MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION
Legislative Building – Room 4100
Carson City, Nevada
Grant Sawyer State Office Building – Room 4412
Las Vegas, Nevada
Tuesday, May 24, 2016, 9:00 a.m.
MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission’s Audit Subcommittee
Date and Time of Meeting: May 24, 2016 – 9:00 a.m.
Place of Meeting: Legislative Building
Room 4100
401 South Carson Street
Carson City, Nevada

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

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

AGENDA

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

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

II. Approval of Minutes From November 19, 2015

III. Presentation of Audit Reports (NRS 218G.240)
   For Possible Action
   a. State of Nevada, Single Audit Report
      – Shannon Ryan, Audit Supervisor
   b. Report on Count of Money in State Treasury
      – Jelena Williams, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
   c. Department of Public Safety, Division of Parole and Probation
      – Diana Giovannoni, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor
   d. Department of Health and Human Services, Division of Child and Family Services
      – Tammy A. Goetze, Deputy Legislative Auditor; Jane E. Giovacchini, Audit Supervisor
   e. Silver State Health Insurance Exchange
      – Jennifer M. Brito, Deputy Legislative Auditor; Daniel L. Crossman, Audit Supervisor
   f. Nevada State Board of Dental Examiners
      – Shannon Ryan, Audit Supervisor
IV. Presentation of Review of Governmental and Private Facilities for Children, May 2016 (NRS 218G.575)
   – Rocky Cooper, Legislative Auditor
   – Sandra McGuirk, Deputy Legislative Auditor; Jane E. Giovacchini, Audit Supervisor

V. Presentation of Six-Month Reports (NRS 218G.270)
   – Rocky Cooper, Legislative Auditor

   a. Department of Health and Human Services, Division of Health Care Financing and Policy
      – Rocky Cooper, Legislative Auditor

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

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

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

Supporting public material provided to Subcommittee members for this meeting may be requested from the Audit Division of the Legislative Counsel Bureau at (775) 684-6815 and is/will be available at the following locations: Meeting locations and the Nevada Legislature’s website at www.leg.state.nv.us.
MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
NOVEMBER 19, 2015

This is the first meeting of the 2015–2016 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator Kieckhefer, Chair, at 9:35 a.m., Tuesday, November 19, 2015, in Room 4100 of the Legislative Building, Carson City, Nevada, with a simultaneous video conference to Room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Carson City:
- Senator Ben Kieckhefer, Chair
- Assemblywoman Maggie Carlton, Vice Chair
- Assemblywoman Jill Dickman

Las Vegas:
- Senator Kelvin D. Atkinson
- Senator David R. Parks

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

- Paul V. Townsend, Legislative Auditor
- Rocky J. Cooper, Audit Supervisor
- Jane E. Bailey, Audit Supervisor
- Richard A. Neil, Audit Supervisor
- Shannon Ryan, Audit Supervisor
- S. Douglas Peterson, Information Systems Audit Supervisor
- Eugene Allara, Deputy Legislative Auditor
- Jennifer M. Brito, Deputy Legislative Auditor
- A. Lilliana Camacho-Polkow, Deputy Legislative Auditor
- Paul E. Casey, Deputy Legislative Auditor
- Debra Clark, Deputy Legislative Auditor
- Arsenio C. Escudero, Deputy Legislative Auditor
- Diana Giovannoni, Deputy Legislative Auditor
- Tammy A. Goetze, Deputy Legislative Auditor
- Michael Herenick, Deputy Legislative Auditor
- Yette M. De Luca, Deputy Legislative Auditor
- Sandra T. McGuirk, Deputy Legislative Auditor
- Todd Peterson, Deputy Legislative Auditor
- Jeff S. Rauh, Deputy Legislative Auditor
- David M. Steele, Deputy Legislative Auditor
- Jelena Williams, Deputy Legislative Auditor
- Susan M. Young, Office Manager
- Deborah Anderson, Audit Secretary
The roll was taken. A quorum was present. Agenda items taken out of order have been placed in the proper agenda order in the minutes for purposes of continuity.

**Item 1 — Public Comment**

Chair Kieckhefer called for public comment. There was none.

**Item 2 — Approval of minutes from May 4, 2015**

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF MAY 4, 2015, MEETING. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

**Item 3 — Selection of Vice Chair of Audit Subcommittee of the Legislative Commission**

Chair Kieckhefer opened the item for discussion.

ASSEMBLYWOMAN DICKMAN MOVED TO NOMINATE ASSEMBLYWOMAN CARLTON AS VICE CHAIR OF THE AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

For the purposes of continuity, the minutes appear in order of the agenda.

**Item 4 — Presentation of audit report (NRS 218G.240)**

Mr. Townsend stated there were six audit reports and nine six-month reports on the agenda.

a. **Office of the Attorney General**

Mr. Townsend introduced Rick Neil, Audit Supervisor, and Todd Peterson, Deputy Legislative Auditor, to present the report.

Todd Peterson, Deputy Legislative Auditor, began his presentation with a brief overview of the Office of the Attorney General. He stated the mission of the Office of the Attorney General is to serve Nevada by advising and defending its institutions, enforcing laws for the protection and benefit of its citizens, ensuring open government, and empowering through educational outreach. The Office is organized into five bureaus.

Fiscal year 2014 revenues for the Office were about $148 million and included over $84 million in National Mortgage Settlement funds. Fiscal year 2014 expenditures were about $146 million and included the transfer of about $51 million in National Mortgage Settlement funds to the Department of Business and Industry.

The audit report contains a brief history regarding the Office’s actions to litigate deceptive mortgage lending practices. In fiscal year 2012, the Office participated in multimillion-dollar settlements against financial institutions that conducted deceptive mortgage lending practices. The largest settlement involved 49 states that sued major
banks because of their mortgage lending practices. From this settlement, Nevada received a cash payment of over $57 million. In addition, the settlement called for other relief to Nevada homeowners, such as reductions to loans and refinancing. Furthermore, the Office received funding from another settlement with the Bank of America, resulting in another cash payment to the State of over $32 million. The combination of this settlement and the previously mentioned settlement totaled about $90 million and is referred to as the National Mortgage Settlement.

The report indicated that in August 2012 the Office approached the Interim Finance Committee (IFC) and proposed a 3-year program to use approximately $33 million of National Mortgage Settlement funds to establish a call center and the Home Again Program. This program is a partnership between the Office and nonprofit organizations, and provides free access to financial guidance services and legal counsel, as well as information about available state and federal housing assistance.

In addition to the National Mortgage Settlement, the Office pursued litigation against other financial institutions involved with mortgage lending in Nevada. The settlements associated with these activities brought an additional $75 million in funding to the State and Nevada citizens. Ex. 1 in the audit report shows the amounts received by the Office from all deceptive mortgage lending settlements between fiscal years 2011 and 2014.

Mr. Peterson continued the presentation by explaining the audit scope and objective. The objective was to evaluate the Office of the Attorney General’s process for collecting and disbursing restitution funds resulting from the litigation of deceptive trade practices. He continued with the findings regarding the Office’s monitoring of mortgage settlement funds. Between fiscal years 2011 and 2014, the Office obtained over $164 million in settlement funds from financial institutions for deceptive mortgage lending practices. Although most of these funds were appropriately disbursed to victims and other entities, auditors found the Office can strengthen its monitoring activities in some areas.

The auditors tested $745,000 of about $8 million in expenses reimbursed to Home Again Program grantees. While most payments were appropriate, testing found that almost 15% of the reimbursement amounts tested did not agree to supporting documentation originally provided to the Office. Grantees were able to provide additional supporting documentation for most of the expenses after documentation was requested. Nevertheless, about $56,000 in overpayments to grantees were identified and repaid to the Office after the auditors’ inquiries.

The Legislature requested quarterly reports on the activities of the Home Again Program and it was found that the information reported by the Office was not always accurate. Ex. 2 in the audit report shows the Home Again Program information reported to the IFC compared to data contained in supporting documentation. For one of the four quarters tested in calendar year 2014, program information was significantly overstated. For example, the number of persons assisted through the credit restoration program was reported to be 1,970; however, supporting documentation showed only 696 persons received assistance.
Although the policies and procedures developed by the Office for the Home Again Program require the Office to perform annual fiscal audits of its three grantees, the Office performed one partial audit of a grantee in the 2.5 years since the Program began. Performing annual fiscal on-site audits would help the Office ensure grantee reimbursement claims are accurate and expenses billed to the Program are appropriate. After auditors discussed this issue with the Office, staff indicated they performed on-site audits of all grantees.

Of the mortgage settlement funds received by the Office, $38 million was to be disbursed to specific victims of deceptive mortgage lending practices. These funds were to be disbursed through a third-party administrator per the settlement agreements. Although the majority of the funds were disbursed, the Office did not adequately monitor the third-party administrator to ensure $11 million in undisbursed funds were returned timely to the Office. When funds for which the Office has oversight are not properly monitored and returned timely, there is a greater risk payments to victims will be delayed and funds will become susceptible to misappropriation or theft. Four recommendations were made to help the Office strengthen its monitoring of Home Again Program grantees and mortgage settlement funds.

Mr. Peterson continued by discussing the findings regarding the Office’s controls over the disbursement of restitution funds for cases other than deceptive mortgage lending practices. Restitution funds are collected by the Office through court orders or agreements, and are payments to help make victims of deceptive trade practices whole. For example, the owner of an auto repair facility was ordered by the courts to pay restitution to customers charged for parts and services not provided. The audit found the Office’s process to disburse restitution funds can be improved. Although the Office disbursed funds accurately to victims in cases that were tested, funds were not disbursed timely in 4 of 10 cases tested. The time required to disburse the funds for the four cases ranged from 1 year to 3 years after the funds were available for disbursement. Delaying payment of restitution funds to victims may cause financial hardship, and increase the risk the Office will not be able to locate the victims.

The last finding in the audit report was the Office does not have adequate controls over the disbursement of restitution funds in its court settlement account. In the past 5 years, annual disbursements from the account have ranged from about $5 million to $46 million. Disbursements from the account were authorized through memos from attorneys and did not include evidence of supervisory review and approval, or supporting documentation. In addition, the Office had not reconciled account activity per state accounting records to the Office’s internal records of restitution funds received and disbursed. Although testing did not identify inappropriate disbursements from the account, adequate controls are important to help ensure funds are properly safeguarded. Two recommendations were made to help ensure restitution funds are properly safeguarded and paid timely.

Mr. Peterson concluded his presentation stating information regarding the receipt and disbursement of National Mortgage Settlement funds from fiscal years 2013 to 2015 is provided in Appendix A of the audit report. Furthermore, information regarding the
receipt and disbursement of other mortgage settlement funds received by the Office between fiscal years 2011 and 2015 is provided in Appendix B, the audit methodology is explained in Appendix C, and the Office’s response to the audit report is contained in Appendix D. The Office accepted all six recommendations.

Chair Kieckhefer opened the meeting for questions regarding the audit report.

Senator Parks queried as to the third-party administrator process used where the mortgage settlement funds are dispersed.

Mr. Peterson stated he was not aware if the process used was a standard practice; however, it was part of the settlement agreement that it be performed in this manner. Due to the volume of victims to be paid, there was concern at the Office as to whether this process could be handled in-house. It was determined best to use a reputable third-party administrator to disperse the funds to the victims.

Senator Parks reiterated his concerns and was of the opinion that there could have been a better method with greater control by the Office. This could allow for the process of knowing whether or not a check has been cashed. He requested that in the future these types of processes be examined.

Senator Kieckhefer called for additional questions and invited agency representatives to respond to questions.

Nicholas A. Trutanich, Chief of Staff, Office of the Attorney General, thanked the auditors for a fair, thorough, and professional job with the audit. The Office accepted the recommendations and intends to fully implement the recommendations. He noted the audit focused on activities that predate Attorney General Laxalt’s term in office; however, much of the staff who have institutional knowledge about matters in the audit, would be available to answer those particular questions as subject matter experts.

Ernest Figueroa, Chief Deputy Attorney General, Consumer Counsel, Bureau of Consumer Protection, responded to Senator Parks’ question and stated the use of a third-party administrator in cases that are unique to the Nevada Attorney General is not typical. As part of the process with the settlement agreements, the purpose of the third-party administrator was solely to issue the checks. The Office provided a list of victims to the third-party administrator and the third-party administrator was responsible to report back on its efforts of issuing checks and to provide evidence of checks that were not cut. It was the duty of the Office to follow up with the third-party administrator to identify those individuals and to understand why checks were not cashed for a variety of reasons.

Senator Parks was of the opinion, after Mr. Figueroa’s explanation that the process could have been done quite differently. He stated, based on his experience, he would have approached it from a different perspective.

Chair Kieckhefer stated one of the issues he noted was with the discrepancies in the data relating to performance indicators. He had significant questions and concerns with
the program when it was addressed with the IFC. He asked for an explanation of how the performance numbers that were relayed back to the Legislature were so different.

Jo Ann Gibbs, Chief Deputy Attorney General, Office of the Attorney General, stated those performance measures were developed to assess trends and needs for the Home Again Program. There is no fiscal component for the services that are provided free of charge and there is no link to any reimbursement for these services. Basically, the Office tracks free services for down payment assistance, financial literacy, and other services provided through the Home Again Program. There were various numbers calculated due to the reporting by the different counselors. At one point during 2014, there was a glitch that was not caught by the Office. There was an overreporting for one quarter and this has been corrected. Additionally, underreporting has also occurred, partially due to reporting done at different times. As a result, the Office will obtain backup documentation and review information received from the housing counselor agencies for accuracy.

Senator Parks expressed concerns with the number of persons assisted through the credit restoration program, how it was reported to the IFC, and the discrepancies with the numbers reported and the findings compared to the audit.

Chair Kieckhefer pointed out that those concerns had just been addressed. He indicated there was probably no intent for deception and most likely just an error in calculation; however, he too had the same concern with the use of the data as justification during the IFC process.

Ms. Gibbs responded that there was no intent to deceive. There was a mistake with the compilations in one of the reports, and it was not discovered timely.

Mr. Trutanich further addressed Chair Kieckhefer’s and Senator Parks’ questions. He stated one of the grantees had a new employee at the time who made an error. This error was unintentionally transferred into a few other reports, because the error had not been caught.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE OFFICE OF THE ATTORNEY GENERAL. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

b. Office of the State Treasurer, Unclaimed Property Program

Jane E. Bailey, Audit Supervisor, began her presentation with a brief overview of the Office of the State Treasurer, Unclaimed Property Program. The Unclaimed Property Program has the responsibility to collect, safeguard, and distribute unclaimed property. The primary mission is to reunite rightful owners with their property. According to the State Treasurer’s Annual Report, the State held about $675 million in unclaimed property at the end of fiscal year 2014.
Ex. 1 in the audit report shows the amount of unclaimed property deposited into the Abandoned Property Trust Account for fiscal years 2010 through 2014, and the major categories of expenditures from the trust account. The costs of operating the Program are provided by transfers from the trust account to the unclaimed property account, which totaled about $1.85 million in fiscal year 2014. The Program has 12 authorized staff and has 1 office in Las Vegas.

The audit focused on the program’s activities related to collecting, administering, and returning unclaimed property for the period from July 2013 through February 2015. The objective was to evaluate the program’s processes for collecting, administering, and returning unclaimed property.

The audit found the Program could improve inventory controls over assets in its vault. The Program did not track many of the savings bonds in its vault. The auditors tested savings bonds belonging to 70 of the 629 individuals who were identified as having savings bonds in the program’s custody and found bonds belonging to 35 of the 70 individuals were not recorded in the program’s database. Ex. 2 in the audit report shows the results of the testing of savings bonds held by the Program.

In addition, the Program did not have an accurate inventory list or perform annual reconciliations of unclaimed property held in its vault to the inventory list. The Program is responsible for various types of personal property, which may include cash, savings bonds, wills, jewelry, and collectible coins. Since the Program has adequate physical security controls over the vault, the exceptions noted in the report are primarily recordkeeping issues. It was found that 18 of the 25 items selected from the program’s inventory report were not in the vault. There were two types of problems found. First, in 12 instances, the item was not in the vault and there was no evidence in the database that the item had been disposed. Second, in six instances, a significant amount of time had passed since the items’ disposal had been entered in the database, yet the items still appeared on the vault inventory list.

The auditors requested the Program provide documentation of its two most recent inventories; however, staff did not provide evidence that any reconciliations of vault inventory had been completed. Policies and procedures require an annual reconciliation of property held in the vault to property recorded in the database.

It was also found the Program needs to improve its tracking of securities held by custodians. According to custodian statements, the Program was responsible for securities with a market value of more than $21 million, as of December 31, 2014. These securities were in the custody of 50 different custodians, although most, about $20 million, were in the care of just one custodian.

The audit report discussed the program’s tracking of securities held by its main custodian. Semiannual reconciliations between program records and the main custodian’s statements were not completed timely. In addition, the Program did not follow up timely on discrepancies noted during its reconciliations and its review of weekly transaction reports. Ex. 3 in the audit report presents the main findings related to the main custodian account. During the reconciliation for the period ended December
31, 2014, staff noted a total of 199 securities with discrepancies. The auditors reviewed 40 of these discrepancies and found 12 were out of balance on the prior reconciliation, and 7 had been out of balance for at least a year. Lastly, 17 of the 40 discrepancies tested were the result of untimely follow up on weekly transaction reports from the custodian. The Program did not follow up on these transactions for a period of 2.5 to 7.5 months.

Eighteen of the 40 discrepancies were due to untimely entry of holder reports into the program’s database. Securities reported by the holders as transferred to the main custodian were not recorded in the database for between 4 months and 1 year. In addition to the main custodian’s account, 49 other custodians held securities as of December 31, 2014. It was found that reconciliations between program records and custodian statements were not consistently performed for these accounts either. In addition, staff did not perform timely follow up when they identified discrepancies between program records and custodian statements. According to Program management, some custodians will not provide statements and some will not or cannot transfer the securities to the main custodian. This may be because the securities are worthless, non-transferrable, or otherwise restricted. Ex. 4 in the audit report contains more information on the problems noted with these 49 custodian accounts.

Furthermore, the Program did not always make timely deposits. The Program receives a large number of payments around certain deadlines. Payments received during the November 2013 and 2014 peak periods were tested and it was found two-thirds of the cash payments were deposited an average of 11 working days late. It was also found that payments were deposited late during non-peak periods. Twenty payments deposited in January and February 2014 and 2015 were tested and it was found that 14 were deposited an average of 39 days late.

The Program did not adequately secure pending deposits. When the Office was visited by auditors in December 2014, they observed three plastic mail bins containing holder reports with the original checks attached to the reports. The bins were in an open area next to one staff’s cubicle. Management stated that during peak periods the checks could remain unsecured in the bins for several days.

Four recommendations were made to improve processes for safeguarding unclaimed property in the program’s custody.

The audit report addressed the program’s processing of claims. It was found that 27 of 50 paid claims were not approved within the 90 days required by statute. There was no evidence found to justify the delays, such as waiting for the claimant to provide additional documents. Seventeen of 30 denied claims tested were not denied timely. Again, no evidence was found to justify any of the untimely denials. Furthermore, of the 25 claims tested pending for more than 90 days, it was found there was no evidence to justify the delay in processing for 16 of the claims.

Security controls over the unclaimed property database could be stronger. Computer logs showing who has edited data in the system had not been reviewed for almost 5
years. This increases the risk that data could be inappropriately altered that could allow a fraudulent claim to be processed without detection.

The Program has an automated process that allows certain claims to be approved faster, known as Fast Track. This process provides a convenience to the claimant, however internal controls over these claims need to be strengthened to prevent and detect fraudulent claims. Additional controls were implemented in June 2014 to help prevent fraud. The Program should continue to evaluate additional controls and implement those, which are efficient and effective for deterring and detecting fraudulent claims.

Four recommendations were made to help improve the timely processing of claims and improve controls over the processing of claims and the database.

Ms. Bailey concluded her presentation pointing out that Appendix A explains the audit methodology and Appendix B contains the response from the Office of the State Treasurer. The Office of the State Treasurer accepted the eight recommendations contained in the audit report.

Chair Kieckhefer called for questions.

Assemblywoman Carlton asked if the staff is funded from the unclaimed property account. She also queried as to the staff levels during the audit process.

Ms. Bailey confirmed that Assemblywoman Carlton was correct regarding the staff funding source. She noted there were vacancies at the time; however, the exact number should be clarified by the agency staff.

Chair Kieckhefer asked Ms. Bailey of the 12 instances where the item was not in the vault and there was no evidence in the database of the items’ disposal, if those items were simply missing.

Ms. Bailey stated there was no way to know with certainty if those items were missing since there was no information in the database. She noted it could be speculated that the items were removed, but not eliminated from the inventory list.

In response to Chair Kieckhefer’s question regarding if the result would be the same if something was stolen out of the vault, Ms. Bailey stated she was not suggesting something was stolen; however, the circumstances would be the same with the inventory list because there would be no way to distinguish between the events.

Assemblywoman Dickman asked for confirmation that the findings in the audit report occurred during the tenure of the previous State Treasurer.

Ms. Bailey responded that the beginning of these instances started when the previous State Treasurer was in office. Several of the problems went back several years, which included problems with the inventory records. Based on information provided to the auditors since the audit and findings were presented to the agency, the Office has taken corrective action on several of the recommendations.
Chair Kieckhefer invited agency officials to respond to questions from the Subcommittee.

Grant Hewitt, Chief of Staff, Office of the State Treasurer, introduced Linda Everhard, Deputy Treasurer, Unclaimed Property Program, Office of the State Treasurer.

Ms. Everhard expressed the Office’s appreciation for the audit report. She stated some of the findings were issues of which she was unaware. The audit provided an opportunity to work with the software vendor and utilize some unused programming hours to effect change. She noted one of the issues brought to her attention was how the documentation was entered into the database and other procedures.

Chair Kieckhefer called for questions.

Assemblywoman Dickman recalled a recent IFC meeting where the Treasurer’s Office requested a reclassification and additional staff for the Unclaimed Property Program. She asked if this request would continue.

Ms. Everhard explained the IFC request was to have an Auditor II position reclassified to an Administrative Assistant III for the purpose to add another claims processor. At the time of that presentation, the Office had one full-time equivalent (FTE) to handle the incoming claims. The intention of reclassifying positions was to increase the number of FTEs to manage the claims processing. In the interim to solve the problem, additional staff had been cross-trained to reduce the processing time. The Program has processed the claims within the statutory deadlines.

Senator Parks asked for clarification as to why there would need to be 49 accounts with custodians other than one main custodian.

Ms. Everhard replied there were 49 accounts; however, not all of the accounts were custodian accounts. Fourteen of the accounts are transfer agents. At the time the audit was conducted, the Program was in the process of taking the mutual funds and moving those over to the main custodian, which is Xerox. The RFP process was conducted and the contract was in effect July 1, 2014. Currently, there are not as many custodians as there were then.

Assemblywoman Carlton followed up with her previous question regarding the payment of staff through the unclaimed property account and if there was any intention to hire additional staff to more effectively process claims. She was of the opinion that eliminating the one auditor position would not be beneficial to the Program.

Ms. Everhard stated the Program is currently down four positions. A program officer and an auditor were recently been hired. The Program will continue to explore reclassifying certain positions to increase the functionality for the Program since the Office is shorthanded and the volume of work is increasing.

Assemblywoman Carlton recalled that some of those positions were eliminated during the 2011 and 2013 Sessions due to budget cuts.

Ms. Everhard replied that there were staff vacancies. Under the prior administration, work had been done to increase the functionality of the limited staff. Due to the General
Election and politics, the Office was asked to not make those changes, which has left the Office with five vacancies. When the new staff arrived after the General Election, the changes were approved. Unfortunately, due to poor timing that coincided with the IFC meeting the request was denied.

Mr. Hewitt echoed Ms. Everhard’s comments and appreciation for the audit. He stated the Office is committed to correcting previous shortcomings and will continue to work to be responsive to the needs of Nevada’s citizens.

Chair Kieckhefer called for motion.

SENATOR PARKS MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY PROGRAM. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

c. Department of Public Safety, Capitol Police

A. Lilliana Camacho-Polkow, Deputy Legislative Auditor, began her presentation with a brief overview of the Capitol Police. The Capitol Police is a Division of the Department of Public Safety (DPS). The Division provides a visible deterrent to criminal activity, responding to emergencies, and supplementing local police services. It has jurisdiction on all properties managed or supervised by the Department of Administration, which includes over 300 buildings, structures, and parcels. The Capitol Police provides service on a 24-hour basis, 7 days per week. As of October 2015, the Division had 21 legislatively approved FTE positions. Officers are stationed at fixed posts at the Capitol, Office of the Attorney General, Grant Sawyer State Office Building, and the Governor’s Mansion.

Some fixed post stations the Division oversees does not require full peace officer powers. As a result, the Division utilizes the services of a third-party contractor through a statewide master services agreement to provide for security at certain state property locations. The Division is funded mainly through transfers from the Department of Administration, Buildings and Grounds Division, which is supported primarily from assessments to state agencies. Additional funding by DPS provides for staffing at the Governor’s Mansion. In fiscal year 2012, Capitol Police’s financial and human resource services were consolidated within the DPS’ Office of the Director to centralize activities, create efficiencies, and reduce costs.

Ex. 3 in the audit report shows Capitol Police’s revenues and expenditures for fiscal years 2014 and 2015. The audit focused on activities from January 1, 2014, through June 30, 2015. The audit objective was to evaluate whether financial and administrative controls related to contracted security and travel expenditures complied with state laws and other requirements.

The Division currently utilizes a Department of Administration’s, Purchasing Division’s, master services agreement for uniformed security guards (Allied Barton). During the audit, two instances were found where current and former state employees were utilized by the independent contractor at Capitol Police posts. State law and the State
Administrative Manual require approval by the Board of Examiners before current, and certain former employees, can be utilized under contract. Because services are provided under a master services agreement and used by separate agencies on an ongoing basis, no notification to or approval of current or former employees was obtained from the Board of Examiners for this contract. The auditors were of the opinion that the use of these employees did not negatively impact state finances; however, the issue should be considered as an area for further review. On November 10, 2015, the Purchasing Division did take this item to the Board of Examiners for approval, and the item was approved.

Ms. Camacho-Polkow stated the Division can make improvements when approving and processing contractor payments. Review of and approval for payments should be documented by the Division Chief prior to processing. All 18 contractor invoices reviewed did not have evidence the Division Chief reviewed and approved the invoices prior to payment. Discussion with Division and DPS fiscal personnel indicated the Chief does review invoices prior to payment, although no evidence of his review was found on inspected invoices. Documentation of the Chief’s review is important since fiscal personnel are not involved in the daily operations related to contracted security services.

The audit report indicated the Division paid $227,000 for contracted security during fiscal year 2015, the largest single expenditure for the Division, other than personnel costs. Contract invoice review can be strengthened further by comparing to security logs maintained by contractor officers. Review during the audit found that 2 of 12 logs did not have significant activity noted by security personnel to verify contract personnel had arrived and remained at the post for times billed. Conversely, the other 10 logs did show specific security activity that directly corresponded to dates and times billed. Although logs did not reflect security activity during billed times, a physical presence is required by the Division at specific posts. Therefore, it is unlikely contracted security personnel were not present for times billed. Nonetheless, a potential for overcharges exists if contracted security guards do not arrive at the specified time or remain at the designated posts as anticipated.

The review of travel expenditures revealed the Division processes travel expenditures in accordance with state laws and other requirements. The auditors reviewed 28 of 108 total travel expenditures including invoices related to the use of patrol vehicles and employee travel claims. The Division’s fleet of five patrol vehicles are purchased and maintained by the Fleet Services Division and are subject to monthly rental and mileage charges. Charges of a little more than $60,000 for the fleet accounted for the majority of travel expenditures during fiscal years 2014 and 2015. Ex. 2 in the report details travel expenses for fiscal year 2013 to 2015.

Travel Claims reviewed were mathematically accurate, properly approved, and paid at the appropriate rates. As a result, there are no recommendations related to the Division regarding travel expenditures.
Concluding her presentation, Ms. Camacho-Polkow pointed out the Division accepted the two recommendations. She noted the audit methodology is contained in Appendix A of the report and the Division’s response is contained in Appendix B.

Chair Kieckhefer called for questions. There were none. He commented on the issue of whether state employees who would otherwise need approval to work or be rehired in a different fashion might not be a unique situation to Capitol Police when there are third-party master service agreements. He was of the opinion that this could be a problem with other state agencies as well.

Chair Kieckhefer called for the agency representatives.

Jerome Tushbant, Chief, Capitol Police Division, expressed his appreciation to the auditors for their work. The Division has already taken steps to rectify the issues and have accepted the recommendations.

Responding to Chair Kieckhefer’s questions regarding which locations the contract officers are utilized at, Chief Tushbant stated the locations are the Bradley Building in Las Vegas, and during certain shifts at the Grant Sawyer State Office Building, Capitol Building, and the Office of the Attorney General.

Assemblywoman Carlton expressed her concern for subcontracting out security and was of the opinion it is difficult to establish accountability in a new program with subcontractors. She asked if there is one main subcontractor who hires the individual security officers.

Chief Tushbant replied the contracting is handled through the Purchasing Division where there is a master service agreement and the current vendor is Allied Barton. This vendor is responsible under the agreement for hiring the people who meet the State’s requirements. Although the Division has some input and can establish a working relationship with Allied Barton, it is up to the contractor to supply what has been asked of by the Division.

Following up further, Assemblywoman Carlton asked if there was potential for the Division to have been billed for time when no one was present at a station, and if so, how would that be reconciled with the contractor.

Chief Tushbant surmised the audit did not suggest that the Division had been inaccurately billed for vacant posts. Furthermore, the Division reviewed invoices after the audit and determined the vendor actually failed to bill for enough hours and was to be paid additional money for the actual hours worked.

Responding to Assemblywoman Carlton’s questions as to how much those employees were being paid, Chief Tushbant stated he did not have knowledge of that.

Assemblywoman Carlton voiced her concerns about payment on a master service agreement, the way the money is dispersed, who is actually working, what level of pay, and the classification level of the employees. She requested further information in this matter.
Mr. Townsend explained this area was identified as an area for further review. This master service agreement is primarily administered by the Purchasing Division and then used by multiple agencies. When the Purchasing Division is audited in the future, this process will be an area of focus. He noted it was difficult to fault the Capitol Police Division when the method of using a master service agreement is to draw the employees from the contract as directed. The Purchasing Division is not on the current audit plan; however, that Division will be placed it on the next plan.

Responding to Assemblywoman Dickman’s question regarding if it is optional for an agency to accept any or all of the recommendations, Mr. Townsend clarified that the key word is “recommendation.” The Audit Division is part of a separate branch of government, which is why the recommendations are recommendations. The findings have always been supported. There have been instances where there is disagreement and that is typically addressed in a Subcommittee meeting.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF PUBLIC SAFETY, CAPITOL POLICE. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

d. Department of Public Safety, Nevada Highway Patrol

Yette M. De Luca, Deputy Legislative Auditor, began her presentation with a brief overview of the Nevada Highway Patrol (NHP). The NHP is a division of the DPS. Its mission is to promote safety on Nevada highways by providing law enforcement and traffic safety services to the motoring public. NHP’s responsibilities include patrol operations, commercial enforcement, and support services. The Commercial Enforcement team promotes safe travel for commercial vehicles and school buses. The NHP is also responsible for issuing hazmat permits to carriers transporting hazardous materials.

The audit report has information regarding the budget and staffing for the NHP. NHP’s primary funding source is the Highway Fund. For fiscal year 2014, revenue totaled $76.7 million and personnel cost accounted for 66% of the total budget. The NHP had 573 legislative authorized full-time positions (484 are commissioned officers and 89 civilians).

The audit objective was to determine if certain administrative controls related to school bus inspections, fuel procurement cards, inventory, and the hazmat permit issuing process were adequate. The audit primarily focused on fiscal year 2014 and some activities related to bus inspections and inventory practices during fiscal year 2015.

The findings and recommendations in the audit report discuss NHP’s efforts to conduct mechanical inspections of school buses. The NHP inspects approximately 2,470 school buses twice per year across the State to detect out-of-service conditions. The State Board of Education publishes a document that outlines criteria for the inspectors to place a school bus out-of-service for mechanical and emergency safety defects. The
Inspections are conducted by NHP civilian employees trained as Commercial Vehicle Safety Inspectors. The auditors traveled to Elko, Las Vegas, and Reno, and visited 12 school bus yards from 7 different counties to verify repairs for out-of-service conditions that could be physically observed. This included inoperable window latches, horns, broken mirrors, inaccessible or missing first aid kits, and unsecured seats. Review of the 60 school bus inspections found that almost all recommendations made by the NHP had been corrected.

Ms. De Luca reported not all vehicles used to transport pupils are inspected. According to NRS 392.400, all vehicles used in the transportation of pupils must be inspected twice per year. As noted in Ex. 3 in the report, there are about 155 other vehicles, besides buses, used regularly to transport pupils throughout the State that are not inspected. The school bus inspection program lacks certain controls. For example, the inspection results are not reported to the school district superintendent in accordance to NRS. Reporting the issues identified during the inspection cycle is important to ensure trends are identified and handled timely. For example, from the 60 buses the auditors observed, 25 (42%) had out-of-service conditions related to emergency windows with either inoperable emergency buzzers or missing latches. Furthermore, the School Bus Inspection program lacks operating guidelines to ensure inspections are conducted the same across the State. Three recommendations were made to improve the school bus inspection program.

There are areas where administrative practices need to be strengthened. The NHP can improve the Single-Trip Hazmat Permit issuing process to ensure compliance with state regulations. The audit report noted that 16 out of 67 vehicles were issued multiple permits within a 3-month period, which is in violation of state regulation. The regulation limits temporary hazmat permits to one permit every 3 months per vehicle. The permits are issued by a vendor. Specific to the issuance of temporary hazmat permits, NHP does not have a contract with the vendor.

Furthermore, NHP does not have an adequate process to identify when employees with fuel cards leave the Division. After review of 454 identified total active cards, there were 23 active cards for individuals no longer employed by the NHP. Out of the 23 active cards, two incurred charges after the cardholders transferred to another division within the Department.

The audit report also addressed the lack of controls over the self-reported inventory process. This process was established in 2015 and requires all employees to self-report their assigned inventory via an electronic questionnaire stored on a third-party website. The self-report process was tested and was found it to be effective; however, additional controls are needed to reduce the risk that errors could occur and/or go undetected. Four recommendations were made to improve controls over the single-trip hazmat permits, fuel cards, and the inventory process.

Ms. De Luca concluded her presentation by noting Appendix A in the audit report contains the audit methodology and Appendix B has NHP’s response. She stated all recommendations were accepted.
Chair Kieckhefer called for questions.

Chair Kieckhefer asked if the two charges that occurred on the fuel cards after those employees were transferred to a different division if it was investigated further.

Ms. De Luca stated that since those two employees who made the charges were transferred to other divisions within NHP, the auditors informed management staff so they were aware.

In response to Chair Kieckhefer’s question regarding the adequacy of staffing levels based on the expectation that all vehicles be inspected, Ms. De Luca explained that staffing levels were not reviewed in the audit. The intent of the methodology was examined and discussed with agency staff.

Chair Kieckhefer called for agency representatives.

Colonel Dennis S. Osborn, Chief, NHP, thanked Mr. Townsend and the audit staff for their work on the audit. He addressed Senator Kieckhefer’s question regarding staffing needs to inspect certain vehicles. This is referred to as the white fleet (vehicles other than school buses). NHP’s understanding of the intent of the law was only to inspect buses. The potential to inspect the vans and sedans used to transport pupils was not realized. As the NRS is written, NHP agreed with the auditors’ interpretation that they should be inspecting the white fleet; however, the intent of the Department of Education’s (DOE’s) reference to bus standards indicate the intent of the NRS is to inspect a bus that transports 10 or more pupils. To comply with the mandate, more commercial vehicle inspectors will be needed and an estimated 155 commercial vehicle inspectors would be needed. Through further research by NHP, it was found there are over 3,894 vehicles registered just to the Clark County School District. The potential for the number of white fleet vehicles just in Clark County to be investigated by NHP could be as high as 534 vehicles. There are two potential options for NHP’s plan. The first option is to leave the statute as is and inspect the white fleet, which NHP would need two additional inspectors to meet that mandate. The second option is to ask for a bill draft request (BDR) for the 2017 Session to change the statute to reflect NHP’s intent of the law and DOE’s school bus standards.

This audit has pointed out to NHP that some of the statutes have not completely been rectified from when the Department of Motor Vehicles (DMV) separated from DPS back in the early 2000s. As example, Colon Osborn noted an old NRS where it points to the DMV to conduct some of the school bus inspections; however, that is not the mission of the DMV. Regardless of which option NHP decides to pursue, he stated some cleanup with the language in the will need to take place.

Chair Kieckhefer opined that there should be a different inspection checklist for the inspecting school buses and for inspecting the white fleet.

Colonel Osborn noted the inspectors are commercial vehicle inspectors and it would better suit the white fleet to have inspections completed by mechanics.
Assemblywoman Carlton wanted to make sure that if the other vehicles are being inspected, then it is at a different level and no longer just the 15-passenger vans. She was of the opinion that this disconnect probably happened due to the number of years the school districts were using the 15-passenger vans; however, now school districts are increasingly using smaller fuel-efficient vehicles. She agreed with Colon Osborn that the intent of the statute does not match current needs. She noted a maintenance schedule for vehicles that transport students should be examined as an option if it could be verified by the schools districts.

Colonel Osborn stated NHP has reached out to the DMV representatives and the DMV agreed with the NHP that clean-up language is needed in the NRS. He noted the inspections would continue to take place as prescribed currently in NRS and as recommended in the audit report.

Mr. Townsend provided clarification that during the course of the audit, staff identified 7-passenger vans used for extracurricular activities to transmit students. The auditors worked with NHP and the school districts to reach the estimate of 155 vehicles. The intention of the recommendation would never be to have the NHP inspect the entire white fleet (all EX plates as determined by DMV). He requested NHP to include more detail, with the auditors’ assistance, regarding this matter in the completion of the 60-day plan, and an update will be provided to the Subcommittee.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF PUBLIC SAFETY, NEVADA HIGHWAY PATROL. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

e. Department of Business and Industry, Manufactured Housing Division

Michael Herenick, Deputy Legislative Auditor, began his presentation with a brief overview of the Manufactured Housing Division and its functions. The Division's mission is to protect the interests of the manufactured housing industry and owners or occupants of manufactured structures. Manufactured structures generally consists of manufactured or mobile homes, commercial coaches, portable and modular buildings, and factory-built housing. Primarily, the Division oversees the issuance of licenses, titles, permits, including investigation of industry related complaints, administration of a lot rent subsidy program, and providing educational classes.

The Division operates from four budget accounts primarily funded by user fees. The Division had revenues of $1.5 million in fiscal year 2014. During the same time, the majority of the Division's expenditures were for personnel costs followed by lot rent subsidy payments to low-income owners of manufactured homes.

The objective of the audit was to determine if certain operating and administrative controls related to inspections, deposits, information technology, and performance measures were adequate to ensure occupant safety and compliance with applicable laws, regulations, and policies and procedures.
The findings of the audit report found the Division's operating and administrative practices need improvement. First, the Division's inspection and permit program oversight needs to be strengthened. Three examples are provided in the report to illustrate the Division's weak oversight of this particular program. For instance, some structures that failed an original inspection were not re-inspected, and inspections were not performed on some permits. Secondly, inspection documentation was not organized or maintained in a manner that facilitates retrieval or review. Furthermore, labels used to verify structural safety were not properly monitored and safeguarded.

Mr. Herenick reported on the issuance of permits, inspection of installations, and repairs made on regulated structures, which included a list of various projects where the purchase of a permit is required. He then discussed the review of permit and inspection records, or lack thereof. The auditors found 58% of the failed inspection permits and 80% of the open permits tested did not have a subsequent or an original inspection performed by the Division. For clarification, permits are considered open when a permit has been purchased for a specific project, but an inspection has never been performed. The Division did not perform inspections because the Division relied solely on permit purchasers to schedule inspections.

Through analysis of the Division's permit database during 2014, 2,619 permits were purchased for various work projects, including structure installation, electrical, plumbing, gas system, remodel or repair, roofing, heating ventilation, and air conditioning. Of these permits, 325 failed inspection and 294 remained open without an inspection. Two exhibits are provided in the report that address the permits purchased and the inspections completed based on location.

Additionally, the Division could not provide one or more of the documents listed in the report, for 43 of 50 failed inspections reviewed, mainly a copy of the inspection checklist or correction notice. The auditors recognized the records likely exist; however, the Division could not locate the documents.

Compliance labels, which are intended to be affixed to a manufactured structure to signify compliance with industry standards, were found to be inadequately maintained. For instance, the Division did not maintain an adequate inventory of labels and labels were stored in an unlocked filing cabinet with unrestricted access.

Control weaknesses were found over revenue collections and deposits. Weaknesses identified include fee revenue collected totaling approximately $40,000 that was not deposited timely. Check and cash payments were not logged or compared to deposits, and were not adequately safeguarded. Additionally, the Division did not adequately segregate the duties related to receipting and depositing of fees collected. Furthermore, the Division needs more adequately protect sensitive information. With respect to performance measures, the auditors found the Division can take steps to strengthen its oversight of measures to ensure reported results are reliable.

Concluding his presentation, Mr. Herenick stated the audit report contains 13 recommendations to improve the Division's operating and administrative practices over inspections, deposits of certain fees, protecting sensitive electronic information, and
performance measures. He noted Appendix A in the report explains the audit methodology and the Division’s response is included in Appendix B. The Division accepted all 13 recommendations.

Chair Kieckhefer called for questions for the audit staff and there were none. He then called for agency representatives.

Jim deProsse, Administrator, Manufactured Housing Division, Division of Business and Industry, thanked Mr. Townsend and his staff for their professionalism and for the recommendations to improve the operations of the Division.

Assemblywoman Carlton stated her concern over the 2,000 unencrypted Social Security numbers (SSNs) and the names of applicants. She was of the opinion that addressing that issue should be high a priority. She asked Mr. deProsse how the Division intended to address this issue.

Mr. deProsse stated the Division has already begun to address all of the recommendations. There are approximately 2,700 records in the database (park registration, landlord-tenant applicants) where there is SSN information. The process to abate those records is tedious; nonetheless, the Division has begun the process and has completed about 25%.

Regarding revenues by budget account and the balance forward from 2013 and 2015, Assemblywoman Carlton asked for clarification on those amounts.

Mr. deProsse stated those numbers were from the end of fiscal year 2015. Beginning fiscal year 2015 and through the current biennium, much of those reserve dollars have been eroded through allocations to other agencies.

Assemblywoman Carlton replied she would like to know where those dollars went and asked Mr. deProsse for the documentation. She pointed out that these are fee-based dollars through park owners and park residents.

Mr. deProsse stated the money does remain within the Division and was only expended to run the agency or to pay other state agencies that require allocations.

Chair Kieckhefer stated his appreciation for the point of view of the audit and the opportunity to improve the process with the inspections.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF BUSINESS AND INDUSTRY, MANUFACTURED HOUSING DIVISION. THE MOTION WAS SECONDED BY SENATOR ATKINSON AND CARRIED UNANIMOUSLY.

f. Department of Tourism and Cultural Affairs, Division of Museums and History

Tammy A. Goetze, Deputy Legislative Auditor, began her presentation with a brief overview of the Division of Museums and History. The Division of Museums and History
Consists of the Office of the Administrator, six museums, and a historical society. Ex. 1 in the audit report shows the location of each museum.

State funding for the Division is provided from several different sources. State money includes general fund appropriations, room tax transfers from the Commission on Tourism, museum admissions, and train ride fees. The Division also receives funding from a dedicated trust fund, which generates revenues from museum store sales and memberships, gifts and donations, and other sources. Revenues flowing into the dedicated trust fund are not state funds and are designated by statute as private money. Ex. 2 in the report shows that for the 18 months ending December 31, 2014, the Division’s revenues amounted to over $11.7 million, with $9.8 million in state money and $1.9 million in private money. As of December 31, 2014, the Division had 78 filled positions.

Each state museum, with the exception of the East Ely Railroad Museum, operates a museum store. Ex. 3 in the report shows that for the 18 months ending December 31, 2014, the museum stores collected over $643,000 in sales revenue.

The scope of the audit included the state museums in Carson City, Las Vegas, and the railroad museum in Carson City for the 18 months ending December 31, 2014. The audit objective was to evaluate controls over the Division’s museum store merchandise and museum revenues.

Testing found controls over store merchandise can be strengthened. Store merchandise controls were reviewed at the Carson City State Museum, Carson City State Railroad Museum, and Las Vegas State Museum, and auditors found a lack of policies and procedures over store inventory processes. Although limited procedures were developed for processing merchandise sales in the store’s point-of-sale system, procedures for purchasing and maintaining accurate merchandise inventory records did not exist. Each museum store uses the Division’s point-of-sale system to record merchandise purchases, sales, and update merchandise inventory records. Establishing and documenting policies and procedures over the system is essential for an effective and reliable store inventory system. Ex. 4 in the audit report shows the flow of transactions processed through the store’s point-of-sale system.

The auditors found adjustments made to merchandise inventory records in the point-of-sale system were not adequately documented and reviewed. Auditors found 30 of 214 adjustments (14%) to the amount of store merchandise on hand could not be adequately explained. Of the remaining 184 adjustments, almost all were explained by museum staff, but not documented for review and approval. Documenting these changes and having an independent person review them helps ensure adjustments are reasonable. Reviewing adjustments also identifies merchandise consistently being adjusted and thereby potentially needing enhanced security to prevent loss.

In the Las Vegas State Museum, auditors found additional store merchandise inventory problems. The fiscal year 2014 physical inventory was not conducted properly. The physical inventory was performed using a point-of-sale system report that included item
quantities, instead of a report that showed the merchandise in the store without the quantity on hand. Performing a physical inventory count without the knowledge of item quantities in the system offers the greatest degree of assurance accurate and reliable counts.

Adjustments were also not made in the point-of-sale system to reflect the year-end physical inventory count. During the fiscal year 2014 physical inventory, staff identified 295 of 817 items (36%) that required a quantity adjustment in the system. Without written guidance and supervisory oversight, staff were unsure of how to make these adjustments and did not make them.

In addition, store merchandise purchases were found to have not always been recorded in the point-of-sale system. For the 18 months ending December 31, 2014, the auditors identified 6 of 10 purchases that were not properly recorded in the point-of-sale system when received. These control weaknesses increase the risk of undetected theft and loss, unexpected shortages of merchandise, and unnecessary purchases of items already on hand.

Control weaknesses were also identified in the Division’s accounting for commemorative medallions. Auditors found staff duties in the minting process were not adequately segregated. Duties include ordering medallion blanks, assisting with the minting process, selling the minted medallions, delivering excess minted medallions to the museum store, overseeing the storage of the remaining medallion blanks in the museum’s vault, and preparing records pertaining to each medallion project and sales revenue generated.

For the 18 months ending December 31, 2014, the Museum minted over 10,700 medallions amounting to about $156,000 in medallion sales revenue. Management indicated that the program continues to mint increasing quantities of medallions, thereby reinforcing the need for proper segregation of duties.

It should be noted that for each medallion minting project, a physical inventory is not performed of the number of medallion blanks purchased, used, and remaining; and the number of medallions minted, sold, and remaining. As a result, auditors found minor discrepancies in Division records from testing of the three largest medallion minting projects for the 18 months ending December 31, 2014. Four recommendations were made to improve controls over museum store merchandise, including medallions.

Testing revealed some control weaknesses exist over museum cash receipts. Ex. 5 in the audit report shows that for the 18 months ending December 31, 2014, the Division’s museums collected $862,000 in admission and train ride fees and $644,000 in store sales, for total collections of over $1.5 million.

Auditors reviewed 100 days of cash receipts and found 44 of 140 deposits (31%) totaling over $8,200 were not made timely in accordance with state law. The deposits ranged from 1 to 14 days late, with an average of 4 days late. Management indicated that there should be no reason for late deposits and appropriate changes will be made to ensure all future deposits comply with state law. In addition, auditors found receipts
collected at the museums were not reconciled to deposits by an individual independent of the cash receipting functions. The individual preparing the deposit is the last person to have access to the daily cash register tapes and reports, and no one else reviews this information to ensure all money received has been deposited. Without this control in place, management lacks assurance that all receipts have been deposited.

The Division’s revenue policies and procedures have not been updated in more than 7 years. Several differences were observed and identified between written procedures and actual processes. Management indicated they have begun updating some policies and procedures; however, time constraints and other priorities have led to a delay in completing these updates. Three recommendations were made to improve controls over museum revenues.

Concluding her presentation, Ms. Goetze stated Appendix A in the report lists the medallion projects for the 18-month period ending December 31, 2014; Appendix B is the audit methodology; and Appendix C is the Division’s response to the audit report. As indicated in the report, the Division accepted all seven recommendations.

Chair Kieckhefer called for questions.

Assemblywoman Dickman queried as to why the adjustments made to inventory records on the point-of-sale system could not be adequately explained.

Ms. Goetze responded that the auditors did not have any indication that the items were missing. She stated the auditors were concerned it was most likely just poor record keeping.

Chair Kieckhefer called for agency representatives.

Peter Barton, Administrator, Division of Museums and History, Department of Tourism and Cultural Affairs, thanked Mr. Townsend and his staff for their thoroughness and professionalism demonstrated with the audit. He stated the vision of Division of Museums and History is to be the most trusted steward of Nevada’s heritage. Throughout the Division, that stewardship included resources that are provided and earned from the public.

He noted there were two recurring issues through the audit. The first is the segregation of duties and the second is clear contemporary governing policies. During the recession, the Division was the only division to have its staff reduced to part-time, which resulted in a 20% loss of staff capacity in hours and an outright 15% reduction of staff workforce. A decision was made at the time to reduce administrative staff instead of frontline personnel that deal with the public in an effort to preserve public services.

Mr. Barton pointed out that segregation of duties is a chronic issue. For example, the Division had one museum that operated for four years with one part-time employee, where there was no way to segregate the duties. He acknowledged that the policies and procedures needed to be updated. He stated the Division intends to have all of the recommendations implemented by the end of fiscal year 2016.

Chair Kieckhefer asked if the Division had volunteers who worked at the museums.
Mr. Barton replied that volunteers are employed. The volunteers are the flexible workforce who assist at the large events and in the retail operations. Most of the volunteers are of an older demographic and those volunteers sometimes are reluctant to handle state money. As a result, the Division has made an effort not to burden the volunteers with such duties.

Chair Kieckhefer called for a motion.

**ASSEMBLYWOMAN DICKMAN MOVED TO ACCEPT THE PERFORMANCE AUDIT ON THE DEPARTMENT OF TOURISM AND CULTURAL AFFAIRS, DIVISION OF MUSEUMS AND HISTORY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON AND CARRIED UNANIMOUSLY.**

**Item 5 — Presentation of Six-Month Reports (NRS 218G.270)**

Chair Kieckhefer stated item 5, a through g, would be taken out of order.

Mr. Townsend stated there are a total of 9 six-month reports. He stated the six-month reports are generated by the Governor’s Finance Office, to help ensure the audit recommendations are implemented. He explained that the Subcommittee had not met since the beginning of the 2015 Session to hear six-month reports. Many of the agencies have had sufficient time to fully implement their recommendations. Follow-up procedures were performed on the agencies listed on the agenda as item 5, a through g, and it has been determined that the recommendations have been fully implemented. Therefore, Audit Division staff does not have any questions for those agencies.

Chair Kieckhefer called for a motion to approve the six month reports for the following:

a) Department of Public Safety, Office of Director; b) Department of Employment, Training and Rehabilitation, Rehabilitation Division; c) Department of Health and Human Services, Use of Certain Assessments Paid by Counties; d) Department of Tourism and Cultural Affairs, Division of Tourism; e) Judicial Branch of Government, Supreme Court of Nevada; f) Department of Corrections Information Technology Security; and g) Department of Business and Industry, Nevada State Athletic Commission.

**ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORTS, ITEM 5, A THROUGH G. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.**

**h. Department of Education**

Richard A. Neil, Audit Supervisor, stated in December 2014 auditors released an audit report on the Department of Education. The six-month report was prepared by the Governor’s Finance Office on the status of the 18 recommendations contained in the audit report. As of September 2, 2015, the Finance Office indicated 14 recommendations were fully implemented and 4 recommendations were partially implemented. The partially implemented recommendations related to class-size reduction (CSR) funds provided by the Department to school districts. These four
recommendations were expected to be fully implemented when policies and procedures were finalized and provided to the Audit Division by September 30, 2015.

On November 9, 2015, the Department provided the Audit Division draft procedures. Those draft procedures will be reviewed by the Department’s policy committee on November 20, 2015. After Audit Division staff has thoroughly reviewed the procedures, any concerns will be communicated to the Department and the Subcommittee.

Mindy Martini, Deputy Superintendent, Business and Support Services, Department of Education, reported that the four partially implemented recommendations have been addressed. With regard to the CSR program, the Department worked closely with the school districts and the State Board of Education, where significant revisions were made to the CSR program. After the 2014-2015 Interim, the Department was able to develop additional policies and procedures. She was of the opinion that the revised policies and procedures will address all of the concerns contained in the audit report.

There are five policies that have been drafted. The first policy relates specifically to the CSR plans. The CSR plans must now be annual, measurable, and meaningful, in order for the Board to review and approve. The second policy relates to the variance requests noted in the audit. It was found that the school districts were implementing the variances after the fact, instead of obtaining preapproval from the Board. To resolve this, the Department will receive the variance request in April of every year for the upcoming school year, as well as updated throughout the year. When variances are provided for each school, there must also be a school-level plan and a timeline for when the school is going to try to eliminate that variance request. The third policy relates to the quarterly reports provided to the Department so that it can provide information to the IFC. The fourth policy relates to the annual report that is provided to the Legislative Counsel Bureau, Fiscal Analysis Division, and the Budget Division. The fifth policy relates to allocating CSR funds to school districts. She stated in the allocation process, the Department did not have a secondary review. The workbook that was developed to make the allocations had been sent out without having had the workbook formally reviewed by a supervisor. This has been corrected. She noted that when the school districts received their allocations, there was no specificity as to what the school districts needed to do with the funds, and this too has been corrected.

All of the policies will be submitted to the Department’s policy and procedures committee for final approval. After that, the Department will be fully implemented on all of the recommendations.

Senator Kieckhefer queried as to what information the Department would be receiving from the school districts, specifically the reports and the accessibility of information, as related to Recommendation No. 15 in the audit report for the Department to provide guidance to the school districts regarding CSR reporting requirements.

Ms. Martini responded that the quarterly reports must state the number of teachers hired with regular funds, the number of teachers hired with CSR funds, and compare that to the number of teachers that should have been hired. The school districts also need to report the progress made in terms of what the CSR plan was. For the current
fiscal year, the majority of the school districts have submitted plans to eliminate various requests for the one and two star schools and if there were new schools requesting variances. The quarterly reports need to include the type of school, population of the school, percentage of English language learners, and poverty levels. These items are all taken into account when approving variances.

Chair Kieckhefer further queried as to if there are specific expectations based on a district’s allocation that a certain number of teachers would be hired with CSR funding. He was of the opinion there would be a significant difference in costs when hiring a teacher with 20 years of experience versus a teacher with only 2 years of experience.

Ms. Martini responded that this relates to the discussion of the purpose of variances. For the most part, the school districts try to hire the beginning teachers with the CSR funds, because of what the Department uses as a statewide average across the board when hiring teachers. There is a minimum number of teachers that the school districts are required to hire as set forth in Senate Bill 515 (Chapter 537, Statutes of Nevada 2015).

Chair Kieckhefer called for additional questions and there were none. He then asked Mr. Townsend if there would be a subsequent report.

Mr. Townsend stated the Department had forwarded most of the policies to the Audit Division for review. If there are any issues with those policies, the Audit Subcommittee would be notified. The Audit Division will monitor and verify that the intent of the recommendations are met.

Chair Kieckhefer called for a motion.

    ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF EDUCATION. THE MOTION WAS SECONDED BY SENATOR PARKS AND CARRIED UNANIMOUSLY.

i. Department of Transportation, Information Security

Doug Peterson, Information Systems Audit Supervisor, stated in December 2014 auditors issued an audit report on the Department of Transportation, Information Security. The Department filed it corrective action plan in March 2015. The six-month report issued by the Office of Finance, Office of the Governor, indicated that the five recommendations were fully implemented and three recommendations were partially implemented. Based on the review of the six-month report and additional procedures that were conducted, one of the partially implemented recommendations is now fully implemented.

The two remaining partially implemented recommendations relate to locking telecommunications rooms and procurement cards. He noted the agency sent additional documentation on November 18, 2015, and the auditors will review that information. Regarding Recommendation No. 7 on locking telecommunications and radio rooms, the Finance Office indicated that the rooms were unoccupied and the doors were locked. Furthermore, the agency indicated the rooms were left unlocked
due to construction work and the need for contractors to have access to the rooms. Mr. Peterson posed the question for the agency as to what controls does the Department intend to implement to ensure these rooms are locked.

Chair Kieckhefer called for agency staff.

Rudy Malfabon, P.E., Director, Nevada Department of Transportation (NDOT), introduced Robert Nellis, Assistant Director, Administration, NDOT, and David Woodridge, Chief IT Manager, NDOT.

Mr. Malfabon continued his remarks regarding the partially implemented Recommendation No. 7 relating to locking telecommunications rooms. He stated NDOT is installing a card key system on those doors. This recommendation should be fully implemented by the end of 2015.

Mr. Peterson continued his presentation regarding partially implemented Recommendation No. 8 relating to the implementation of revisions to the procurement card policy. The Finance Office indicated the policy has been revised; however, the digital signing device used for purchases does not prevent the same person from completing and approving any purchase requisition forms. Furthermore, the Finance Office was told by NDOT, that in many cases the same person orders and receives.

Mr. Peterson posed his first question to the agency staff. He asked what steps does NDOT plan to take to ensure the proper segregation of duties for the digital signing devices. He noted again that Audit staff received information from NDOT on November 18, 2015, that is related to his questions for Recommendation No. 8.

Mr. Malfabon responded that segregation of duties is an issue, particularly in stock rooms where there is limited staff. To address this matter, NDOT is going to try to be more situational in policy guidance to NDOT staff. Specific to the electronic documentation system that NDOT is heading towards, the procedures will not be changed; however, paperwork will be eliminated and email notification will be utilized to increase efficiency and reduce the time processing of requests for maintenance and other staff. There will be more oversight and specific definitions of duties with separation of some of the duties and responsibilities when there is a lack of personnel. The new NDOT transportation policy will be specific with increased definition with those responsibilities and associated subsequent segregation of duties and responsibilities in the policy that is scheduled to be finalized by the end of 2015.

Continuing his testimony, Mr. Malfabon stated Eide Bailly, LLP, has been hired to perform an operational audit to address certain areas, including the use of procurement cards and the use electronic and hard copy means of purchases. He hoped that the findings of Eide Bailly’s audit would demonstrate that staff is following the outlined procedures. The procedures have been issued; nevertheless, the transportation policy process has a higher level of specificity and is approved by NDOT’s Director.

Mr. Peterson continued with his final question. He asked what controls can NDOT implement to ensure segregation of duties for purchases or documenting and following up on cases where only one person is available. Mr. Peterson noted that this question
is specific to situation where one individual was able to perform all of the duties.

Mr. Malfabon responded that several steps have been taken, including within the organizational structure, to report directly to the district where there is more oversight. The interim process changes have been issued to staff statewide to follow while the final transportation policy document is being completed. Training on internal controls has been implemented, including the state-provided training, in-house training, and the audit performed by Eide Bailly, LLP, as mentioned previously. He hoped to prevent this from recurring in the future. Furthermore, he noted his appreciation for the auditor’s findings and the work performed to implement the recommendations.

Mr. Peterson thanked NDOT for its work on the recommendations and stated the auditors will continue to monitor until the final policy is issued and review the information received. He requested a copy of the final transportation policy from NDOT when available.

Chair Kieckhefer called for a motion.

**ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF TRANSPORTATION, INFORMATION SECURITY. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.**

**Item 6 — National State Auditors Association Report on Nevada Legislative Counsel Bureau Audit Division’s System of Quality Control**

Paul Townsend, Legislative Auditor, began his presentation on the National State Auditors Association Report on Nevada Legislative Counsel Bureau Audit Division’s System of Quality Control. He stated this answers the question of who audits the auditors. The Audit Division performs audits in accordance with very rigorous government standards and those standards require that every three years the Division be subject to an external peer review. This most recent peer review was conducted by experienced auditors from the states of Alaska, Kansas, Maryland, and Wyoming. The peer review concluded that the Audit Division system of quality control provides reasonable assurance of conforming with government auditing standards and issued a rating of “pass,” which is the highest rating. He expressed his appreciation to the staff of the Audit Division for doing an incredible job of meeting the standards.

Mr. Townsend asked for the report to be accepted by the Subcommittee.

Chair Kieckhefer called for questions on the report. There were none.

Assemblywoman Carlton expressed appreciation and thanked Mr. Townsend for all of his years of service. She noted her appreciation for his assistance with all aspects of the legislative process, sharing of knowledge, service to the State, and patience.

Chair Kieckhefer seconded Assemblywoman Carlton’s comments. He noted his appreciation for Mr. Townsend’s exceptional, necessary, and valuable hard work. He complimented Mr. Townsend for his dedication.
Mr. Townsend stated his appreciation for the kind remarks. He noted that he was very fortunate to have had a wonderful career over 28 years, and was very proud of the accomplishments the Audit Division has made during his 14 years as the Legislative Auditor. He expressed his gratitude for all of the people he has had an opportunity to meet during the course in his career, which includes current and former employees of the Audit Division for their dedication, all the Legislative Counsel Bureau employees who help to make everything work, the Legislators who provide support to the audit function in the state, and to the employees in the Executive Branch for their effort in the audit.

Senator Parks echoed his appreciation all the work Mr. Townsend has done throughout his career. He also noted his appreciation for the work the Audit Division has performed and the leadership provided Mr. Townsend and wished him well in the future.

Assemblywoman Dickman expressed her appreciation to Mr. Townsend and to the Subcommittee for all of their hard work.

Chair Kieckhefer called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE NATIONAL STATE AUDITORS ASSOCIATION REPORT ON NEVADA LEGISLATIVE COUNSEL BUREAU AUDIT DIVISION’S SYSTEM OF QUALITY CONTROL. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN DICKMAN AND CARRIED UNANIMOUSLY.

Item 7 — Public Comment

Chair Kieckhefer called for public comment. There was none.

Chair Kieckhefer adjourned the meeting at 11:51 a.m.

Respectfully submitted,

Susan M. Young, Audit Secretary
V.

LEGISLATIVE AUDITOR’S ANALYSIS OF SIX-MONTH REPORTS
May 16, 2016

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

In May 2015, we issued an audit report on the Department of Health and Human Services (DHHS), Division of Health Care Financing and Policy. The Division filed its plan for corrective action in July 2015. NRS 218G.270 requires a report be issued within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Governor’s Finance Office on the status of the six recommendations contained in the audit report. As of January 29, 2016, the Finance Office indicated that five recommendations were fully implemented and one recommendation partially implemented.

The partially implemented recommendation relates to developing computer edits to identify behavioral health claims requesting payment for services that exceed daily allowed hours. The Division has reported they have fully implemented this recommendation. Based on a follow-up discussion with Division management in February 2016, edits are in place and working as intended. Because this recommendation is now fully implemented, we have no questions for agency officials.

Respectfully Submitted,

Rocky Cooper, CPA
Legislative Auditor

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

To: Rocky Cooper, Legislative Auditor
   Legislative Counsel Bureau

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

Date: January 29, 2016

Subject: Legislative Audit of the Division of Health Care Financing and Policy

On May 4, 2015, your office released an audit report on the Division of Health Care Financing and Policy (division). The division subsequently filed a corrective action plan on July 10, 2015. NRS 218G.270 requires the Director of the Governor’s Finance Office to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

**Recommendation 1**

*Develop computer edits or alternative controls to identify behavioral health claims requesting payment for services that exceed daily allowed hours (units).*

Status – Partially Implemented

Agency Comments – The division reports they have fully implemented this recommendation by submitting a system change request on July 1, 2015 to add a claims-processing edit that will identify when service limits have been exceeded and prevent payment for services billed in excess of service limits.
Auditor Comments – Although the division developed computer edits, we were unable to verify they are working properly as no behavioral health claims data was available for review.

**Recommendation 2**

*Develop procedures to review behavioral health claims data to identify potential problems, ensure edits are working as intended, and identify overpayments where the development of computer edits are not feasible.*

**Status – Fully Implemented**

**Agency Actions** – The division developed procedures to revise behavioral health claims data to identify problems, ensure edits are working as intended, and identify overpayments where the development of computer edits are not feasible. We reviewed the procedures and a sample of the health claims and noted overpayments were identified.

**Recommendation 3**

*Develop computer edits or alternative controls to identify duplicate billings of dental procedures that should be billed on a per visit basis.*

**Status – Fully Implemented**

**Agency Actions** – The division developed computer edits to identify duplicate billing of dental procedures that should be billed on a per visit basis by submitting a systems change request on June 4, 2015. We reviewed the systems change request and a sample of billing claims data and determined the computer edits identified duplicate billings.

**Recommendation 4**

*Develop computer edits or alternative controls to limit the number of claims paid for specific dental procedures per patient per day.*

**Status – Fully Implemented**

**Agency Actions** – The division developed computer edits to limit the number of claims paid for specific dental procedures per patient per day by submitting a systems change request on June 4, 2015. We reviewed the systems change request and a sample of billing claims data and determined the computer edits limited the number of claims paid.
Recommendation 5

Develop procedures to analyze dental claims data to identify billing anomalies such as providers with excessive claims and recipients with excessive services.

Status – Fully Implemented

Agency Actions – The division provided procedures to analyze dental claims data to identify billing anomalies such as providers with excessive claims and recipients with excessive services.

Recommendation 6

Resolve the discrepancy between Medicaid policy and the Dental Billing Guide on how frequently a complete series of x-rays is allowed.

Status – Fully Implemented

Agency Actions – The division resolved the discrepancy between Medicaid policy and the Dental Billing Guide on how frequently a complete series of x-rays is allowed by removing the Dental Periodicity Schedule from the Medicaid Policy. The division now uses the schedule noted in the Dental Billing Guide. We reviewed the policy and guide to verify the removal of the Dental Periodicity Schedule.

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

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

cc: Michael Willden, Chief of Staff, Office of the Governor
Richard Whitley, Director, Department of Health and Human Services
Steve Weinberger, CPA, Administrator, Division of Internal Audits
Division of Health Care Financing and Policy

Department of Health and Human Services

Summary

Although the Division has strengthened its oversight of Medicaid payments since our last audit in 2008, we identified certain areas where improvements are needed. Our testing identified about $780,000 in overpayments from behavioral health claims. We also identified improper billings and overpayments totaling more than $285,000 with dental claims. Improper billings and overpayments occurred primarily because the Division’s computer system lacked sufficient edit checks to stop the payment of improper claims. Computer edit checks are an important system control to help ensure claims are paid according to Medicaid policies.

Key Findings

Based on our analysis of claims data, we identified overpayments of about $780,000 in behavioral health claims during fiscal years 2013 and 2014. Behavioral health services we reviewed included: basic skills training, crisis intervention, day treatment, and psychosocial rehabilitation services. These services are provided in a community-based or inpatient setting, and are designed to reduce a physical or mental disability and restore an individual to the best possible functioning level. Of these overpayments, about $680,000 was for basic skills training and $100,000 was for other behavioral health services. For these services, daily limits are established in Medicaid policy. According to management, these overpayments occurred because the Division’s computer system, the Medicaid Management Information System (MMIS), did not process claims according to policy. (page 6)

The Division’s computer system also lacked sufficient edits to prevent overpayments to dental providers submitting incorrect or excessive claims. One dental provider overbilled Medicaid by submitting multiple claims for procedures that should be billed on a per visit basis. For other procedures, the number of claims submitted per patient per day were excessive when compared with other dentists’ claims. We estimate more than $285,000 was overpaid to this provider during fiscal years 2012 and 2013. To identify overpayments, we performed sorts and queries of paid dental claims data. This analysis identified unusual billing practices by one provider.

Examples of overbilling by one provider include:

- One dentist submitted 4,177 claims or 48% of all claims submitted statewide for the “emergency treatment of dental pain – minor procedure,” during fiscal years 2012 and 2013. Billing guidance indicates this procedure should be billed on a per visit basis. Unlike other providers, this dentist submitted multiple claims for the same patient on the same day. For example, 24 claims for the treatment of dental pain were submitted on one patient for the same day. We estimate the Division overpaid this dentist nearly $124,000 for the emergency treatment of dental pain during fiscal years 2012 and 2013. (page 11)

- During fiscal years 2012 and 2013, the same dentist submitted 4,442 or 21% of all claims for oral/facial photographs submitted statewide. The Division pays $20.36 for each traditional photographic image taken of the face or inside the mouth with a camera. We found this dentist typically submitted many claims for photographs of the same patient on the same day. For example, during fiscal year 2013, 32 patients received 20 or more photographs on the same day. The vast majority of other dentists submitted claims for one photograph per patient per day. We estimate the Division overpaid this dentist more than $67,000 for photographs during fiscal years 2012 and 2013. (page 13)

- This dentist also submitted 6,690 or 80% of all claims for pulp vitality tests in fiscal years 2012 and 2013. A pulp vitality test is conducted to examine the integrity of a tooth’s nerve. Billing guidance indicates this procedure includes checking multiple teeth. However, this dentist submitted many claims for the same patient on the same day. For example, this dentist submitted 10 or more claims for pulp vitality tests on the same patient and same day 85 times in fiscal year 2013. In one case, 28 claims were submitted for one patient on the same day. We estimate this dentist was overpaid nearly $52,000 during fiscal years 2012 and 2013 for pulp vitality tests. (page 13)

We notified Division management of the dentist with multiple billing issues. In addition, claims information was provided to the Division for further investigation. According to the Division, an investigation of the billing issues has been initiated regarding this provider. (page 14)