair shops and stockrooms in each district. Equipment repair shops maintain NDOT's fleet by performing preventative maintenance and repairs for heavy equipment and vehicles. Stockrooms have purchasing authority and act as the supply center for district equipment repair shops, maintenance crews, and other NDOT units operating in the district. Historically, districts had full responsibility for most equipment repair shops, and stockrooms. NDOT recently moved equipment repair shops and stockrooms to be overseen by the Equipment Division. Exhibit 2 on page 4 demonstrates the organization of equipment repair shops and stockrooms as of April 2024.

On page 5, we describe two historical issues with fraud. In 2013, inadequate controls over NDOT procurement cards enabled a stockroom employee the ability to commit fraudulent purchases, valued at over \$250,000. An investigation in 2014 also revealed at least \$35,000 in tire theft.

NDOT operates 14 budget accounts and is funded primarily by fuel and motor vehicle taxes. NDOT received \$1.9 billion in revenues in fiscal year 2024 and expended \$1.2 billion. Exhibit 3 on page 6 shows NDOT's revenues and expenditures for fiscal year 2023.

Continuing on page 7, we provide our scope and objectives. The scope of our audit included a review of NDOT activities related to equipment repair shops, stockrooms, and material stockpiles and executive staff vehicle use between January 2022 and June 2023, and through the end of calendar year 2023 for some activities. Our audit objectives were to: 1) Determine whether NDOT has effective controls over stockroom purchases, equipment repair shop work, and material stockpiles, and 2) determine whether management's use of state vehicles is appropriate.

Our findings begin on page 8. NDOT lacks adequate controls over stockroom purchases and material stockpiles. First, transactions lack documentation of supervisory approval and separation of duties. Of the 150 transactions tested, 57, or 38%, did not have documentation demonstrating appropriate approvals, or proper separation of duties between the requestor, purchaser, and approver. Additionally, purchasers admitted to regularly using a co-worker's name to be the requestor on documentation. Another purchaser signed documentation with the fictitious name, "Jonny Appleseed." Exhibit 4 on page 9 demonstrates the signature. Other names were illegible, preventing staff from identifying the signatures. District management also bypassed policies by requesting staff develop purchase documentation after services were provided.

Additionally, staff split purchases to remain under the spending limits. There were 77 instances of staff placing multiple orders to the same vendor on the same day. For 8, or 40%, of the 20 instances tested, the same items were procured from the same vendor on the same day, using different invoices. The State Administrative Manual and NDOT policies limit purchases to \$5,000, and the State Administrative Manual states that purchases should not be split as a device to avoid requirements.

On page 9, we state that staff do not always safeguard assets by accurately recording parts purchased. Testing of 1 week worth of purchases found that stockroom staff did not record 146 parts or 1% of items tested, totaling nearly \$10,000 in the asset management system. This could amount to \$440,000 in assets bypassing controls annually. Recording parts is crucial to ensuring parts are not converted to personal use.

Additionally, 41 tire invoices, totaling almost \$25,000, were not accounted for in the asset management system. Sixteen tires were not on the vehicles identified in the invoices. For example, an invoice contained a purchase for two semitrailer tires, but the unit referenced on the invoice was a passenger car. Either these records are not accurate, or the tires may have been converted to personal use.

On page 10, we state that equipment repair shop's supervisors do not consistently perform quality assurance program inspections on vehicles, which are designed specifically to detect and deter fraud. Exhibit 5 on page 11 demonstrates the varying levels of shop participation in the required monthly inspections. The quality assurance program inspections consist of reviews of completed work orders to ensure records are complete and accurate and that parts were properly installed on the vehicles. Supervisors performing the inspections reported they do not always physically inspect units because they are familiar with the abilities of staff or because the unit was returned to the crews and is no longer available for inspection.

The issues identified above were also identified by NDOT internal audit staff; however, district leadership did not adequately address findings from annual stockroom audits. For example, of the 10 internal audit findings we reviewed, 7 were repeat issues in '22 and '23.

On page 12, we state that NDOT has weak controls over material stockpiles. For example, there were nearly \$25 million in discrepancies between NDOT materials in the tracking system and physical inventory records in fiscal year 2023. Additionally, we tested six invoices for purchasing stockpile material and found that four were recorded incorrectly in NDOT's material tracking system, and one was not recorded at all.

Additionally, the inventory process lacks standardization. For example, when calculating material amounts in stock, some crews use measuring wheels, while others compare the size of stockpiles to the height of a truck or by counting strides. A lack of standardization contributed to error rates up to 9,000% in NDOT records.

NDOT policies and procedures related to stockpile inventories were outdated or lacked clarity. For example, management provided policies and procedures from 1987. Additional internal memos do not provide direction for documenting the receipt of materials, use of materials, or the inventory process. Inaccurate records contributed to findings in the state of Nevada Single Audit Report in fiscal year 2020, 2021, and 2022. In 2021, the inaccurate records resulted in a qualified opinion on the State Highway Fund of the state's financial statements.

Additionally, Districts allow local entities to use state materials and to self-report usage. There are no formal agreements with these local entities, and there are no processes to ensure the materials used are accurately tracked and replenished or paid for by local entities.

On pages 13 and 14, we list 17 recommendations to strengthen controls over purchases and material stockpile management.

Our findings on low productivity in equipment repair shops and inappropriate use of state resources begins on page 15. We identified significant variations in productivity between equipment repair shop locations that were below NDOT's standards. For example, one shop recorded an average of 2 hours per day to work orders. According to NDOT audit reports, the NDOT standard is that 80% of hours should be applied directly to work orders. Exhibit 6 on page 16

demonstrates the percentage of time logged by each equipment repair shop for an 18-month period. Low productivity and improper use of state resources results in waste and increased cost to the State as mechanics are paid for duties they are not performing, or routine maintenance is outsourced to vendors.

District management did not always address internal audit findings. NDOT's Equipment Division provides district management with annual audit reports. While some findings resulted in improvements, this was not always the case. Exhibit 7 on page 17 indicates whether districts improved on audit findings between fiscal year 2022 and 2023.

Continuing on page 17, we identify some inappropriate use of state resources. Specifically, state vehicles were modified or used for the personal benefit of state employees. We consider these findings to be abusive and not fraudulent because the use of state funds related to these activities could be appropriate with proper controls in place. First, one equipment repair shop performed questionable and inappropriate modifications totaling \$20,000 on an NDOT pickup truck. Inappropriate alterations included installing things like window tinting; matte black wheels, and low-profile tires; an engine modification power chip to enhance performance of the vehicle; and a drop kit to lower the vehicle. The supervisor who improperly made these modifications subsequently purchased the unit for \$8,200 when it was sold at auction in 2022. State law establishes a code of ethics, stating that if a public employee acquires information which is not at the time available to people generally, the employee shall not use the information to further a significant pecuniary interest. While NDOT management eventually took disciplinary action, there are no policies and procedures outlining what modifications to units are authorized.

Secondly, on page 18, we state that one of the three units assigned to the NDOT Director's office was used excessively for personal use. Of the 2,700 miles driven between August and November of 2023, over 2,200 or 83% of the miles were for personal use.

At the bottom of page 19, we identify 3 recommendations relating to productivity and use of state resources.

Our audit methodology starts on page 20, and the Department's response is on page 26 where they noted acceptance of all 10 recommendations. This concludes our audit presentation, and I would be happy to respond to any questions that you might have.

Chair Dondero Loop:

Thank you very much. Ok, we'll go to Senator Daly.

Vice Chair Daly:

Thank you, Madam Chair and I'm hoping we have some DOT people here as well. The audit seemed very thorough. A couple of questions, and I think we'll have to get DOT up because I have direct questions for them as well, but on the ethics deal that you mentioned in there, was it too long or was a complaint filed to the Ethics Commission? Because obviously they can take that up if they, you know, we just had an ethics training yesterday, right? So, they should exercise their authority.

Amanda Barlow (Deputy Legislative Auditor):

For the record, Amanda Barlow. To my knowledge there has not been an ethics complaint filed against them.

Vice Chair Daly:

And I don't know if it's still timely, or not, and then in a couple of places in your, I think on page 11 and page 16, you guys recognize that these are repeat findings. Seven of the 10, two of those three that were left were repeat findings from 2023. And that district management is basically, through your report, ignoring the recommendations and the procedures established by the State. That's the way I read it. A similar issue on page 16 where it says that they're, the management in the shops, are not adequately following the audits that are presented to them by internal audits. So obviously management is seeing this, the top parts, and they are handing it down to their people and their people are still not doing anything. Any comments on what the problem might be or if you can't answer for DOT, we'll wait for them to come up.

Amanda Barlow (Deputy Legislative Auditor):

For the record, Amanda Barlow, Deputy Legislative Auditor. I think this would be an appropriate question for DOT to respond to.

Vice Chair Daly:

And the final one before we get DOT, is when I read their responses, I found their responses, compared to other ones and audits that I've read, to be relatively weak, in my opinion. This is one of the responses I recall, I was just looking at it again, is that, 'well yeah, our response is, and what we are going to do to take care of it, is to do what we were supposed to be doing all along.' And I just shake my head and go, or they're going to hire new staff, and they've already got, you know, more staff than most agencies in the State already. And they do an awful lot of good work. I am not trying to say DOT is, they are horrible, but they do have some problems here, at least in this audit, on what they're doing and, you know, partnering with other local government agencies for material and various things. All well and good, and actually the State has better purchasing power. It benefits everybody, they have agreements for these types of things. But if you don't track it and bill, then it's just, you know, not the proper way to do things. So, I'll wait for DOT unless you have a response to any of that, thank you.

Chair Dondero Loop:

Thank you very much. And Senator Titus?

Senator Titus:

Thank you, Madam Chair, for the opportunity to ask a question. And thank you for your information, and the data that you presented to us. My question is, as auditors in the Department of NDOT, you hone down, and you mentioned in your overview how big of a budget is, how many employees you have, how many different departments there are. So, I understand that in a scope, you had to hone down on this particular issue. How often do you do audits on cost overrides when they pave a road? How often do those audits come out?

Todd Peterson (Chief Deputy Legislative Auditor):

For the record, Chief Deputy Legislative Auditor, Todd Peterson. Through the Chair to Senator Titus. We have an audit process to identify which agencies we're going to audit. That happens biannually and that's based on several factors. And then after we determine which agencies to audit, then, yeah, the problem is coming into an agency with limited resources and trying to focus in on what area we're going to audit. And that's done through, we do some survey work and have a risk assessment process where we focus in on those areas. For NDOT, most recently, for this audit, we focused in on this area because of the prior fraud investigations that occurred and also because of areas that we have audited in the past. Prior audits included, most recently, in an audit of their IT function, their information security function. And then prior to that, it was their contracting process. And so, it has been a while. I want to say it's been over a decade that we've focused on anything like cost overruns. In my career, we have looked at that and they have had, in the past, it's been a while, but they have had a pretty good process to control the work that's done specifically on highway projects and when they pay for the work that's done and to inspect the quality of that work. I hope that answers your question.

Senator Titus:

Thank you for that. And Madam Chair, I just brought that up because sitting in IFC, as we do, we heard about a significant cost overrun last year, and I was just wondering how often, not that this isn't important, this is a direct thing, we can make changes, this is very obvious, and I think it — the term I, I won't use the term that I thought of when I had heard the presentation about the purchases and what they were doing — just wrong. But we've heard now in IFC regarding cost overruns, and I was just wondering how often is that actually addressed? And so, thank you for, it's been a while, so may be a reconsideration. Thank you, Madam Chair.

Chair Dondero Loop:

Thank you very much and we'll go to Assemblymember DeLong.

Assemblymember DeLong:

Thank you, Chair. Thank you for the presentation. My question is more about, OK, we've got the audit, we've got the findings, they've accepted them. I see their responses and Senator Daly referenced the fact that some of the responses are the same one they had last time. In the report that comes out 6 months after this, are the auditors going to accept that general answer again, that we're going just do the same thing we did last time? We'll look at it but maybe not fix it. How's that going to be dealt with?

Todd Peterson (Chief Deputy Legislative Auditor):

For the record, again, Todd Peterson, Chief Deputy Legislative Auditor. Through the Chair to you Assemblymember DeLong. When the Division of Internal Audit issues their 6-month follow up report, we take a good look at that, and between what they report and then our own analysis and understanding of the problems, we will review that, and we will bring that back to this Committee and if we have concerns with the implementation of those recommendations. The Governor's Finance Office, through their testing, might say that things are ok, but we don't necessarily agree with that. And so, we will bring the agency back and we will ask

further follow up questions until we feel like they have properly addressed the recommendations to correct the issues that we found during the audit.

Assemblymember DeLong:

Thank you very much. Thank you, Chair.

Chair Dondero Loop:

Thank you. And I believe Ms. Larkin might be in Las Vegas. Are you there?

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

Yes, I am, ma'am. This is Tracy Larkin-Thomason. I'm the Director for the Nevada Department of Transportation. Also with me, I have Deputy Director Mario Gomez who is over Operations and Maintenance.

Chair Dondero Loop:

Thank you. And I guess my question is sort of the obvious. But when I see some of the things that they have discovered whether it's improper signatures, whether it's tires that aren't on the cars, whether it's matte black wheels and low profile tires, I mean, how does this stuff happen? I really, honestly, I'm having trouble wrapping my head around this. So, I get maybe something slips through the cracks once in a while but matte black tires and window tinting. I mean, those are pretty obvious things. I mean, a drop kit to lower the vehicle. How does that happen? There's a question in there.

Mario Gomez (Deputy Director, Operations and Maintenance, Nevada Department of Transportation):

Madam Chair, Mario Gomez, Deputy Director of Operations and Maintenance. That's a very good question. So, the way the shops are set up is they're more isolated within the district. And because of that, the shops are relatively large. And so, you may have a supervisor who may be talking to staff indirectly to get some signatures to purchase things, without the knowledge of leadership. And so, because of that, we've now gone to the point of centralizing the shop that is in question at the moment, regarding these for the matte tires. Now they are reporting to headquarters divisions, which is a more larger oversight and with staff who are understanding of what is needed to operate equipment in the right fashion in accordance with the transportation policies and for the use of, for example, our regular operations, when it comes to performing maintenance work or construction inspection or things of that sort.

Chair Dondero Loop:

So, I hear what you're saying, but \$25 million, that's with an m-i-l-l-i-o-n, discrepancies is crazy to me. Like, we're paying these people to work, and all these discrepancies are happening. I just, and then what happens is, as a member of IFC, people come to us and they say, 'oh, we need money.' And then those of us that are sitting in this meeting today, that are on IFC, remember, oh, yeah, you had \$25 million that we don't know where it went. So, I'm just amazed. And I see that you've accepted all the recommendations. So, I'm assuming if you come to us for money at IFC, you won't need that much because you will have fixed all this and have that \$25 million back in the bank. Senator Titus, did you? Oh, Assemblymember Anderson.

Assemblymember Anderson:

Thank you, Chair. So, I am very similar with the flabbergasted information. But I am going to bring up something that is on the bottom of page 12 of the information. It has to do with the policies and procedures. And I believe that Senator Daly also alluded to this. The bottom paragraph starts off with, "policies and procedures provided by staff were outdated or lacked clarity." It appears that management provided policies and procedures from 1987. Is that, first of all, the most up to date policies and procedures? And then number two, it appears that possibly similar answers have been given in the past. What is the plan for how to update these policies and procedures, especially when we're looking at error rates up to 9,000% that possibly could be identified in some of the records.

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

Tracy Larkin-Thomason, Director for the Nevada Department of Transportation. First, I wanted to, can I address the Chair's question first or comment? And then answer Senator Anderson's?

Chair Dondero Loop:

Please go ahead.

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

OK, really, with respect to the stockpiles on that, that's where we're saying the missing of the \$25 million. It's not necessarily missing of \$25 million. It is how the stockpiles themselves are measured. And over the years, it has been very imprecise. It is generally measured by the bucket, or it's a bucket load of sand, or it's a bucket load of chips, or whatever the material could be on there. And as technology, over the last 2 years, we are looking to help us really refine that process because many would be like, that's four bucketfuls, is that a cubic yard? Barrels may be, or they could be a loader, you know, a bucketful of a loader, which could be, again, it's approximately this many cubic yards. We are looking to get much more precise, as they did mention in there over the years. And when I say years, I am talking decades of the measurements being done by some people will do the stride, they will measure it by looking at the height of the truck. We have been looking very much at how they are measuring it. We have adopted, and just recently in the past year, and they were looking at testing for 2 years in here and this was based on a previous audit finding, 2020, to look for adopting a, it's with your phone, and you can actually go out and then it'll take a picture before and after. And we're hoping that will help refine the actual volume of it. If you have a pile full of sand, you take out four shovels full, there's an estimate there. So, I do want to make the comment that the \$25 million is a perception of just, is that material really, has it been flattened out, is it higher? It is very imprecise. And we're looking to make that much more technically using tools to help refine that. We also have in some areas where we've adopted the use of drones, like in sediment basins, to measure the sediment accumulation in detention basins where you take a picture of it at one time during the year and then later come in so that you can measure how much infill has come into that. So, for that part, I do not believe there has been any malicious part. And I truly believe that the people out in the field and majority of these stockpiles are in rural areas, they are in isolated areas. They might be at junctions of intersection of roads because that's where it will be needed when you're going out there to

maintain the roads. But I do believe that the measurement has not been precise. And I'm sorry, Senator Anderson, your specific question?

Assemblymember Anderson:

Sure. And I am an Assemblymember. Thank you though for.

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

Oh, sorry.

Assemblymember Anderson:

It's quite all right. Thank you though for the attempt to, as one of my colleagues said, what was it? Promotion? I believe it's more lateral, but moving on.

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

The policies and procedures.

Assemblymember Anderson:

That's correct. Bottom of page 12 is where it's mentioned.

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

Again, Tracy Larkin-Thomason, the Director for the Nevada Department of Transportation. This is something. When I returned, I started looking at the beginning, in the middle of, 2023, and looking at our transportation policy, that's the internal policies to the Department do date back actually to 1978. We have kicked off and started in the last few months to go back and review all of the policies throughout the Department. They are very outdated. We have different ones that just, thoroughly need to be updated. We have kicked off. We have a consultant on board. They started at the end of last year. We have a meeting with them this afternoon as we work through the Department. They have been reviewed to look for, not only gaps that we have, areas that maybe aren't covered at all. Looking to update the ones we have and then subsequent to that and in parallel part to it is also making sure that we are updating all the manuals throughout the Department. And that would be the equipment manuals, that includes the construction manuals, material manuals, and stuff, to make sure they're up, again, with the technology, the fact that these policies no longer have to be paper in a binder, that we can make it more digital, that will also help with keeping it to make sure that everyone has the most correct copy and the updated copy throughout the Department and also easier to make sure that, on a yearly basis, they're reviewed so that we don't go through where were looking at 20 or 30 years of gaps. These are things that we did have really aggressively started to take a look at to update.

Chair Dondero Loop:

Did you have a question, Senator Titus? Ok. Senator Daly?

Vice Chair Daly:

Thank you, Madam Chair and thank you Director Larkin. And some of my questions, I think, can be answered and I think you answered some of them, but in a little bit in defense of DOT, I have, you know, dealt with DOT in my previous positions, for a long time. A lot of different Directors. I know the organization, right, wrong, or indifferent, is fairly political and in some of the things, and I know you've been with DOT for a long time but not necessarily, you know, Deputy Director, but not the Director. So, relatively short period of time for that. And DOT does a lot of things very well and you need to get better in measuring your stockpiles. A little bit more on some of this stuff is these shops and areas are in very remote, rural areas of the State. As I understand it, maintenance on that equipment is primarily, or largely, used for some internal, emergency repairs, but they're responsible for snow removal and the largest amount of road miles in the State. Bigger than Clark, bigger than Washoe, in those rural areas. And so, they need to be there. They're a vital function. But they also need to be efficient. And getting custom trucks and sold to an employee. I hope there's still time to notify the Ethics Commission of that behavior. Hopefully you will. But at the same time, when you say it's a measurement issue. It's some of these things. It's a culture with DOT that, now that you're in charge, I hope you will address and change. It's too much of a 'Good Ole Boys Club.' You know, these district managers, I think they have their own little turfs and don't have to follow procedures. And I have firsthand witnessed some of that over the course of time. But now that you're there, I am hoping that you can recognize that culture and tell these people they got to follow the procedure or there will be a price to pay because there certainly will be when we get an audit like this. When you go in front of the money committees, in either house, you're going to have to explain these things. But, so do you have an answer to the ethics complaint on that particular individual, if it's still timely? And then on the measuring, it's been my experience that DOT is much better at measuring the accuracy of the materials when it comes to paying a contractor for the services they provide, you seem to be much better at it. And can you explain that discrepancy?

Tracy Larkin-Thomason (Director, Nevada Department of Transportation):

Again, Tracy Larkin-Thomason, Director for the Nevada Department of Transportation. Certainly, when we're doing with the contractors, we have inspectors and so on. Construction jobs, there are inspectors, there are people who measure material, they're there 24/7. You are absolutely correct, Senator Daly, about the culture. We are very old organization, going back to 1917. A lot of this, of course, has been maintenance stations and facilities throughout the State. As you are aware, we have very remote stations. We have 40 different, 42 different, sites around the State. It goes back to, basically, your neighbors. It was, you use the 'Good Ole Boy' network and that is probably a very accurate term. A lot of things were probably done with a handshake and move on. When we, as we are moving, as we move forward, we have, as my Deputy Director put in, we have moved all the equipment shops recently. It's going, not all of them yet, but the most problematic has been where the most concerns and most of the issues that have been dealt with in, or referenced in here, have been in Southern Nevada. We have moved all them to a centralized location. We are having, we did request and receive, another auditor position that literally goes out and works with the different ones to ensure that the documentation that's done in each area is in place. Also making sure that the paperwork processes are followed. That's where we really found a lot of discrepancies, or areas of concern. And we hope by really tightening that up and having it back in, and again, as my Deputy alluded to, is that throughout the State, historically, the equipments in each area have

been underneath the districts. There have been good reasons for that over the years, but as we are going in, we really want to streamline and ensure that there's a uniformity and consistency in all of these. That is also, there is a reference in there of the productivity of the different shops around there. One of the things that we are looking at is to ensure that everyone is actually documenting their time the same so that were not comparing apples in one to oranges in another one. So that the productivity is, that we are truly getting a measurement of what is there of the direct cost, indirect costs, and on there. There is certainly, in the rural areas, you know that there are, it's always been more. When we're the largest cities in urban areas, NDOT is part of a lot much larger network of transportation agencies and trucks. And when you get into the rural areas, NDOT is often the agency, or one of the main agencies in the area, they're also a big part of the community. They're often the fire chiefs, the search and rescue, those type a things. So, we're really trying to bring, kind of match, the cultures of recognizing the differences around the State, but really bring a centralized consistency to the documentation and measurement of it. These are things that are in process, you know, and we will be of course reporting, as I stated earlier, in the 60 days' time and then again in 6 months' time on how the efforts we have put in place are. If you know if it's really helping to bring in and if not, then we will have to look at other ways to do that. I hope that answers your question, sir.

Vice Chair Daly:

I think so. And if I can follow up, Madam Chair. I understand some of the processes and things that you have to look at and go through and the role DOT plays, especially in the rural parts of the State. And you would look at some of these and say, 'oh this is inefficient, just close that one down,' but you have to, you look at it, you have to maintain a level of service so, you have to be in that area. So, you want to create the efficiencies. I think it's a matter of the culture, like you said, you acknowledge that it needs to change. You don't want these types of issues to be the face of DOT. You want on time, completed projects. And addressing, you know, the core function of maintaining safe roads throughout the State. You don't want this to be the face. So, if people are not following, change the people. You don't have to close stations because it could be a false economy to close a location because then it takes more money to actually then mobilize to a new position from there. So, I understand there's nuances and you gotta get there. I think it's a matter of you have people that are under your control, or subordinates, and they are just flat out, according to this audit, not following the recommendations from the last audit. And I hope that culture can be addressed. Thank you.

Chair Dondero Loop:

Thank you very much and thank you for those comments, Senator Daly. I concur. All right, with that, I will, don't see any more questions, so I will take a motion to approve the report.

VICE CHAIR DALY MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE NEVADA DEPARTMENT OF TRANSPORTATION, STOCKROOM PURCHASES, MATERIAL STOCKPILE MANAGEMENT, AND MECHANIC PRODUCTIVITY.

ASSEMBLYMEMBER ANDERSON SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM IV. C – DEPARTMENT OF ADMINISTRATION, MAIL SERVICES DIVISION, OPERATIONS AND BILLING PROCESSES (LA26-03)

Chair Dondero Loop:

Thank you very much and we will go on to the Department of Administration, Mail Services Division, Operations and Billing Processes. Welcome Mr. Cole and Ms. Goetze.

Parker Cole (Deputy Legislative Auditor):

Good morning, Chair and Members of the Audit Subcommittee. For the record, my name is Parker Cole, Deputy Legislative Auditor.

If I could direct your attention to page 1, I'll begin with some background information about the Mail Services Division. The Division provides mail services to participating state and local government agencies in the Carson City, Reno, and Las Vegas areas. In fiscal year 2023, the Division had over \$8 million in revenues and expenditures as shown on Exhibit 1, page 2. Pages 2 through 4 describe the services provided by the Division.

On page 5, we state that the scope of our audit included a review of the Division's activities from January 1, 2022, to June 30, 2023; and certain postage activity through May 2024. Our audit objectives were to determine if whether the Division's controls protect against improper transactions, including fraud; and ensure accurate billing of agencies for mail services.

As discussed on pages 6 and 7, we encountered several information limitations during our audit, but we do not believe these limitations impacted our ability to meet our audit objectives or the conclusions on internal controls.

On page 7, we also mention that the Division changed postage metering systems in April 2023. In the Division's response to our audit, it indicates that many of the issues we identified were resolved by this change in postage metering systems. However, the nature of the control deficiencies we observed leads us to believe that further corrective actions are needed, despite the changes in metering systems.

Our first findings chapter begins on page 8. We found the Division's lack of controls for certain mail processes increased the risk that fraud and waste have occurred or will occur in the future. On page 9, we indicate that the Division did not identify or prevent unusually large, suspicious metering transactions. We found that the Division paid more than standard United States Postal Service (USPS) rates for about 6,200 of 8.1 million metered envelopes. This caused the Division to overpay by at least \$22,000. Exhibit 4 on page 10 shows that the top 10 overpaid envelopes, excuse me, shows the top 10 overpaid envelopes. Together, these 10 envelopes cost about \$8,500, when they should have cost no more than \$6. While this represents a small percentage of total metered postage, the results are troubling because they suggest that the Division is vulnerable to fraud. Metered envelopes are easily converted to cash. A Division employee could adjust a machine to meter an envelope at a higher dollar value and then take the envelope to the USPS to request a refund. Those refunds may be issued as cashier's checks or blank money orders.

Certain metering transactions also lacked clerk credentials or had inaccurate credentials. Based on available documentation, we identified more than 406,000 pieces of mail costing over \$168,000 with missing or inaccurate credentials. The

total number of transactions with missing or inaccurate credentials is unknown because the Division could not provide all metering documentation. Allowing employees to perform work with missing or inaccurate credentials makes it more difficult to determine who is responsible for unusually large, suspicious transactions. This makes the Division more vulnerable to fraud.

As stated on page 11, the Division's controls over metered envelopes were weak. Metered envelopes with errors were kept unsecured. At the bottom of the page, we show a picture of envelope errors that were left in an unlocked and unoccupied office. These envelope errors are a cash equivalent because they can be refunded by the USPS. Leaving these valuable resources unprotected increases the risk of fraud.

On page 12, we indicate that the Division sometimes did not collect refunds for envelope errors. We also show a picture of a box full of unrefunded envelope errors that the Division estimated was worth about \$1,000. We observed several such boxes. The Division also indicated that it improperly distributed refunds by giving each customer agency an equal share or giving the entire refund to its largest customer rather than basing the refund on the value of the envelopes associated with each customer.

The Division could not provide any documentation in this area, so we were unable to determine the number of envelope errors, the associated dollar amount, the customer agencies that were charged, if a refund was collected from the USPS, or how much of that refund went to the customer. After bringing these issues to its attention, the Division revised its process for envelope errors. However, this new process still leaves envelope errors vulnerable to improper access and not receiving their full refund value.

On page 13, we discuss how the Division did not properly monitor activity on remote meters with access to its postage accounts. During our audit period, the Division had 33 active meters connected to its postage accounts. The Division indicated it was aware of only 17, which might suggest that not all 16 remaining meters require access to the Division's accounts. Because the Division could not provide a complete listing of remote meters, we cannot determine the parties operating the remaining 16 meters.

As indicated on page 14, customer agencies also loaded funds onto remote meters without the Division's prior approval. We reviewed 11 of 49 remote meter billing transactions and found 4 were not properly approved. Because of incomplete records, we could not confirm if these four transactions were the only times that Division funds were improperly obtained through remote meters. In addition, this prevented us from determining the total number of times customer agencies loaded Division funds onto their remote meters or the dollar amount.

The Division indicated customer agencies can obtain up to \$10,000 in a single remote meter transaction and complete an unlimited number of transactions. At one point during our audit period, the Division's two postage accounts had a combined balance of over \$718,000. This makes the Division vulnerable to fraud. An individual could load the Division's funds onto a remote meter, print excessive postage on an envelope, and then collect a refund at their local post office.

On page 15, we discuss how the Division did not ensure criminal background checks were performed for either its permanent or temporary staff. Because the Division assembles mail during its production work, clerks routinely have access to the contents of letters that contain personally identifiable information such as Social Security numbers, home addresses, and personal identification numbers

for public assistance benefits accounts. A lack of background checks leaves sensitive information vulnerable to persons with unknown criminal histories and increases the likelihood of identity theft.

On pages 16 and 17, we list 10 recommendations to reduce the risk of improper transactions.

Chapter 2 findings begin on page 18. We found the Division does not have a sufficient process to ensure it accurately bills customer agencies. As stated on page 19, postage metering data used by the Division to generate billings contained significant system errors. The Division physically moved some of its postage meters, resulting in duplicated charges and flawed counts of the amount of mail it processed. We reviewed more than 206,000 metering transactions and found three system errors caused by moving postage meters. These errors resulted in \$4,400 being double billed to customer agencies and inflated the count of mail processed by the Division by roughly 29 million pieces. The Division could not provide documentation for how it adjusted these errors out of its billing data.

We also found 1,052 metering transactions that were incorrectly recorded shortly after midnight. These transactions amounted to almost 1.6 million pieces of mail totaling over \$756,000. The Division could not confirm if any of these transactions were valid and simply recorded at the wrong time, or if they represented work not actually completed by the Division. The Division indicated it absorbed some portion of the approximately \$756,000 as a loss but could not provide documentation of the amount. It further indicated that it billed customer agencies for the remaining portion but could not provide the invoices.

On page 20, we detail the inaccurate billing data generated by the Division. Our testing revealed more than \$83,000 in under billings and \$59,000 in overbillings. We also found nearly \$178,000 that was billed to customer agencies, but the Division could not provide documentation for any of this postage metering. Due to data limitations and incomplete records, we could not determine the exact amounts of these inaccuracies. Underbilling puts the Division's budget at risk because the Division does not receive General Fund appropriations, and its operations depend on the revenue it collects. On the other hand, overbilling causes customers to pay more than they should and undermines the cost-saving function of the Division. Finally, charging for work that cannot be documented weakens the Division's ability to justify its billings. Exhibit 5 on page 21 provides a table of these billing inaccuracies by month.

Additional billing inaccuracies are also described on page 21. Six of the 10 unusually large, suspicious metering transactions described earlier were double billed. This caused customer agencies to pay nearly \$3,300 on top of the \$8,400 already charged for these 10 envelopes. While this is not a large amount, it wastes state resources. These double billings are especially concerning because they were caused by suspicious transactions for individual envelopes that were already significantly overcharged.

Other transactions led to underbilling. Two of 11 remote meter billing transactions tested were not billed to the customer agency. This amounted to over \$1,800 in unbilled remote postage. Because of incomplete records, we cannot confirm if these were the only unbilled remote meter postage transactions.

On page 22, we state that the formula the Division used to calculate its production charges contained an error that caused the Division to underbill by about 9%. The Division could not provide documentation for much of its

production work, and the documentation that was present was often inaccurate. This prevented us from determining the total value of production underbilling during our audit period. The Division's inability to provide documentation for much of its production activity leaves it unable to support its work and customer billings.

All of the issues described in this report were caused by the Division not finalizing its policies and procedures; not training its staff; and not coordinating with customer agencies. Despite being a standalone Division since July 2021, Mail Services has never finalized its policies and procedures.

Page 23 lists five recommendations to improve the process of billing for the Division's services.

Appendix A on page 24 provides our audit methodology. The Division's response begins on page 29. As indicated on page 31, the Division accepted all 15 of our recommendations. This concludes my presentation and I'm happy to answer any questions that you might have.

Chair Dondero Loop:

Thank you very much. Senator Daly?

Vice Chair Daly:

Thank you, Madam Chair. And I think mine are relatively easy on this one. Although we have concerns, no actual money missing. At least the way I read it, so that's good. So, on the meters that were unidentified, they didn't know that they had, or who was using them. Have all of that been accounted for? Do they, have they either pulled those meters back, identified who they are? Have they, billing the proper agency that might have been using them, or the proper people that had access to it? Have those unknown meters, which I thought was funny, but has that been corrected? Or identified, at the very least, on who to bill?

Parker Cole (Deputy Legislative Auditor):

Thank you for the question. For the record, Parker Cole, Deputy Legislative Auditor. Senator Daly, that might be a question better directed to the agency. Having said that, it is my understanding that that has not been resolved at this point.

Vice Chair Daly:

They don't, do they even know who. I'll wait and ask them. And the second question might be for them as well. When I was reading their response to, I think, recommendation number nine, they say the Program Officer 2 is currently enforcing prior approval for transfer funds and the Program Officer will reach out to an agency if a transfer is made without approval. It seems to me that they still have a process that allows the transfer to happen without approval rather than; transfer cannot happen until there is approval. And maybe that's a question for them as well but their response makes it sound like it can still happen without approval.

Parker Cole (Deputy Legislative Auditor):

Again, for the record, Parker Cole, Deputy Legislative Auditor. Again, Senator Daly, I thank you for that question. That is my understanding as well, that the

current process would still allow that to happen without approval, but that might be better directed to the Division as well.

Vice Chair Daly:

Thank you.

Chair Dondero Loop:

Thank you very much. Other questions from the Committee? Is Ms. Grimmer available? Is there anybody here from the Department?

Ok, all right. I just wanted to, yeah, I didn't see her, but I didn't know if she was in Las Vegas. Just wanted to make sure that someone here was from the Department because, you know, these audits are really important, and I think that it's important that we are good stewards of public money. And I always say with public money comes public accountability. And so, with that being said, when we see things like this, you know, I just always want to make sure you've accepted all the things that are recommended. And so, I just want to make sure that we can be assured that these things are going to be followed through and that the next meeting that we're here, we're not going to be saying 'gee we need to audit you all again.' So, I would appreciate that and giving that information to Ms. Grimmer. All right. Any other questions? Ok, with that, I will take a motion.

SENATOR TITUS MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE DEPARTMENT OF ADMINISTRATION, MAIL SERVICES DIVISION, OPERATIONS AND BILLING PROCESSES.

VICE CHAIR DALY SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM IV. D – DEPARTMENT OF ADMINISTRATION, STATE PUBLIC WORKS DIVISION, PROJECT IDENTIFICATION, COST ESTIMATION, AND REPORTING. (LA26-01)

Chair Dondero Loop:

Alrighty. The next Agenda Item will be item IV. D, Department of Administration, State Public Works Division, Project Identification, Cost Estimation, and Reporting. And we welcome Ms. Cruz and Ms. Eitel-Bingham. Am I saying that right?

Shirlee Eitel-Bingham (Audit Manager):

Eitel.

Chair Dondero Loop:

Eitel? Thank you. All right. Please go ahead when you're ready.

Lupita Cruz (Deputy Legislative Auditor):

Good morning, Chair and Members of the Audit Subcommittee. For the record, my name is Lupita Cruz, Deputy Legislative Auditor. If I could direct your

attention to page 1, I will begin my presentation with some background information.

The State Public Works Division was created in 2011, within the Department of Administration from the State Public Works Board and the Buildings and Grounds Division. In 2023, the number of state buildings overseen by the Division was over 2,400 and comprised about 10 million square feet.

The mission of the State Public Works Division (Division) is to provide well-planned, efficient, and safe facilities to state agencies so they can effectively administer their programs. The Division consists of four main sections listed on pages 1 through 2. As of May 2024, the agency had 146 authorized positions, with 120 of those positions filled. The Division has offices in Carson City and Las Vegas.

On page 2, Exhibit 1 shows the Division's fiscal year 2023 administrative expenditures by function. Continuing at the top of page 3, we described our audit scope and objective. The scope of our audit focused on the Division's activities from July 1, 2020, through June 30, 2023, and included Capital Improvement Program projects approved in 2019. Our audit objective was to determine whether the Division had adequate controls to identify, complete, and report on construction projects.

On page 4 begins the first chapter of our findings. We found that by reallocating unused funds from completed projects to other projects, the Division has opportunities to complete additional capital improvement projects more timely. Furthermore, the Division can expand the use of an alternative budgeting method to more agencies to efficiently utilize project savings and improve the timely completion of maintenance projects. Completing projects more timely can reduce project costs and improve conditions at state facilities.

On page 5, Exhibit 2 shows the CIP (Capital Improvement Program) projects approved by the Legislature in 2019, 2021, and 2023.

Our testing found over \$18 million in cost savings from the 13 closed projects in our sample of 20 projects tested from the 2019 CIP. Savings were from actual project costs that were less than budgeted. The Division did not present these costs to IFC to request the projects' expenditure authority be transferred to other approved projects. Although unused funds are reverted at the end of the 4 years in accordance with the CIP bill, not reallocating funds when the Division finds savings has the potential of missing an opportunity to benefit the State as other needed projects could be completed more timely and the State could avoid paying higher costs due to potential future inflation.

On the bottom page 6 and continuing to page 7, we discuss expanding an alternative budgeting method to more departments. This involves including additional maintenance projects in the CIP portion of the State's Executive Budget so project savings can be reallocated to other deferred maintenance projects without the need for IFC approval.

In the 2023 CIP, this method was used for two state departments and approved by the Legislature. Expanding the approach to more departments will result in additional maintenance projects being completed more timely. Of the \$18 million in project savings mentioned earlier, over \$3 million was from maintenance projects. Therefore, these savings could have been reallocated to other projects without the need for IFC approval if this budget method had been used in other departments.

On page 7, we state our two recommendations to improve the timely identification of project savings and the inclusion of additional maintenance projects in the CIP.

On page 8, begins chapter 2. We found that the Division is not fully utilizing its Facility Condition Assessment (FCA) reports as intended in the CIP process. FCA reports include projects that are recommended based on periodic Division assessments of state facilities. Four of five CIP projects tested did not have evidence that project managers coordinated with the FCA team and used the reports in developing CIP projects. As a result, opportunities to efficiently and timely complete needed projects may be delayed.

Our recommendation for FCA reports is found on the bottom of page 9.

On page 10, begins chapter 3. We found information reported biennially to the Legislature by the Division about the costs of recommended maintenance for state buildings has some inaccuracies.

The Division reports biennially to the Legislature on the estimated costs to maintain state buildings over the next 10 years. In 2023, it was reported to be about \$570 million. The total amount of completed projects incorrectly included in the estimate was about \$51 million. In addition, the Division's completion of FCA projects is not adequately monitored. This led to projects completed through the CIP project process remaining on the list of recommended maintenance costs. The Legislature, the Office of the Governor, and the State Public Works Board need accurate information when deciding the amount of funds required to keep state facilities in good condition.

We continue with our findings on page 11. We found that the Division is not updating costs for recommended maintenance projects until the facilities are reassessed by Division staff. This understates the cost of recommended maintenance reported to decision makers. The average number of years between the last assessment and the 2023 estimate was developed, or when the 2023 estimate was developed, was about 5 years. Based on the Division's records of construction inflation, we estimate the cost of recommended maintenance was understated in 2023 by as much as \$220 million. This estimate was made based on a 5-year estimate.

On page 12, we state our fourth recommendation to strengthen controls over the FCA database.

Our last chapter is found on pages 13-14.

Based on a comparison of estimated costs in the Capital Improvement Program (CIP) to actual project costs, the Division has an effective process for estimating project costs. However, the Division needs to retain documentation of information it uses to develop cost estimates for projects included in the CIP to allow for greater oversight and to enhance the accuracy of the process.

Our testing found the Division often did not retain documents to support the estimated project costs used in the CIP. The lack of documentation of how estimates were developed makes it more difficult for the Division to evaluate and enhance its process cost estimates in the CIP submitted to the Legislature and the Office of the Governor. The inconsistent use and retention of documents used in developing the CIP project cost estimates are due to inadequate written policies and procedures.

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Our last recommendation for the Division is located at the bottom of page 14. The recommendation addresses the formal documentation of the CIP project cost estimate process.

On page 15, you will find Appendix A which is an excerpt from the Division's recommended Capital Improvement Program 2023 through 2025 which shows the alternative budgeting method previously mentioned.

Appendix B, located on pages 16-21, provides our audit methodology.

The Division's response to our audit is located in Appendix C starting on page 22. You will see that the Division accepted all recommendations.

This concludes our presentation; I would be happy to answer any questions

Chair Dondero Loop:

Thank you very much. Assemblywoman Anderson?

Assemblymember Anderson:

Thank you, Chair, and thank you for the presentation. As I'm reading through this, I just want to make sure that I'm verifying this information correctly from pages 10 and 11 that had to do with the cost estimates and how that is updated because I know that many times we are asked to, in IFC, to put more money in because of the possible estimate. But it appears that when an item's estimate has been, when something has been completed, it continues to be on the list of possible items and is not actually taken off until after 7 years. Could you explain that a little bit more to me, please?

Lupita Cruz (Deputy Legislative Auditor):

Lupita Cruz, Deputy Legislative Auditor, for the record. To Chair, Chair to you through. Chair.

Chair Dondero Loop:

It's way ok. Just go straight to the Member.

Lupita Cruz (Deputy Legislative Auditor):

Assemblymember Anderson, thank you for your question. So, what we found was that they were, one, yes, including closed or completed projects in this maintenance estimate. Additionally, they were only removing projects after they were assessed, and we averaged that to be about 5 years. Or, sorry, 7 years between assessments.

Assemblymember Anderson:

So, just to verify that there are times, then, and this is based upon what is written on the page, I just want to make sure that I'm understanding this, that the estimate continues to be present on the information presented to us and then we possibly have to put more money in because we want to make sure that we've got this correct. But at times, that can cost us up to \$220 million on paper? I'm just, I'm really floored by this recommended maintenance is sometimes so not updated for us to make a wise decision. So, I'm making sure that's if I'm understanding that correctly.

Lupita Cruz (Deputy Legislative Auditor):

Assemblymember Anderson. So, for the record, Lupita Cruz, Deputy Legislative Auditor. This is the estimate cost. This is to maintain or, what it estimates is, the maintenance of buildings for the next 10 years. And is derived from the Division's assessment of state buildings and surveys of state agencies. Now, we use the construction inflation used by the Division to then estimate what the inflation would be or would have been in 2023, and that's where we got that \$220 million. These costs for the projects listed are included in this maintenance estimate. They are not inflated during the time between the assessment and then presenting the numbers.

Assemblymember Anderson:

Thank you for that clarification. Thank you, Chair. I might have more later but thank you.

Chair Dondero Loop:

Thank you very much. Senator Titus?

Senator Titus:

I just want to, thank you Madam Chair. I just need a little follow up on that. So just what we're looking at on the paragraph that my colleague addressed here regarding the removing of the projects. But these are actually maintenance projects that are ongoing and so, to maintain a building, it costs X amount of dollars; the grounds, the keeping the HVAC going, keeping the roof from leaking. All those things are X dollars. And what you pointed out is that they are not redone. What do you, so they would stay on the books, right? Because there's ongoing maintenance and that's assessed every 5 years. And so, it looks like they may be assessed every 7 years. So those things should be staying on the books because there's continual maintenance or you're pointing out that they are not updated often enough?

Lupita Cruz (Deputy Legislative Auditor):

Lupita Cruz, Deputy Legislative Auditor. Senator Titus, what we're pointing out is that within this list that is being presented or sorry, not list, but this cost that is being presented. For example, in 2023 there were already completed projects that were still in that figure, included in that figure. And those projects could have been completed by the agencies. It could have also been completed by the Division and there was no proper monitoring of that removing of those closed projects.

Senator Titus:

I see. So, it is a one-time project where they needed a new refrigerator or whatever and that was replaced. But then that doesn't get removed from the cost. Is that what you're saying? Not ongoing maintenance?

Lupita Cruz (Deputy Legislative Auditor):

That's correct.

Senator Titus:

Thank you.

Chair Dondero Loop:

Any additional? Senator Daly?

Vice Chair Daly:

Just a comment more than a question. I did have a question for the agency, but it could wait for another time. But on this particular one, I just wanted to say that I didn't see any mention of fraud and I didn't see any mention of waste. I've read a lot of audits which is good. And the recommendations to me were things they do, but they can do better to increase some efficiencies. So my view, you know, State Public Works has won the award so far of the two committees of having the best report.

Chair Dondero Loop:

Who knew State Public Works would be our poster child.

Vice Chair Daly:

Who knew! But just a comment.

Chair Dondero Loop:

All right. Mr. Lewis, we might call you up here just to make you get up out of your seat for a minute.

Vice Chair Daly:

You know, no fraud, no waste, I'm happy.

Chair Dondero Loop:

Well, sometimes you get lucky, I don't know. Thank you very much. Any other questions from the Committee? All right, with that, Mr. Lewis, you are living life today, I will take a motion to approve the report.

VICE CHAIR DALY MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON
THE DEPARTMENT OF ADMINISTRATION, STATE PUBLIC WORKS DIVISION,
PROJECT IDENTIFICATION, COST ESTIMATION, AND REPORTING.

ASSEMBLYMEMBER DELONG SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM V. – PRESENTATION OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN – INSPECTIONS DECEMBER 2024. ([NRS] 218G.575) (LA26-05)

Chair Dondero Loop:

Thank you very much. And we will move on to item V, which is a Presentation of Governmental and Private Facilities for Children. Welcome Ms. Cornelia-Swift and Ms. Otto. Thank you.

Hailey Cornelia-Swift (Child Welfare Specialist):

Good morning, Chair and Members of the Subcommittee. For the record, my name is Hailey Cornelia-Swift, Child Welfare Specialist. I am here to present our Governmental and Private Facilities for Children - Inspections report for 2024.

Our work was conducted pursuant to NRS 218G.570 through 218G.595, which requires us to determine if Nevada facilities, defined in statute, adequately protect the health, safety, and welfare of the children in the facilities, and whether the facilities respect the civil and other rights of the children in their care.

On pages 1 through 4, we discuss background information and the type of work we completed. As of June 30, 2024, we identified 102 facilities that met the requirements of NRS 218G. We completed inspections of 36 of these children's facilities.

On pages 4 through 5, we discuss our inspections of seven children's facilities where we identified multiple issues that caused us to question whether each facility adequately protected the children in their care.

Continuing to pages 5 through 12, we discuss two Ignite Teen Treatment, LLC facilities – Lone Mesa and Romo. Ignite Teen Treatment, LLC Lone Mesa and Romo are Psychiatric Residential Treatment Facilities licensed by the Bureau of Health Care Quality and Compliance. We inspected the facilities in September 2024. These were our first visits to the facilities.

Some of the significant issues noted at one facility included observing employees were unable to control children resulting in three children running away, a child climbing on the roof, a child breaking a window, and a child breaking the door to a secure storage room with laundry supplies during our inspection. Three nicotine vapes were found in a child's belongings and a child that ran away during our inspection brought back a nicotine vape and hid it in the front yard. The pool and hot tub were unsecured due to a broken gate. Children also accessed the roof through the broken gate, including a child who had a history of suicidal ideation. A child was injured as a result of a restraint and documentation was missing to support the child received medical care. Another child was hospitalized as the result of a restraint. We observed broken windows and glass shards, windows were boarded up preventing egress, electrical wiring and sprinkler lines were exposed, and sharp items and tools were unsecured, all of which could be used for self-harm. Nine children were also using one bathroom.

Some of the significant issues noted at the other Ignite Teen Treatment facility included the kitchen was in the process of being remodeled allowing children access to debris and hazards, and unsecured chemicals and objects that could be used for self-harm were observed. A second-story balcony and windows in children's room were unsecured. Alarms were installed but did not always work.

An incident report documented a child attempted to climb out of the second-story balcony and was prevented from doing so by other children.

Both facilities had pools that needed maintenance and contained untreated water. Review of records and interviews showed incomplete, inaccurate, and missing medication records; medications were frequently administered outside of prescribed timeframes, and management was generally unaware of statutorily required Person Legally Responsible, or PLR, consent needed prior to administering psychotropic medication. Management initially denied the use of restraints by employees despite children and employees confirming restraints were used; and denial of rights reports for restraint incidents were not completed. Child files were missing evidence that children were reassessed for safety after suicidal ideation, and that abuse and neglect disclosures were reported to the appropriate authorities. Employee files were missing background check clearances and required trainings were missing or incomplete. Lastly, policies and procedures were weak.

Following our visit, we communicated our concerns to the Bureau of Health Care Quality and Compliance. The Bureau of Health Care Quality and Compliance completed a complaint inspection 2 days after our inspections and identified several deficiencies, many of which were similar to our concerns. A ban of admissions was issued for Ignite Teen Treatment, LLC Romo on September 26, 2024, due to a deficiency identified and later lifted after the facility submitted a plan of correction to the Bureau of Health Care Quality and Compliance. As of November 2024, monetary sanctions on Ignite Teen Treatment, LLC for deficiencies approximated \$94,000.

On pages 12 through 15, we discussed concerns with four homes licensed through the Clark County Family Services Advanced Foster Care Program. This was our first-time visiting Clark County Family Services advanced foster care homes.

Issues included: untimely treatment plans; foster parents were generally unaware of statutorily required medication administration practices including PLR consent; unsecured records; location of firearms were unable to be verified; unsecured ammunition; fire escape routes were not posted; monthly fire drills were missing, a fire extinguisher was missing, and first-aid kit supplies were missing or inadequate. Foster parents educated children on the complaint process despite not being fully aware of the entire process. Child rights were not posted, a complaint box was inaccessible, foster parents' training records were missing and incomplete, and policies and procedures were weak.

After our inspections, Clark County Family Services reported completing visits to all four homes addressing immediate safety concerns. Clark County Family Services reported that they are developing policies and procedures for treatment plans and a training program to ensure foster parents receive statutorily required trainings.

On pages 15 through 17, we note our concerns at Aurora Center for Healing. Aurora Center for Healing is a Psychiatric Residential Treatment Facility and is licensed by The Bureau of Health Care Quality and Compliance. Issues included: missing medication; incomplete, inaccurate, and missing medication records; a child was administered a medication not prescribed to them and the wrong dose of a medication; and medications were not available at the facility for several days despite being prescribed. Additionally, a child file contained documentation that a child expressed suicidal ideation but there was no evidence of increased supervision; glass shards and other sharp objects were observed which could be

used for self-harm; fire escape routes were not posted; employee training records were missing and incomplete; and policies and procedures were weak.

Following our visit, we communicated our concerns to the Bureau of Health Care Quality and Compliance. The Bureau of Health Care Quality and Compliance completed a complaint investigation in June 2024 and identified several deficiencies, many of which were similar to our concerns. Facility management reported they addressed immediate safety concerns and revised certain policies and procedures after our inspection.

On pages 17 through 19, we discuss other general concerns noted at facilities that otherwise did not question, that caused us to question, the health, safety, welfare, and civil and other rights of the children in their care.

Trends observed and noted included fire safety concerns, lack of compliance with Denial of Rights reporting for health facilities, lack of documentation of compliance with mandatory reporting requirements, and lack of documentation of fingerprint submission documents for health facilities.

In addition to facility inspections, we review complaints forwarded to our office from facilities. This information is located on pages 19 through 21. NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. We received 2,039 complaints from 45 facilities in Nevada for the fiscal year. The other 57 Nevada facilities reported that no complaints were filed during this time. Based on our review of complaints, we identified that collection, documentation, review, and resolution of complaints vary at each facility. Facilities also have different interpretations of what constitutes health, safety, welfare, and civil and other rights of a child. In July 2023, we communicated our expectations for complaint reporting to facilities. Exhibit 5, on page 20, summarizes complaints submitted by facilities based on the type of facility for the fiscal year.

Continuing to pages 21 through 23, we note areas for legislative consideration. One new and two prior report recommendations are discussed.

NRS 218G.585 does not specifically define the complaint reporting process, only requiring children's facilities to forward complaints to the Legislative Auditor. The complaint process is essential to ensuring a child's health, safety, welfare, and civil and other rights are protected. The Legislature may want to consider enacting legislation to further define the complaint reporting requirements for children's facilities that have physical custody of children pursuant to the order of a court.

In addition, employees at some licensed health facilities are not required to have certain training specific to children. Facilities licensed by the Bureau of Health Care Quality and Compliance that have State placed children are not required by statute to train employees in certain areas specific to children's safety and welfare. In contrast, statutes governing other facility types that have State placed children require training in areas related to the safety and welfare of children. The Legislature may want to consider enacting legislation to require all facilities the Bureau of Health Care Quality and Compliance licenses, which have physical custody of children pursuant to a court order, to train employees who have direct contact with children on the specific topics statutorily required for other children's facilities.

We also note that certain licensed health facilities are not required to screen employees for child abuse and neglect. Statutes do not require health facilities licensed by the Bureau of Health Care Quality and Compliance that have State placed children to screen employees having direct contact with children for substantiations of child abuse and neglect.

In contrast, statutes governing other facility types that have State placed children require a review of the Central Registry of Information Concerning the Abuse or Neglect of a Child prior to an employee's hire. For all children that have child abuse and neglect screening requirements, only one facility under our purview is required to complete repeat screenings of employees who have direct contact with children. This allows for the opportunity of a substantiation of abuse or neglect during an employee's tenure to go unnoticed.

The Legislature may want to consider enacting legislation to require all facilities the Bureau of Health Care Quality and Compliance licenses, which have physical custody of children pursuant to a court order, to screen employees who have direct contact with children for substantiations of child abuse and neglect before hire. Also, the Legislature may want to consider enacting legislation to require all children's facilities that have physical custody of children pursuant to a court order to screen employees who have direct contact with children periodically for substantiations of child abuse and neglect.

Appendix B on page 28 contains a list of inspections we completed. Appendix C on pages 29 through 34 provides some background, population, and staffing information on the 102 children's facilities in Nevada.

That concludes my presentation. I would be happy to answer any questions the Subcommittee may have.

Chair Dondero Loop:

Thank you very much. This always makes me nuts. I feel like we do such an injustice to our kids. It is just unbelievable to me that we have pictures of facilities that operate like this. Questions? Senator Titus first.

Senator Titus:

Thank you very much for the presentation and your findings. I have a couple questions, if I might. When I first saw the presentation, when I did my preparation for this. We were looking at, you know, an audit, I'm thinking of a fiscal audit, but it's sometimes just money's not enough. And thank you for doing that next step of looking at, obviously, the safety and welfare. But what I'm not seeing in here, on the audit and the fiscal component, is one of the big questions I have is where's Medicaid fraud and abuse? It's a big topic out there and I think many of these children that are in these facilities operate under reimbursement from Medicaid. Are you, did you, was that not part of what you were doing this time around? Looking at possible Medicaid fraud or abuse?

Hailey Cornelia-Swift (Child Welfare Specialist):

Thank you for your question, Senator Titus. For the record, Hailey Cornelia-Swift, Child Welfare Specialist. Our project is an ongoing special project that is actually not in accordance with auditing standards. And under NRS 218G.570 through 595, we're required to assess for the health, safety, and welfare, and civil and other rights of the children.

Senator Titus:

Thank you for that clarification. And then on that, if I might follow up on that, the ones that you are, what you are charged on doing. Back on page 5, you state that the Bureau has already had nine complaints on these facilities prior to you having your complaints. Did the Bureau not engage and make changes prior to you were there or was it all kind of coming in at the same time? So, they hadn't had time to either remove their licenses, remove the kids, or deal with the nine prior complaints. Some of what you have mentioned, the Bureau saw what you saw about the same time, but that one has me concerned.

Hailey Cornelia-Swift (Child Welfare Specialist):

Again, thank you for your question, Senator Titus. Hailey Cornelia-Swift, Child Welfare Specialist, for the record. When the Bureau of Healthcare Quality and Compliance completes complaint investigations at facilities, they will issue what's called a Statement of Deficiencies to the facilities and they request a Plan of Correction back. However specific to the nine complaints completed before our inspection and complaints completed after our inspection, I would defer to the Bureau of Health Care Quality and Compliance to answer that.

Chair Dondero Loop:

Thank you. Additional questions? You know, I just, when I look at this report and I see that they don't even meet minimum requirements or standards, it's just mind boggling to me that we have the most vulnerable of children in those positions. And I think maybe you said this, but what is the timeline when we have a report like this about these facilities that have electrical wiring exposed, laundry detergent, guns, whatever it is that are exposed to these kids, what kind of a timeline, are they closed instantly? Can you clarify some of that? Are they left to go on? And we just keep our fingers crossed that nothing happens to these kids. How does this get rectified?

Hailey Cornelia-Swift (Child Welfare Specialist):

Thank you, Senator Dondero Loop, for your question. For the record, Hailey Cornelia-Swift, Child Welfare Specialist. Each licensing agency responds to the facilities that they manage in accordance with statutes or their own policies. What we do when we go out and complete these inspections is if there is an immediate safety concern, we contact the licensing agencies to remedy the situation or to communicate our concerns. Specific to these facility types mentioned in this report, we do have representatives from Clark County Family Services and the Bureau of Health Care Quality and Compliance that could communicate what they did upon receiving this information.

Chair Dondero Loop:

Thank you very much and I might ask if our representatives could come forward to the table. And I'm assuming that Clark County is in Las Vegas and our Department is here. Mr. Devine, would you like to go ahead or is that who you are? That's who I have on my list. I hope so.

Kyle Devine (Deputy Administrator, Division of Public and Behavioral Health):

Yes, I am Kyle Devine, I am Deputy Administrator for the Division of Public and Behavioral Health. In regards to what we do when we get an allegation of, you know, something that may cause imminent harm is, we go on site. Number one is we prioritize it. We have to be there within 2 days to inspect the facility. If we find the conditions that can cause imminent danger or harm, we do what's called, we call a immediate jeopardy situation. In that immediate jeopardy situation, our staff stay on site until the issue is corrected and the safety of the children are, is paramount, in that situation. All of the complaints that we get, we take them seriously. As I indicated, we prioritize. If it is a high priority, we are there in 2 days. If it is a moderate, we go within 10 days. If it is a lesser concern, then we will address that at our next inspection. However, with these facilities, we are receiving so many complaints, those inspections happen very often.

Chair Dondero Loop:

A lot can happen in 2 days. Clark County in Las Vegas, would you like to respond? On my list, I have Ms. Marano. Are you there?

Jill Marano (Director, Clark County Office of Clinical and Community Services):

Yes, thank you. Jill Marano, Director for Clark County Office of Clinical and Community Services. Chair, I can speak to having recently been the Director of Clark County Family Services. I can talk a little bit about the Family Services' response when we get a complaint about a safety concern in a facility. And then, should you have any questions specifically on the Advanced Foster Care Homes that were referenced in the audit, I'm happy to speak to those as well. But initially when a complaint comes in, it would come in just like any other child abuse or neglect complaint and come into our intake hotline. The intake hotline would then make a determination about whether or not it's a child abuse or neglect issue or if it's a licensing compliance issue. With the facilities that are licensed as Psychiatric Residential Treatment Facilities, because we don't license those, they could either be screened in as a child abuse and neglect concern and complaint or it would be referred to Mr. Devine's program at Health Care Quality and Compliance. So as far as the child abuse and neglect screening, it's the same as any other individual child's case. So, it would be screened in and given a priority response time of 3 to 6 hours, 24 hours or 72 hours, depending on the situation.

Chair Dondero Loop:

Sorry, let me interject here. Thank you. I'm sorry if I interrupted you. But you know, having, I don't know, laundry supplies out might be one thing but a child who has suicide thoughts, suicidal thoughts, is a totally other issue. You know, if there's a gun out versus vaping out, I mean, both things are not appropriate but some of them are imminent danger and I was just, you know, a lot can happen in 2 days. So, if it's 2 days that it takes someone to go there or several hours, I just was trying to get a handle on how that works.

Jill Marano (Director, Clark County Office of Clinical and Community Services):

Jill Marano, for the record. So, if it were something like there is a gun, an unsecured gun, out in the home and that would be identified as something that is

a present danger or threat. So, our staff can respond. Our staff would respond and identify that as the 3 to 6-hour response. The other thing that we do when we screen things in at our intake is we can also refer to 911 if we believe it is urgent, and we don't have somebody that can get there in the next 15 minutes. So, we do cross report to the Las Vegas Metropolitan Police Department when we have those, like, there's an immediate, urgent issue.

Chair Dondero Loop:

Thank you. Assemblymember DeLong?

Assemblymember DeLong:

Thank you, Chair. A question to both agencies; What is your frequency of inspecting, unannounced inspections, of these facilities?

Kyle Devine (Deputy Administrator, Division of Public and Behavioral Health):

Madam Chair, if I may?

Chair Dondero Loop:

We're going to come here to Carson City and let Mr. Devine answer and then we'll go to you. Thank you.

Kyle Devine (Deputy Administrator, Division of Public and Behavioral Health):

Kyle Devine, for the record. Could you repeat the question? I'm sorry.

Assemblymember DeLong:

So, for the facilities under your jurisdiction, what is your frequency of unannounced inspections?

Kyle Devine (Deputy Administrator, Division of Public and Behavioral Health):

I can tell you our regular periodicity for a Psychiatric Residential Treatment Facility is once every 6 years. As I indicated, we are more of a complaint system and we respond every time we get a complaint and the frequency of those complaints, it varies based on the facility. The two we are talking about now, I received a complaint last week on one of them and we're investigating now. So, it is kind of circumstantial but even though the periodic inspection is once every 6 years, we are in there several times a year, and anytime we find anything that may be abuse or neglect, we go ahead and refer that to the Division of Child and Family Services or the other welfare agencies. We also communicate our findings to the state Medicaid office who may be funding some of the kids placed in those facilities.

Chair Dondero Loop:

Did you say complaint department? The reason I'm struggling with this is because if I'm a child and I'm in an unsafe situation, I'm being sexually abused, the parents are using drugs, I don't know what, take your pick. And I don't report it because I'm scared or I want to have a place to live because I'm an 8 year old.

By the time 6 years goes by, I could be dropped out of high school and on my way.

Kyle Devine (Deputy Administrator, Division of Public and Behavioral Health):

Kyle Divine, for the record. Yeah, the system we have right now is a complaint-driven system. The idea is, you know, we take complaints from anyone. Whether it's the child, whether it's people working at the facility, whether it's a parent, guardian, whether it comes from the Division of Child Family Services, law enforcement. So, the idea is that we can't be in the facility all the time. The Bureau of Health Care Quality and Compliance, we are not an emergency response bureau. So that is why we rely on referring to the child welfare agency, to law enforcement, whenever we have those imminent allegations given to us. So, the system we have, yes, it is a complaint-driven system. We are required to be in at least once every 6 years, but as I said, we are in several times a year investigating complaints and reinvestigating based on plans of correction.

Chair Dondero Loop:

I'll go down to Las Vegas.

Jill Marano (Director, Clark County Office of Clinical and Community Services):

Jill Marano, for the record. So, the facilities that Clark County Family Services licenses are the Foster Homes and the Advanced Foster Homes that were in the review. So, for those, our licensing workers are required to do quarterly visits in the home. Sometimes they are announced, sometimes they are unannounced. So, I couldn't say specifically that those are all unannounced visits. They also are required to do then an annual visit and then they're relicensed every 2 years.

Assemblymember DeLong:

Thank you very much.

Chair Dondero Loop:

Any questions? Assemblywoman Anderson, thank you.

Assemblymember Anderson:

Thank you, Chair. I don't know if it's a question or not. But thank you for this report. It's very difficult to read. And to go through things, at this time, I am in particular looking at the methodology that is in Appendix D. I share the concerns that I believe have already been addressed. There are some very upsetting information that's been presented today and probably the largest thing that's most upsetting it's what's not stated. Because we all know that sometimes when you have to do a sample and that is judgmental as to where that information is coming from, it's also the roads not taken. And so, the sample is not just the facilities that you looked at, it's also the other individuals that were brought up. You know what? It's not a question, but it's more than anything else, it's just a highlight of that second paragraph, almost halfway through it, where you say civil and other rights included rights as human beings. And reading this, looking at some of the evidence of the weapons that people did not know where they were, hearing of students, or, I'm sorry, children and young adults that have contemplated suicide and not having the help, hearing about individuals who are

already misplaced and feel that they are not loved and seen as people, not even knowing where to make a complaint. I just, I really want to highlight that we need to do better as a state. And this is not on you, but even though this was an incredibly difficult report to have to listen to and then also to read, we need to do better as a state. And so, thank you for highlighting some of the areas that we need to bring forward so that our most vulnerable individuals are seen as human beings, which is what they are. So, I'm sorry, Chair, to go into the editorial in that way because my mind is going all over the place with so many other questions and concerns and I realize that there's a time limit. So, thank you.

Chair Dondero Loop:

It's OK. I think that the Assemblymember and I have something in common and that is that we are educators and so we are with these children every day. And so, these children go from us to an unsafe environment and then back to us. So, I think that it feels different to us because they aren't safe. And I also just want to make a comment that I don't want those listening to think this is only Las Vegas or only Reno. This is happening in some facilities across our state and other counties, which makes it even worse. Senator Titus, please.

Senator Titus:

Thank you. Thank you, Madam Chair, for the opportunity to make one. Mine's really a comment. I just want to acknowledge the good work that you all have done. And thank you. And we've asked this question multiple times in IFC when we look at our child services and where our children have been sent. And I just want to acknowledge you actually gave us a chart on how many children we have out-of-state and from each county and we've been trying to seek that data for a long time and it is actually included in this document. So, thank you for that.

Chair Dondero Loop:

Which is also sad that we have kids out-of-state because as I always say to everyone, you know, when we have these kinds of reports, when it's not my child, but when it becomes your child that is shipped out-of-state, or it becomes your child that has issues that they have to be placed somewhere, it feels different to those parents or those family members. I understand that Ignite Teen Treatment was here, are available, but we will wait until public comment for that comment because they were visited and there were some issues at more than one facility. So, we will wait for public comment for that.

Yes, go ahead, Senator Titus, please.

Senator Titus:

Sorry. Thank you for that comment because, again, you did visit these. I guess my question was for the 51 kids that were, 51 kids in 2024, on page 3, that were out-of-state. Have you ever visited an out-of-state facility?

Hailey Cornelia-Swift (Child Welfare Specialist):

Thank you for your question, Senator Titus. Hailey Cornelia-Swift, Child Welfare Specialist, for the record. We have not visited a facility out-of-state.

Senator Titus:

That also is very concerning.

Chair Dondero Loop:

I have no words. I just can't imagine that the state of Nevada is treating our vulnerable children this way. This is, and some of the things are such, in my mind, simple things like a fire escape route. I mean, I don't know. And by the way, these people get money to take care of these children, let's just put that on the record. This is not like they're just doing it out of the goodness of their hearts. So, they're getting money and then they're not keeping good records. They're not taking care of the children, they're failing inspections after inspections. Some of them are like I said, safety and some of them are medications and what have you. I mean, I could beat the drum for a lot of times, a lot of days, and a lot of minutes on this, but I'll let the Assemblywoman at the end of the dais take over.

Assemblymember Anderson:

I actually do have a technical question. I've been able to get my emotions in check. When it has to do with childrens, is there a specific age, or does this also include our vulnerable adults that might continue to be under special needs?

Hailey Cornelia-Swift (Child Welfare Specialist):

Thank you for the question Assemblymember Anderson. Hailey Cornelia-Swift, Child Welfare Specialist, for the record. For purposes of our review and our purview, we look at facilities that care for children ages 0 to 18.

Assemblymember Anderson:

So, thank you. So that brings up a follow-up. Has there been any audits for our vulnerable adults that are still considered to be under State, I guess, help?

Daniel Crossman (Legislative Auditor):

I can take that one. For the record, Dan Crossman. Assemblymember Anderson, yes, we have done some audits in the past. Our community-based living arrangement home audits. I don't want to guess the years back because I'm really bad at that, but it's been a few years, but we have addressed that.

Assemblymember Anderson:

Thank you, Chair.

Chair Dondero Loop:

All right, with that, thank you very much. I hope that we can do better for our kids. And I hope the idea that 6 years is ok, is not ok. And I hope that's fixed. I understand that you say you visit several times but because the idea is 6 years is ok, is troubling. So please find time to do that differently. And with that, I will take a motion on this report.

VICE CHAIR DALY MOVED TO ACCEPT THE PERFORMANCE AUDIT REPORT ON THE PRESENTATION OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN – INSPECTIONS, DECEMBER 2024.

ASSEMBLYMEMBER ANDERSON SECONDED THE MOTION.

THE MOTION WAS PASSED UNANIMOUSLY.

AGENDA ITEM VI. A – NATIONAL STATE AUDITORS ASSOCIATION REPORT ON THE NEVADA LEGISLATIVE COUNSEL BUREAU – AUDIT DIVISION'S SYSTEM OF QUALITY CONTROL

Chair Dondero Loop:

And with that, we will go on to Agenda Item VI. A, and Mr. Crossman, National State Auditors Association Report on the Nevada Legislative Counsel Bureau - Audit Division's System of Quality Control, please.

Daniel Crossman (Legislative Auditor):

Thank you, Chair. For the record, Dan Crossman, Legislative Auditor. I think this is a really important informational item to just highlight today quickly. You should have in your packet a letter from the National State Auditors Association, addressed to my office, and titled a Peer Review Report. This report answers that question that few have asked, but many wonder, "who audits the auditors?" Well, the answer to that question is that we are audited by experienced auditors from other states. The Audit Division performs our audits in accordance with very rigorous auditing standards and those standards require that every 3 years we be subjected to an external peer review. External auditors from the states of New York, Colorado, Illinois, and Missouri conducted our most recent peer review spending a quality week with us in our office in October of this last year. The peer review concluded that the Audit Division's system of quality control provided reasonable assurance of conformity with Government Auditing Standards and issued a rating of pass, which is the highest rating. And I always like to clarify that because it does not sound very good. But that's the highest you can get and we're extremely proud of our pass rating.

Just quick comment, too. I'm just extremely proud of my team and their dedication and all that goes into the audit process. There's a lot that goes on behind the scenes in a performance audit process to maintain and to conduct our work in accordance with the standards. So, I'd like to thank them all for all their hard work. And it's great to have our peers in our office providing compliments and praise for the good work that we've done. Thank you, Chair.

Chair Dondero Loop:

And I would like to echo your thank you to your team because their work is hard and it's very important. But more importantly, they sit at this dais with us, sometimes when we're upset about certain issues, and answer the questions when they have nothing to, they cannot do something. I mean, they aren't the problem, they're just finding the problems. So, thank you very much for what you do for the State. Assemblyman DeLong?

Assemblymember DeLong:

Thank you, Chair. In my career, I've done a lot of auditing on the environmental side and it's a critical piece and I appreciate the work you guys all do. Quick question, has the Audit Division been involved in doing peer reviews in other states?

Daniel Crossman (Legislative Auditor):

For the record, Dan Crossman. Yes, we participate in peer reviews. Many of my staff have had the opportunity to go around the country and sit and audit the other auditors as well. It's a great opportunity, a great learning experience, and that's something that we've all enjoyed doing.

Assemblymember DeLong:

That's exactly where I was going. It's good to hear that they do that because it is a really good learning experience. So, thank you very much.

Chair Dondero Loop:

Any additional questions or comments?

AGENDA ITEM VI. B – BIENNIAL REPORT OF THE LEGISLATIVE AUDITOR, DECEMBER 2024

Chair Dondero Loop:

All right, thank you very much and we will go on to item VI. B. Welcome back, Ms. Goetze.

Tammy Goetze (Audit Manager):

Good afternoon, Chair and Members of the Audit Subcommittee. For the record, my name is Tammy Goetze, Audit Manager. Today, I'll be presenting the Biennial Report of the Legislative Auditor.

This is an informational item as this report is not required to be presented to the Audit Subcommittee, but we felt it was important to provide a high-level overview of the document to the Audit Subcommittee today. Pursuant to NRS 218G.160, the Legislative Auditor is required to prepare a biennial report for the Governor and the Legislators before December 31 of each even-numbered years. The biennial report contained in your packet is a report on the activities of the Audit Division for the biennium ended December 31, 2024. The report includes a comprehensive summary of audits issued during the biennium and a brief overview of the Audit Division. The December 2024 Biennial Report of the Legislative Auditor was submitted to the Governor, members of the Legislature, and Secretary of State on December 31, 2024. The electronic version of the report can also be found on the Audit Division website.

The introduction section of the report begins on page 1. It includes the Audit Division's mission, statutory authority, types of audits conducted, and reporting of audit results. Page 3 outlines the benefits of legislative audits. While not all audit recommendations result in monetary savings for the State, legislative audits have contributed significantly over the years to saving millions of dollars for Nevada's taxpayers. In the past 2 years, the Audit Division has achieved a return of more than \$21 for every dollar of audit costs. During the biennium,

measurable financial benefits of more than \$339 million have been realized by implementing our audit recommendations. This section also describes how audits have led to improvements in programs to better serve Nevadans, improving public accountability and management controls, and the identification of fraud. On page 5, we summarize the audit recommendations made, and percentage accepted for calendar years 2021 through 2024. Many of the recommendations address ways to eliminate waste, increase collection of revenues, enhance program effectiveness, improve accountability, and ensure compliance with state laws and regulations. On page 6, we describe our audit follow-up process.

Continuing to page 7, we describe audit recommendations reported to the Legislature based upon the results of our audits. These recommendations came from the Nevada System of Higher Education, Self-Supporting and Reserve Accounts, and the Governmental and Private Facilities for Children – Inspections, January 2024 audits. Page 8 outlines audits requested through legislation. During the 2023 Legislative Session, two bills passed requesting the performance of audits directed toward improving state government; AB517, requiring performance audits of certain school districts; and SB480, requiring an audit of the Division of Forestry's Forest Fire Suppression budget account.

Pages 9 through 31 summarizes the results of the audits and reports issued in the 2023 - 2024 biennium. Over the biennium, the Audit Division issued 25 audit and other reports relating to the operations of state government and other governmental agencies. The full text of each report can be found on the Audit Division website.

Pages 32 through 34 describe other significant responsibilities of the Audit Division. These include the Single Audit, school district reviews, child fatality and near fatality reviews, children's facility oversight, special license plate reviews, and audits of certain state boards. On page 35, we describe activities that support and enhance the audit function, such as professional development, quality assurance, and information technology.

The appendices begin on page 37. Appendix A provides an organizational chart, historical listing of Legislative Auditors, and a listing of Audit Division staff. Page 42 shows the most recent National State Auditors Association's Excellence in Accountability Award received in 2019 recognizing the Audit Division on a national level. Appendix B lists reports released during the 2023 - 2024 biennium. Appendix C is the 2024 - 2026 audit program approved by the Legislative Commission on December 19, 2024. Appendix D is the External Quality Control Review Report previously discussed by Legislative Auditor Crossman. And Appendix E lists the statutory citations applicable to the Legislative Auditor.

Thank you and that concludes my overview of the Biennial Report.

Chair Dondero Loop:

Thank you. And any questions or comments from the Committee? Thank you, once again, for all you have done, and all the team has done because this is very important for us to see so thank you very much.

AGENDA ITEM VII – PUBLIC COMMENT

Chair Dondero Loop:

All right, well, we've made it. We're on Agenda Item VII Public Comment. We will start here in Carson City. Anybody would like to make public comment, please

come forward. Seeing none. Las Vegas, if anybody would like to make public comment, please come forward.

Unidentified Representative (Ignite Teen Treatment):

Good afternoon, Madam Chair and Assembly. We thank you very much for allowing us to come here today and share with you. I am representing Ignite Teen Treatment and just want to make it brief. Wanted to note that I have submitted a corrective action plans for the deficiencies that were highlighted with the exclusion of the HR deficiencies. We actually had the information that the LCB wanted. I don't know if they just didn't see it or not. And also wanted to make a comment about the acuity level of the clients that we accepted by CCFS (Clark County Family Services). They misrepresented the level of acuity for some of the clients. And when we reached out for assistance, for them to help us place the clients into a higher level of care, we were denied. I've never seen a CCFS case worker representative come to any of our facilities and stay with the client. We had an incident where one of their representatives actually brought contraband to one of our houses. So, we are here because we care about the kids, not for the check. I am an educator as well. I care very much about the kids here in the valley and I feel that the services that Ignite Treatment offers, basically, they are invaluable to the valley. We want to do the right thing by our community, by our children. We want to get better. We're asking for your help to help us get there. We do have our attorney online. I think he wanted to make a comment if you will entertain it?

Chair Dondero Loop:

Yes, as soon as we're done with Las Vegas, I will go to online. All right, Is there anyone else in Las Vegas that would like to make a comment?

All right, we'll go to online. BPS, is there anyone there?

BPS:

If you would like to testify, please press *9 or raise hand in your Zoom window to take your place in the queue.

You are unmuted on our end and may begin.

John B. Lanning, Esq. (Attorney, Ignite Teen Treatment):

Hello? Can everyone hear me?

Chair Dondero Loop:

Yes, we can.

John B. Lanning, Esq. (Attorney, Ignite Teen Treatment):

Hi. My name is John Lanning. I am an attorney. I represent Ignite Teen Treatment, and I just wanted to raise a couple of points briefly that I believe kind of implied, provide some important context, given the fact that, you know, my client was mentioned, by name, in the report. One issue that I wanted to point out as far as things being broken on the day that the LCB was there. We have a contract with Clark County to take certain children out of County custody to our facilities and the problem that was experienced with that is it turned out that the client had either misrepresented or misapprehended the acuity level of some of

these children that were sent to our facilities. And so, when they get here, they are at a much higher acuity level than were equipped to handle. The problem with that, and I met with the County about this, is they have no procedure, whatsoever, for taking children back or moving them to another placement in the event that that happens. And so that led to a lot of the issues where things were being broken — and they were promptly fixed, but it was because these children were at an acuity level much higher than we were equipped to handle. They had been brought to us from the County with the understanding that they were at a lower acuity level. And then there was no way with the County to get them back or to get them into another placement that could handle them. And so that resulted in a lot of the issues in the report where things were being broken and what have you. The other point that I just wanted to make briefly so that everyone can hear is the issue of out-of-state facilities. A lot of children are sent to out-of-state facilities. There's never been any visit, never been any audit, never been any oversight of these out-of-state facilities. It's believed, based upon my research, that a lot of these out-of-state facilities are in states with a much friendlier regulatory environment towards RTCs (Regulatory Treatment Centers), specifically those for children. And so, I just caution, and I want to provide the context that, you know, in the event where we have too much oversight and we don't have the policies and procedures in place to deal with the issue I outlined earlier, what we result in is a regulatory environment where a facility that is much needed in the valley and in the state, in general, is unable to operate given just the amount of oversight and the poor policies and procedures in place for dealing with issues like the overly acute children when that happens. And so, I just ask that that be considered and that any potential solutions, take that into account, and prioritize keeping providers in the state of Nevada. Thank you.

Chair Dondero Loop:

Thank you very much. And we do prioritize but we prioritize children in the state of Nevada. And so, I always have a problem when it's always someone else's fault. So, I'm just hoping that these get fixed for the vulnerable children and know that the Audit Division and people who do these types of things don't go out and relish in the fact that things are wrong. They actually want to find things that are right.

Chair Dondero Loop:

So, thank you very much. And with that, if there are no other comments from our Committee Members. Thank you very much, and with that, we will adjourn. Thank you.

AGENDA ITEM VIII – ADJOURNMENT @ 12:22:06

RESPECTFULLY SUBMITTED:

Jennifer Graves and Darlene Magner
Office Manager and Administrative
Assistant

APPROVED BY:

Assemblymember Shea Backus, Chair to the
Audit Subcommittee of the Legislative
Commission

Daniel Crossman, Legislative Auditor and
Secretary to the Audit Subcommittee of the
Legislative Commission

Date: _____