

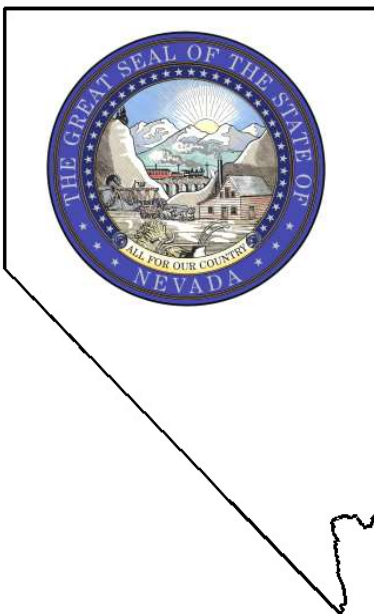
STATE OF NEVADA

Performance Audit

Department of Conservation and Natural Resources
Nevada Division of Forestry

Forest Fire Suppression Budget Account

2024



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Nevada Division of Forestry, Forest Fire Suppression Budget Account issued on January 16, 2025.

Legislative Auditor report # LA26-04.

Background

The Nevada Division of Forestry (NDF) is responsible for the supervision and coordination of all forestry and watershed work on state and private lands in Nevada, including fire control. The Forest Fire Suppression program covers expenses necessary for the protection of life, property, and natural resources from fire, flood, and other disasters and emergencies.

Different types of fire suppression activities incur costs for the State; however, some of those costs are reimbursable depending on the incident type. The Forest Fire Suppression budget account is funded with a combination of General Fund appropriations, county receipts, and reimbursements. The budget account currently comingles the accounting activities associated with fire suppression on Nevada lands and where Nevada provides fire suppression assistance to others on lands outside of the State's financial responsibility.

In fiscal year 2023, NDF had five budget accounts with revenues and expenditures of over \$49.2 million. The Forest Fire Suppression budget account represented about 45% of NDF's total expenditures. As of June 30, 2024, NDF had 205 filled positions. NDF's Incident Business Unit's (IBU) fiscal staff includes six full-time positions and is responsible for processing fire incident billings and invoices for reimbursements.

Purpose of Audit

This audit was required by Senate Bill 480 (Chapter 334, Statutes of Nevada 2023). The purpose of the audit was to evaluate the impact of the Division's billing, collection, and payment practices for the Forest Fire Suppression budget account.

Audit Recommendations

This audit report contains 13 recommendations to ensure forest fire suppression expenditures are tracked and reimbursed timely, budgeting practices improve and cooperator payments are accurate.

NDF accepted the 13 recommendations.

Recommendation Status

NDF's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Forest Fire Suppression Budget Account

Nevada Division of Forestry

Summary

A lack of proper oversight resulted in the Nevada Division of Forestry (NDF) requesting more supplemental funding than was necessary to support fire suppression activities in the Forest Fire Suppression budget account. Specifically, millions of dollars in fully reimbursable out-of-state fire incident expenditures were not billed. NDF has started seeking reimbursement for some of these unbilled incidents. When NDF fails to submit reimbursement requests, money due the State is not collected and supplemental funding must be requested. In addition, accounts receivable amounts were not accurately recorded which impact the State's financial statements. NDF does not have an effective process to identify, track, invoice, and collect amounts due the State. Increased oversight of the fire suppression accounting functions will help ensure appropriate funding and help improve state budgeting decisions.

Improvements are needed over accounting and budgeting for NDF's emergency fire expenditures. Current budgeting and accounting methods comingle Nevada's in-state fire suppression costs with costs incurred by Nevada resources assisting with out-of-state fires. Furthermore, the current budgeting formula, established by the Legislature to better understand NDF's funding needs, also comingles Nevada's in-state fire costs with costs of assisting in out-of-state jurisdictions. Finally, the 5-year budgeting formula is not consistently calculated by agencies who help prepare the budget and supporting documentation was not maintained by NDF. An effective budgeting process is necessary to ensure sufficient funds are available to respond to emergencies and efficiently allocate General Fund dollars.

NDF did not sufficiently review WFPP cooperator and other state agency invoices to detect billing errors. In addition, NDF's data on fire incidents was inaccurate and incomplete. Error free invoicing and data is necessary to ensure the accurate accounting of fire costs, to help ensure Nevada is fully reimbursed for its costs to fight fires in out-of-state jurisdictions, and only paying its share of cost-share fire expenditures.

Key Findings

NDF did not bill reimbursable fire suppression expenditures for out-of-state fires. We calculated over \$32 million in reimbursable expenditures that were not billed from responding to other state fire incidents between 2020 and 2024. Specifically, NDF paid WFPP cooperators, but did not bill over \$22.8 million for reimbursements related to 166 fully reimbursable incidents that occurred between fiscal years 2020 and 2023. We calculated another \$1.2 million in NDF personnel and equipment costs were not billed for the same incidents. Finally, over \$7.3 million in additional reimbursable expenditures paid to WFPP cooperators in fiscal year 2024 was not billed for reimbursement. (pages 7 - 8)

For some out-of-state fire incidents that NDF billed, we observed the invoices contained errors or did not include all allowable costs. Specifically, 3 of 15 (20%) invoices sampled were not billed accurately, resulting in an underpayment of over \$542,000 to NDF. Over the 4-year audit period, NDF submitted 11 separate requests for IFC contingency funds, totaling over \$44 million. (pages 9 - 10)

NDF did not accurately record accounts receivable for reporting purposes in the State's financial statements. Accounts receivables were not properly recorded because NDF has not developed a proper aging schedule to track amounts due. We estimate NDF should have reported over \$20 million of additional receivables for fiscal year 2023. This would have had an impact on the State's annual financial statements had our audit not identified the error. (page 11)

The current budget formula used to calculate NDF's biennial authority to pay fire suppression expenditures combines in-state fire costs for Nevada with out-of-state fire suppression costs. Comingling these fire suppression costs does not provide a clear understanding of NDF's funding needs to suppress fires within Nevada. (page 14)

The review of cooperator invoices was inadequate. Our testing identified undetected errors resulting in NDF overpaying cooperators and a partnering state agency about \$285,000. (page 19)

Cost-share fire documentation was not properly reviewed to ensure NDF paid the appropriate costs. We identified four of nine (44%) final adjudicated cost-share amounts billed by NDF were incorrectly calculated, resulting in NDF underbilling other jurisdictions by approximately \$614,000. (page 21)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Conservation and Natural Resources, Nevada Division of Forestry, Forest Fire Suppression Budget Account. This audit was required of the Legislative Auditor by Senate Bill 480 (Chapter 334, Statutes of Nevada 2023). The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 13 recommendations to ensure forest fire suppression expenditures are tracked and reimbursed timely, budgeting practices improve, and cooperator payments are accurate. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

January 2, 2025
Carson City, Nevada

Nevada Division of Forestry Forest Fire Suppression Budget Account

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Introduction

Background

The mission of the Nevada Division of Forestry (NDF) is to protect and enhance Nevada's ecosystems and communities through natural resource stewardship and wildfire management. NDF is responsible for the supervision and coordination of all forestry and watershed work on state and private lands in Nevada, including fire control. The Forest Fire Suppression Program covers expenses necessary for the protection of life, property, and natural resources from fire, flood, and other disasters and emergencies; and for forest health and watershed management required as a result of fire or other emergencies.

Different types of fire suppression activities incur costs for the State, but many are reimbursable depending on the incident type. Determining the financial responsibility of incident costs is often complex and dependent on the type of incident and the other entities involved. The following is a brief summary of incident types:

- **In-State Jurisdiction Fires:** A fire that occurs solely on Nevada, private, or a Wildland Fire Protection Program (WFPP) cooperator's land, which includes local governments. All costs are the responsibility of NDF.
- **Out-of-State Off Jurisdiction Fires (Out-of-State):** A fire that does not start or spread onto Nevada land; costs are fully reimbursable and can have the fastest turnaround for reimbursement. Incurred costs come from NDF or WFPP cooperator resources engaged to provide services on these fires. Cost reimbursement comes from the state where the fire is located, the U.S. Forest Service, the Bureau of Land Management, or other federal agencies.
- **Cost-Share Fires:** A fire that starts on Nevada land, or spreads onto Nevada land, where more than one entity is

responsible for protecting the land; costs are normally split based on the percentage of burned acreage, but other methods, such as percentage of effort, could be agreed upon between the parties involved. The entity who has jurisdiction over the land where the fire started has primary responsibility to pay suppression costs before the cost-sharing is finalized. Due to their complexity, cost-share fires generally take the longest time to finalize.

- **Stafford Act Responses:** If a fire poses a direct threat to life and structures, a request through the Federal Emergency Management Agency (FEMA) for a Fire Management Assistance Grant (FMAG) is made at the time of the fire. This grant provides assistance of up to 75% of Nevada's expenditures for a fire within its jurisdiction, including Nevada's amounts owed on a cost-share fire. Only specific suppression costs are covered under a FMAG and approval does not guarantee 75% of all costs will be reimbursed.

In the last 5 fiscal years, 2019 had the most burned acreage in Nevada, and the last 2 fiscal years had the lowest number of acres burned. Exhibit 1 shows the acreage burned within the State of Nevada over the last 5 fiscal years.

**Nevada Acreage Burned
Fiscal Years 2019 through 2023**

Exhibit 1

Fiscal Year	Burned Acreage in Nevada
2019	1,060,343
2020	137,243
2021	220,895
2022	30,283
2023	53,525
Total	1,502,289

Source: Auditor prepared based on the Wildland Fire Incident Locations report published by the National Interagency Fire Center.

Budget

The Forest Fire Suppression budget account is funded with General Fund appropriations, county receipts, and reimbursements from the federal government and other states.

The budget account currently comingles the accounting activities associated with fire suppression on Nevada lands and where Nevada provides fire suppression assistance to others on lands outside of the State's financial responsibility. While the costs associated with out-of-state responses are recorded in the Forest Fire Suppression budget account, they are ultimately not NDF's responsibility. NDF bills the jurisdiction responsible for reimbursing the costs. According to NDF, it upgraded its fire billing system in 2022 and began using the system to track and process fire billings in fiscal year 2023.

When the volume or severity of fire incidents results in insufficient funds in this budget account, funding can be requested from the State Board of Examiners' Reserve for Statutory Contingency Account (Nevada Revised Statutes [NRS] 353.264), with additional funding available from the Interim Finance Committee's Contingency Account (NRS 353.266). During the 2023 Legislative Session, NDF requested a supplemental General Fund appropriation for a projected cash shortfall for wildland fire response expenditures. NDF indicated the cash shortfall resulted from delays in reimbursement collections. The Legislature appropriated \$14.9 million to NDF under Senate Bill 480.

In fiscal year 2023, NDF had five budget accounts with revenues and expenditures of \$49.2 million. The Forest Fire Suppression budget account included about 45% of NDF's total expenditures. During the 2023 Legislative Session, the WFPP budget account was eliminated with reserves and participation revenues moved to the Forest Fire Suppression budget account and personnel costs moved to NDF's administration budget account. Exhibit 2 shows NDF's revenues and expenditures over the last 6 fiscal years for the Forest Fire Suppression budget account.

Revenues and Expenditures for the Forest Fire Suppression Budget Account Exhibit 2
Fiscal Years 2019 through 2024

Revenues	2019	2020	2021	2022	2023	2024
Beginning Cash ⁽¹⁾	\$ 1,943,120	\$ 1,871,233	\$ 873,767	\$ 795,153	\$ 886,446	\$ 3,702,059
State Appropriations ⁽²⁾	-	4,291,199	5,847,527	4,439,179	19,403,006	2,494,792
Federal Funds	618,247	257,756	79,796	422,952	-	-
Fire Reimbursements	6,889,618	7,334,458	3,229,154	1,021,548	3,758,878	961,922
Other Revenues ⁽³⁾	527,263	18,499	29,763	39,827	38,291	1,886,272
Transfers from Interim Finance Committee	10,930,180	7,990,924	4,544,504	15,366,864	-	6,404,612
Total Revenues	\$20,908,428	\$21,764,069	\$14,604,511	\$22,085,523	\$24,086,621	\$15,449,657
Expenditures						
Personnel	\$ 2,614,280	\$ 1,937,755	\$ 1,894,635	\$ 1,772,353	\$ 1,179,173	\$ 1,919,613
Fire Related Suppression Costs	14,412,318	18,854,377	11,859,405	19,405,284	20,945,409	13,524,645
Non-Fire Expense	1,880	-	3,791	-	4,512	-
State Cost Allocations and Assessments	21,261	20,812	42,425	21,440	15,411	5,399
Total Expenditures	\$ 17,049,739	\$20,812,944	\$13,800,256	\$21,199,077	\$22,144,505	\$15,449,657
Differences	\$ 3,858,689	\$ 951,125	\$ 804,255	\$ 886,446	\$ 1,942,116	-
Less: Reversions to General Fund	-	(5,555)	(9,102)	-	-	-
Less: Reversions to Interim Finance Committee	(1,987,456)	(71,803)	-	-	-	-
Balance Forward to Next Fiscal Year	\$ 1,871,233	\$ 873,767	\$ 795,153	\$ 886,446	\$ 1,942,116	-

Source: State accounting system.

- (1) Beginning cash in fiscal year 2024 includes the Wildland Fire Protection Program budget account's reversion of \$1,759,943.
- (2) Includes supplemental appropriations and transfers within budget account categories: fiscal year 2021 - \$2,359,168; fiscal year 2023 - \$14,967,394; and fiscal year 2024 - \$1,477,500.
- (3) Other Revenues include other reimbursements, county participation funds, rebates, and interagency transfers.

Staffing

As of June 30, 2024, NDF had 205 filled positions, with 19 percent of those filled positions being seasonal firefighting positions.

NDF's offices are located in Carson City, Clark, Douglas, Elko, Humboldt, Lincoln, Nye and White Pine counties. NDF's administrative office is located in Carson City.

NDF is staffed with 14 accounting positions, including an Administrative Services Officer 4 and Administrative Services Officer 1. Within the 14 accounting positions are 6 staff assigned to NDF's Incident Business Unit (IBU). The IBU has the primary responsibility for processing fire incident billings and invoices for reimbursements. The IBU has experienced significant turnover in these six positions.

Scope and Objective

This audit was required by Senate Bill 480 (Chapter 334, Statutes of Nevada 2023), included in Appendix A, and was conducted pursuant to the provisions of NRS 218G.010 to 218G.350. The scope of our audit focused on billing and administrative functions during fiscal years 2019 through 2024, with some analysis from prior years. Our audit objective was to:

- Evaluate NDF's billing, collection, and payment practices for the Forest Fire Suppression budget account.

The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Forest Fire Suppression Account Lacks Proper Oversight

A lack of proper oversight resulted in the Nevada Division of Forestry (NDF) requesting more supplemental funding than was necessary to support fire suppression activities in the Forest Fire Suppression budget account. Specifically, millions of dollars in fully reimbursable out-of-state fire incident expenditures were not billed. NDF has started seeking reimbursement for some of these unbilled incidents. When NDF fails to submit reimbursement requests, money due the State is not collected and supplemental funding must be requested. In addition, accounts receivable amounts were not accurately recorded, which impacts the State's financial statements. NDF does not have an effective process to identify, track, invoice, and collect amounts due the State. Increased oversight of the fire suppression accounting functions will help ensure appropriate funding and help improve state budgeting decisions.

Exhibit 3 shows a summary of the uncollected out-of-state fire expenditures by error type.

Unbilled Out-of-State Fire Expenditures for Reimbursement to NDF Exhibit 3 As of June 30, 2024

Fire Incident Expenditures Unbilled	Amount	Report Page
Fiscal Years 2021 – 2023:		
WFPP Cooperator Expenditures Unbilled	\$ 22,859,127	7
NDF Expenditures Unbilled	1,236,468	7
NDF Processing Fees on Invoices Unbilled	399,104	9
Fiscal Year 2024:		
WFPP Cooperator Expenditures Unbilled	7,321,863	7
NDF Processing Fees on Invoices Unbilled	241,621	8
Total Amount Unbilled	\$ 32,058,183	
Under Billing From Invoicing Errors	\$ 542,555	9
Total Unbilled/Underbilled	\$ 32,600,738	

Source: Auditor testing of NDF records and the state accounting system.

Out-of-State Fire Incident Expenditures Not Billed

NDF did not bill reimbursable fire suppression expenditures for out-of-state fires. We calculated over \$32 million in reimbursable expenditures that have not been billed from responding to other state fire incidents that occurred during fiscal years 2020 through 2024. Our testing also identified errors on the few invoices NDF sent that caused it to underbill for out-of-state fire incidents. In addition, unsent invoices did not include the allowed invoice processing fee for fiscal year 2023 fire incidents. Invoicing did not occur because NDF does not have an effective process to identify and prioritize the collection of these reimbursable costs. Timely billing of reimbursable out-of-state fire expenditures is important because these costs are initially paid from General Fund dollars before collecting reimbursement from other jurisdictions. Unreimbursed payments to fight out-of-state fires amounted to more dollars than what was needed to cover the costs to suppress in-state fire incidents in fiscal year 2023. Delaying the collection of out-of-state fire expenditures prevents Nevada's funds from being directed towards other needs.

Invoices Not Sent for Fully Reimbursable Fire Expenditures

In our sample of 168 fire incidents, we found NDF did not send invoices for 166 out-of-state fully reimbursable incidents that occurred between fiscal years 2020 and 2023. In total over \$22.8 million in fully reimbursable fire suppression expenditures were paid by NDF to its Wildland Fire Protection Program (WFPP) cooperators from July 1, 2020 through March 5, 2024, but were not invoiced for reimbursement.

NDF also did not seek reimbursement from responsible jurisdictions for its own costs of fighting out-of-state fires. We calculated NDF's reimbursable personnel and equipment expenditures were approximately \$1.2 million for the 166 incidents that occurred between fiscal years 2020 and 2023.

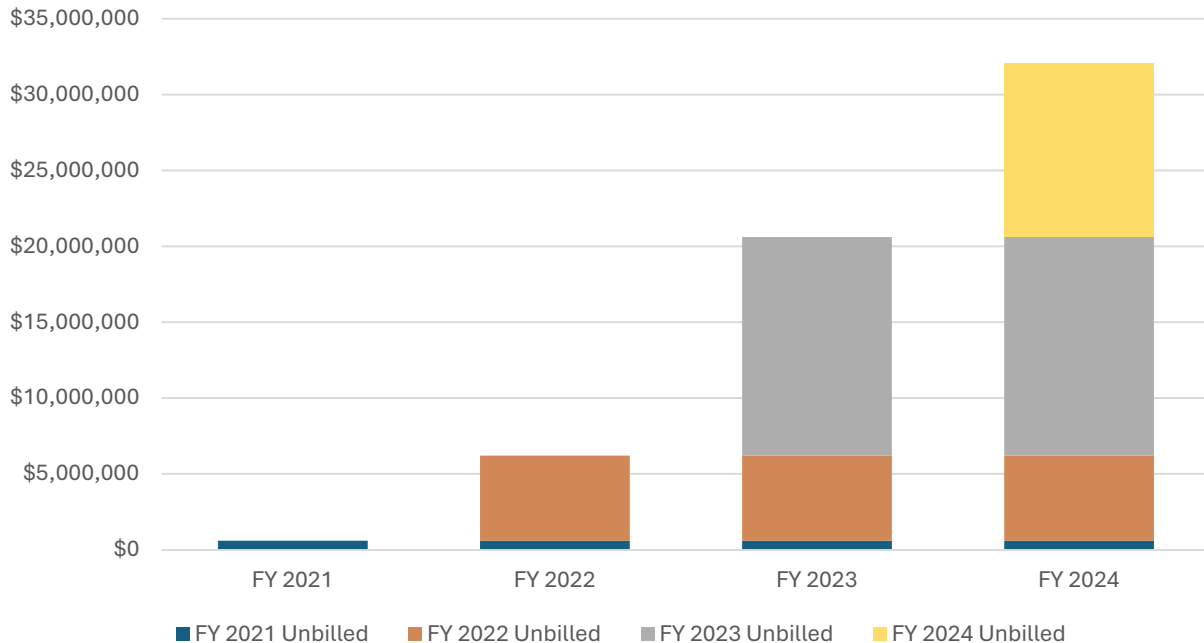
Moreover, in fiscal year 2024, we identified over \$7.3 million of additional expenditures, paid by NDF to WFPP cooperators, recorded in the state accounting system. As of October 2024, NDF had not billed to be reimbursed for these expenditures. These 2024 expenditures are in addition to those mentioned above for the 166 incidents. Further, NDF could bill more than \$240,000 in invoice processing fees for these expenditures. The

\$7.3 million does not include any reimbursable expenditures incurred by NDF for staff and equipment used in assisting with out-of-state fires. Additionally, throughout our audit period, there may be additional reimbursable expenditures we have not identified due to poor recordkeeping practices by NDF.

Exhibit 4 shows the accumulated unreimbursed out-of-state fire expenditures during our audit period and associated unbilled invoice processing fees.

Auditor Calculated Cumulative Unbilled Reimbursements for Out-of-State Fire Incidents July 1, 2020 through June 30, 2024

Exhibit 4



Source: Auditor analysis using NDF records and the state accounting system.

WFPP cooperators are local fire districts who respond to emergencies within the State of Nevada and include Emergency Medical Technicians and structural firefighters, but also hold additional certifications for fighting wildland fires. Currently, NDF has cooperative agreements in place with 32 WFPP cooperators. Those 32 cooperators are also allowed to respond to another state's fire under the Master Cooperative Agreement between NDF and the Federal Government or under NDF's agreements

with other states. When a WFPP cooperator assists another state or federal partner with an out-of-state incident, the cooperator submits their expenditures to NDF. NDF then pays the cooperator and bills the applicable out-of-state government entities. See Appendix B for the WFPP cooperators for the 2023 – 2025 biennium.

Some Invoices Contained Errors and Processing Fees Not Collected

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

In addition, NDF did not bill a 3.3% invoice processing fee that would have been in effect for all 72 incidents not invoiced during fiscal year 2023. After we brought the issue of not billing to management's attention, NDF began sending out invoices. As of June 2024, NDF invoiced 5 of the 72 incidents and included the 3.3% invoicing fee. Once all 2023 fire incidents are properly billed, we estimate \$399,000 in invoicing fees can be collected.

Out-of-state expenditures were not invoiced for reimbursement because NDF did not have effective procedures for tracking these costs. Additionally, staff indicated they were not aware out-of-state incidents could be billed for expenditures of less than \$5,000. However, there is not a minimum threshold for invoicing an out-of-state fire.

Uncollected Out-of-State Fire Expenditures Inflated Supplemental Funding Needs of NDF

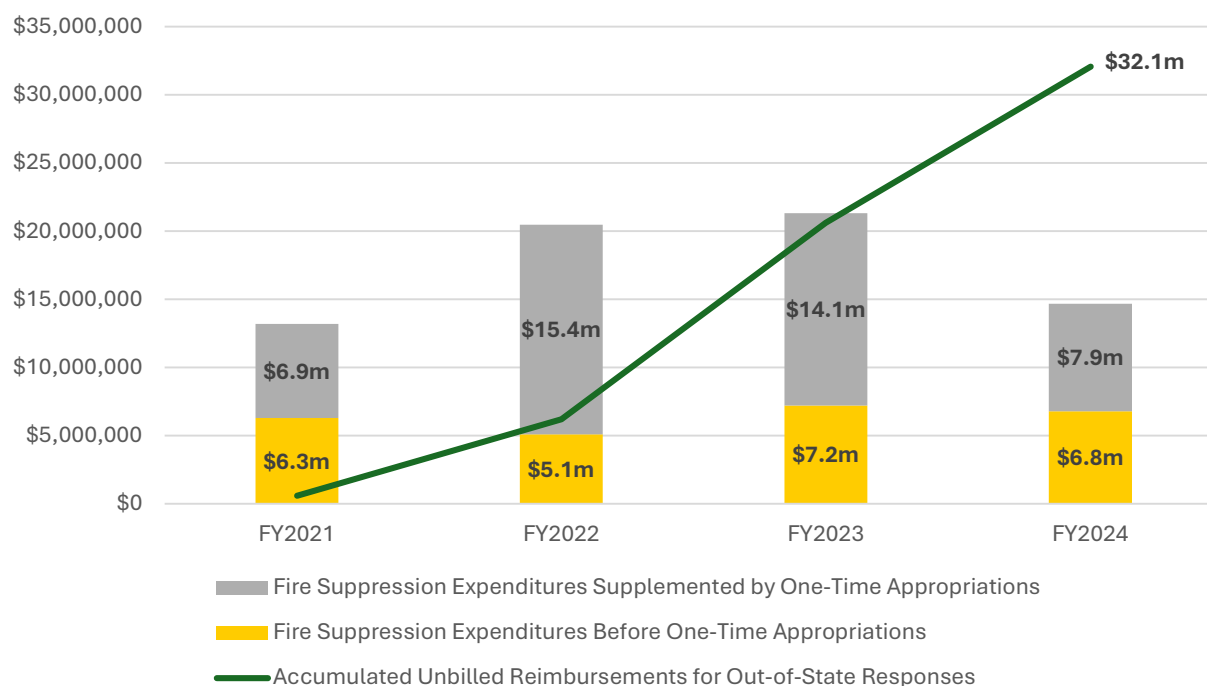
According to NDF management, out-of-state incidents can have the fastest turnaround for payment. Our review of selected billings confirmed these reimbursement payments to NDF were generally made timely. No lengthy cost-share adjudication or FEMA approval wait times are necessary, as NDF and WFPP cooperators' staff and equipment sent out-of-state are considered assets for hire and expenditures paid are fully reimbursable. Assisting in other states' incidents while Nevada is having a slow

fire season allows firefighters to receive necessary training, maintain credentials, and will likely encourage other states to assist Nevada when needed. However, if NDF does not seek reimbursement timely from the appropriate state or federal agencies, NDF can experience budget shortfalls. See Appendix C for incident locations and costs corresponding to NDF and WFPP cooperator out-of-state unbilled responses for fiscal years 2021 to 2024.

Between fiscal years 2021 and 2024, NDF submitted 11 separate requests for supplemental funding from the Interim Finance Committee (IFC) or the Legislature due to budget shortfalls in the Forest Fire Suppression budget account, totaling over \$44 million. Exhibit 5 shows 4 fiscal years of forest fire suppression expenditures, one-time appropriations, and the accumulated unbilled reimbursements for out-of-state fire incidents found during our audit period.

**Total Forest Fire Suppression Expenditures and
Accumulated Unbilled Reimbursements for
Out-of-State Incidents
July 1, 2020 through June 30, 2024**

Exhibit 5



Source: Auditor analysis using NDF records, state accounting system, and legislative documents.

Note: Total fire suppression expenditures do not include inter-agency transfers or state assessments.

**Controls Needed
to Ensure
Accounts
Receivable Are
Accurately
Recorded in the
State's Financial
Statements**

NDF did not accurately record accounts receivable for reporting purposes in the State's financial statements. We calculated NDF underreported its fiscal year 2023 receivables for the Forest Fire Suppression budget account by about \$20 million. Receivables were under reported because NDF did not follow Generally Accepted Accounting Principles (GAAP) regarding the recognition of the out-of-state reimbursable fire costs. Additionally, NDF has not developed a proper aging schedule to track amounts due. Proper recording and reporting of accounts receivable is important to ensure the State's financial statements are accurate. In addition, an accurate accounts receivable will help management and decision-makers understand fire suppression billing activities and problems.

Potential Impact on the State's Annual Financial Statements

NDF reported about \$760,000 in receivables to the State Controller's Office for fiscal year 2023 for inclusion in the State's Annual Comprehensive Financial Report. However, based on the 166 reimbursable out-of-state incidents that had payments posted in the state accounting system between fiscal years 2021 through 2023, we estimate an accumulated total of over \$20 million in additional receivables should have been reported. This would have had an impact on the State's annual financial statements had we not identified the error. The following is a breakdown of the accumulated account receivable amounts that should have been reported by fiscal year:

- Fiscal Year 2021 - \$601,604;
- Fiscal Year 2022 - \$6,202,472; and
- Fiscal Year 2023 - \$20,308,266

Accounts receivable amounts were not accurate because NDF did not record reimbursable amounts paid for out-of-state incidents as receivables when NDF's obligation was met. NDF's obligation for an out-of-state fire is met after confirming a WFPP cooperator's invoice is valid or when NDF staff and equipment costs are known. NDF currently records a receivable when the invoice is sent for reimbursement to the out-of-state jurisdiction. However, according to GAAP and the State Controller's Office policies and procedures, a receivable should be recognized as revenue as soon as it is earned. Additionally, if a service is performed on or before June 30 and payment is not received, a receivable is created as of June 30 regardless of the invoice billing date.

In addition, NDF has not developed a proper accounts receivable aging report. An accounts receivable aging report will help NDF know which states or federal partners owe them money and how long the money is past due. Prior to its new fire billing system, NDF was not creating an accurate aging of accounts receivable. The logs used to track fire expenditures were not accurate or complete and invoicing was not performed consistently. The new system has an accounts receivable aging report available, but it is aging based on when the invoice is created in the new billing system, which conflicts with GAAP.

The State Controller's Office policies and procedures state that agencies should maintain an accounts receivable subsidiary ledger to facilitate tracking the amounts billed, collected, and outstanding on customer accounts, and should be updated and reviewed by management at least monthly. To identify any overdue balances, an aged receivables trial balance of the accounts receivable subsidiary ledger shall also be maintained, and this aged trial balance should be reviewed monthly by supervisory personnel.

The State's financial statements are relied on by state managers, creditors, grantors, and others to evaluate the financial condition of the State. Accurate financial statements are important for providing management and external stakeholders with quality information so proper decisions can be made towards achieving the State's objectives.

Recommendations

1. Promptly invoice all outstanding out-of-state fire incident reimbursable expenditures and processing fees.
2. Develop procedures to track, prioritize, and bill all reimbursable out-of-state incident expenditures and ensure these incidents are billed timely.
3. Develop and implement policies and procedures for the timely recording and reporting of accounts receivable for reimbursable fires in accordance with state policy and Generally Accepted Accounting Principles.
4. Accurately track accounts receivable by maintaining an accounts receivable aging schedule and include supervisory review over the accounts receivable tracking and reporting process.

Budgeting for Fire Suppression Expenditures Needs Improvement

Improvements are needed over accounting and budgeting for NDF's emergency fire expenditures. Current accounting and budgeting methods comingle Nevada's in-state fire suppression costs with costs incurred by Nevada resources assisting with out-of-state fires. Furthermore, the current budgeting formula, established by the Legislature to better understand NDF's funding needs, also comingles Nevada's in-state fire costs with costs of assisting with out-of-state jurisdictions. Finally, the 5-year budgeting formula was not consistently calculated by agencies who help prepare the budget and supporting documentation was not maintained by NDF. An effective budgeting process is necessary to ensure sufficient funds are available to respond to emergencies and efficiently allocate General Fund dollars.

Comingled Fire Costs Reduce Transparency

The current budget formula used to calculate NDF's biennial authorized fire suppression expenditures combines in-state fire costs for Nevada with out-of-state fire suppression costs. Comingling these fire suppression costs does not provide a clear understanding of NDF's funding needs to suppress fires within Nevada. For example, in fiscal year 2023, NDF's estimated funding needs were inflated by at least \$14.1 million, as uncollected out-of-state fire costs were included. A separate accounting of different fire suppression costs would help clarify NDF's budget needs and help identify any deficiencies in its collection practices for fully reimbursable out-of-state fire costs. Proper budgeting for NDF's fire costs is important to ensure the efficient use of Nevada's funds.

Account Restructure Needed to Track Comingled Funds

Restructuring how different fire expenditure types are accounted for in the state accounting system will help NDF and decision-makers identify NDF's funding needs. The current account structure for fire suppression does not separate reimbursable and non-reimbursable expenditures, reducing transparency to the Legislature for what fires in Nevada cost versus what reimbursable fires in another state cost. Currently, NDF uses one budget account for all fire suppression expenditures.

In fiscal year 2023, 100% of the reimbursement revenues collected and 98% of the expenditures were not coded in the state accounting system in a manner that would help identify their source. Best practices from the Government Finance Officers Association indicate the key to monitoring revenues and expenditures is a clear accounting of their associated activities. A clear accounting of NDF's fire suppression activities can be accomplished either by separating these activities into different budget accounts or using different revenue codes, expenditure categories, and job codes within the current budget account. Although either method can be used, maintaining different fire suppression costs and their associated revenues within the same budget account has proven difficult for NDF staff.

The lack of a clear separation of different fire revenues and expenditures contributed to the inability of NDF's staff and decision-makers to identify the cause of NDF's budget problems. For example, during a 2023 Interim Finance Committee (IFC) meeting, Legislators requested a walkthrough of the reimbursement process and the amount NDF expected to collect during the rest of the fiscal year. NDF management indicated the budget account recording these activities was complicated with many different reimbursements and expenditures. Further, during a Senate Finance Committee meeting in 2023, Legislators again expressed concerns regarding when reimbursements would catch up to expenditures. Management testified NDF was partway through issuing bills for fiscal year 2023. However, our audit found, and NDF management confirmed, none of the fiscal year 2023 billings were processed.

Comingling fully reimbursable out-of-state fire costs with the fire suppression costs associated with fires within Nevada's jurisdiction does not provide NDF staff and decision-makers with a clear understanding of what funding is needed to properly protect the State from wildfires. Between fiscal years 2021 and 2023, NDF requested a total of \$36.3 million in supplemental appropriations from IFC. We identified a total backlog of unbilled out-of-state fire expenditures of \$20.3 million for that same period. The unbilled out-of-state expenditures are not the ultimate responsibility of Nevada financially; however, they are recorded in the same budget account as fire suppression costs which are Nevada's responsibility. The \$20.3 million of out-of-state expenditures equaled about 57% of the supplemental appropriations in the budget account. Separating these costs would provide a clear picture of the actual fire suppression costs in Nevada and the cause of any budget shortfalls.

Budget Formula Should Account for Out-of-State Fire Expenditures Separately

Changes to the formula used to calculate NDF's funding needs are necessary to accurately reflect Nevada's firefighting costs. Specifically, costs incurred from NDF and its WFPP cooperators assisting with out-of-state fires should be removed from the formula and tracked separately from in-state cost-share and FMAG fires. The out-of-state fire costs should be eliminated because they are fully reimbursable by other jurisdictions and do not deplete Nevada General Fund dollars once reimbursed.

The budget formula determines General Fund dollars after accounting for expected reimbursements, which is found by taking a 5-year average of actual reimbursements received. However, our testing revealed that NDF's invoicing and collecting for fully reimbursable incidents was not done consistently from fiscal years 2021 to 2024. Due to the delay in NDF collecting reimbursements, the expenditures do not align with the reimbursements. This delay has increased NDF's funding needs in recent fiscal years due to the lack of collection from responsible jurisdictions.

Agencies Used Different Methodologies When Applying Budget Formula

The budget formula adopted during the 2019 Legislative Session has not been consistently applied between biennia by NDF and other agencies involved with calculating the forest fire suppression budget. The intent of calculating the 5-year average budget was to develop more accurate funding for NDF. However, inconsistent calculation of the average between responsible parties inhibits this goal.

NDF, the Governor's Finance Office (GFO), and the Legislative Counsel Bureau (LCB) each calculated their own 5-year fire expenditure averages. Each entity calculated a different amount needed to fund NDF's operations for the fiscal years 2024 and 2025 biennium.

Although we were able to review the LCB's methodology, we could not compare it to the methodology used by NDF. When we requested supporting documentation for NDF's calculation, the agency was unable to provide it. Furthermore, NDF did not have supporting documentation for its budget calculations related to the past three budget cycles.

Maintaining supporting documentation and standardizing the methodology for calculating NDF's future fire suppression expenditure needs will help the agency and decision-makers during the budgeting process. Furthermore, it will help determine if the methodology used is appropriate, or if it needs to be adjusted to properly fund fire suppression costs.

Recommendations

5. Separately track in the state accounting system fully reimbursable out-of-state fire costs from fire suppression costs where NDF is fully or partially responsible. Consider placing reimbursable out-of-state costs in a separate budget account.
6. Seek funding for fully reimbursable out-of-state fire suppression costs separately based on a mutually agreeable formula, with LCB Fiscal and the GFO, that provides for NDF's short-term cash flow needs while also accounting for timely reimbursements.
7. Routinely reconcile an aged accounts receivable listing of out-of-state reimbursable costs, agreeing what was

paid, invoiced, and reimbursed to amounts recorded in the state accounting system.

8. Revise the 5-year average budget calculation to remove fully reimbursable out-of-state transactions and reconcile this revised 5-year Nevada jurisdiction average fire suppression cost calculation with the GFO to arrive at a mutually agreed upon funding amount.
9. Formally document the process for calculating the 5-year out-of-state and Nevada jurisdiction average budget amounts and maintain supporting documentation.

Fire Bills Not Processed Accurately

NDF did not sufficiently review WFPP cooperator and other state agency invoices to detect billing errors. In addition, NDF's data on fire incidents was inaccurate and incomplete. Error-free invoicing and data is necessary to help ensure Nevada is fully reimbursed for its costs to fight fires and only paying its share of fire expenditures.

Enhanced Review of Invoices Needed

NDF needs to enhance its invoice review practices to ensure amounts charged on invoices are accurate and reasonable. We found NDF paid some WFPP cooperators' and a partnering state agency's invoices which contained mathematical and other errors. Our testing identified undetected errors resulting in NDF overpaying cooperators and a partnering state agency by about \$285,000 for fire suppression services. If cooperators and partnering agency billed costs are not accurate, there is an increased risk they will be rejected by the reimbursing jurisdiction, further delaying the timely collection of NDF expenditures.

Errors in WFPP Cooperator and Partnering State Agency Invoices Not Identified by NDF

NDF does not have an effective review process for identifying errors in WFPP cooperator invoices. In fiscal year 2022, we tested 10 invoices and found errors in 3 (30%), resulting in an accumulated overpayment of \$107,000. Similarly, in fiscal year 2023, we tested 10 invoices and found NDF paid 3 (30%) that were not billed accurately by the cooperator. The accumulated errors for these 3 invoices resulted in an overpayment of about \$143,000. In fiscal year 2024, we sampled 10 cooperator invoices and found all tied to supporting documentation and were free of mathematical errors. Overall, we identified about \$250,000 in unidentified errors in our sample.

We also found a partnering state agency's personnel rate calculations contained mathematical errors in invoices billed to NDF for fiscal years 2021 through 2023. Approximately \$34,000 was overpaid by NDF on all 15 invoices tested. A total of 122 invoices were billed by the state agency for the 3 fiscal years tested. The Master Cooperative Agreement between NDF and federal agencies states parties to the agreement must have effective internal controls. Strong internal controls are needed to ensure the accuracy and validity of billings.

WFPP Cooperator Billing Rates Not Reviewed for Reasonableness

Our testing revealed that some WFPP cooperators may be billing NDF for more than their actual costs incurred in fighting wildland fires, which is not allowed. For example, one cooperator in fiscal year 2022 charged an administrative processing fee of 15% of their total invoice charges. This resulted in NDF paying an administrative fee of \$49,000 for one invoice. In contrast, another cooperator charged a flat administrative fee of \$300 per invoice and others charged no fee. In addition, we also found cooperators charged different rates for similar pieces of fire equipment. However, we did not see evidence of NDF requesting any supporting documentation for the cooperators' rate calculations. Exhibit 6 below shows some examples of variations in administrative fees charged by WFPP cooperators.

**Examples of Variations in Administrative Fees
Charged by WFPP Cooperators to NDF
Fiscal Years 2022 to 2024**

Exhibit 6

Fiscal Year	WFPP #1	WFPP #2	WFPP #3	WFPP #4
FY 2022	NONE	NONE	15% of Total Invoice ⁽¹⁾	\$300 Flat Rate
FY 2023	\$32.00 per hour	NONE	\$45.05 per hour	\$22.51 per hour
FY 2024	\$66.94 per hour	NONE	\$80.07 per hour	\$99.92 per hour

Source: Auditor testing of WFPP cooperator invoices; WFPP cooperators are different for each fiscal year.

⁽¹⁾ The 15% processing fee on the total invoice amount resulted in this cooperator charging \$49,000 to process one invoice.

Although different rates are allowed, large variations in rates need further review by NDF to ensure charges are reasonable. For example, in fiscal year 2023, a Type 2 Water Tender was billed at \$5,088 per day by one WFPP cooperator and \$1,192 per day by another. We recognize there could be valid reasons for the large differences in equipment rates, such as one piece of equipment being newer than the other. However, NDF currently does not verify that a cooperator's rates are based on a reasonable calculation of actual costs. Starting in 2023, WFPP cooperators entered their billing rates into NDF's computerized fire billing system themselves, and no supporting calculations are required for their rates. Although NDF does request the cooperators provide documentation of their governing board's approval of their billing rates, no additional support is required to confirm actual costs.

**Cost-Share Fire
Calculations Not
Adequately
Reviewed**

NDF did not properly review cost-share fire documentation to ensure they paid the appropriate costs. Our testing included nine federal and other state cooperator invoices paid for Nevada cost-share fires in fiscal years 2021 through 2023. We found four of nine (44%) final adjudicated cost share amounts were incorrectly calculated by NDF. Based on our testing, we estimate NDF underbilled other jurisdictions by approximately \$614,000. These issues occurred because NDF does not have strong internal controls over reviews of cost-share fire invoices to ensure all allowable costs were included.

A cost-share fire occurs when the fire spreads across lands which are the responsibility of more than one jurisdiction. For these incidents, the fire suppression costs incurred are allocated among the multiple jurisdictions involved. The most common method to allocate costs for a cost-share fire is based on the percentage of burned acreage. NDF will calculate their total expenditures paid for the incident and will either be invoiced by the other parties involved for not paying enough or will receive a credit for overpaying based on NDF's burned acreage allocation.

Review of Dispatch Records Could Help Identify Missing Vendor Invoices

A lack of strong internal controls for reviewing these types of incidents, including the use of available tools to reconcile resources used to bill costs, contributed to errors noted above. Specifically, NDF does not review dispatch records for a cost-share fire and reconcile the resources used on the fire to the bills it paid for those resources. This reconciliation would help ensure all expenditures are captured in NDF's total costs and help identify any invoices not sent by other parties. For example, while testing the timeliness of invoice submissions from a vendor, we identified an invoice of over \$195,000 for a cost-share fire was submitted about 500 days after the final cost-share adjudication. This delay in receiving the invoice impacted the final cost-share amounts.

NDF management indicated they are working with their federal partners to re-adjudicate these cost-share fire amounts based on the information we discovered during the audit. However, without strong policies and procedures over reviews of cost-share invoices, NDF may not identify and submit supplemental bills on a closed cost-share fire if late invoices are received and paid after final adjudication, potentially losing money due to the State.

Inaccurate Fire Incident Records

NDF needs to improve the accuracy of its fire incident data. Accurate incident data is important for proper tracking, billing, and collection of fire suppression costs. During our audit period, NDF maintained fire incident data in three locations. At the beginning of our audit, NDF maintained data in spreadsheets called incident logs. At the end of the audit, the spreadsheet logs were replaced with NDF's new computerized billing system. Finally, throughout

our audit period, NDF used the state accounting system to record information regarding revenues and incident costs. Our audit testing revealed the following data errors in each area NDF recorded incident data:

- **NDF Incident Logs:** Logs contained errors such as duplicate amounts and inaccurate incident location data. Additionally, the logs were incomplete. Our audit identified 47 incidents with expenditures recorded in the state accounting system that were not listed on the logs.
- **Computerized Fire Billing System:** NDF overbilled the federal government by about \$25,000 on four invoices we reviewed. The overbilling resulted from clerical errors such as improperly including voided and duplicate payments in the bills.
- **State Accounting System:** Fuels costs were not consistently recorded to specific incidents in the state accounting system. In addition, incident names and identifying incident numbers contained typos.

NDF confirmed the new computerized fire billing system does not detect or prevent duplicated amounts on invoices. Additionally, the invoices created out of the fire billing system did not contain an administrator's signature evidencing review of the bills before they had been sent for payment. Without strong controls over tracking and reporting incident costs and over invoice reviews, NDF management will not have accurate and complete financial and incident data to monitor the agency's operations.

Recommendations

10. Improve internal controls over reviews of cooperator and state agency invoices to ensure amounts are accurate, appear reasonable, and agree to supporting documentation.
11. Develop policies and procedures for processing cost-share fire invoices, which include supervisory review and reconciling expenditures paid to the incident's dispatch

record, or other available resources, to ensure all applicable amounts paid are included in NDF's total costs; and submitting supplemental bills when necessary.

12. Develop policies and procedures to ensure accurate incident records are maintained in the computerized fire billing system, including supervisory reviews of bills and invoices entered into the system before amounts are paid or are sent for reimbursement.
13. Enhance policies and procedures to define how incidents should be recorded in the computerized fire billing system and in the state accounting system to improve accuracy and reliability of incident cost data.

Appendix A

Senate Bill 480, Chapter 334 From the 2023 Legislative Session

Senate Bill No. 480—Committee on Finance

CHAPTER.....

AN ACT relating to the Division of Forestry of the State Department of Conservation and Natural Resources; requiring the Legislative Auditor to conduct an audit related to the Forest Fire Suppression budget account; making an appropriation; and providing other matters properly relating thereto.

EXPLANATION – Matter in *bolded italics* is new; matter between brackets ~~omitted material~~ is material to be omitted.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. There is hereby appropriated from the State General Fund to the Division of Forestry of the State Department of Conservation and Natural Resources the sum of \$14,967,394 for an unanticipated shortfall related to firefighting costs. This appropriation is supplemental to that made by section 23 of chapter 310, Statutes of Nevada 2021, at page 1808.

Sec. 2. 1. During the 2023-2025 biennium, the Legislative Auditor shall conduct an audit of:

(a) The billing practices of the Division of Forestry of the State Department of Conservation and Natural Resources with respect to the Forest Fire Suppression budget account; and

(b) The accounts receivable and payable in that budget account.

2. The Legislative Auditor shall present a final written report of the audit conducted pursuant to subsection 1 to the Audit Subcommittee of the Legislative Commission not later than January 31, 2025.

Sec. 3. This act becomes effective upon passage and approval.

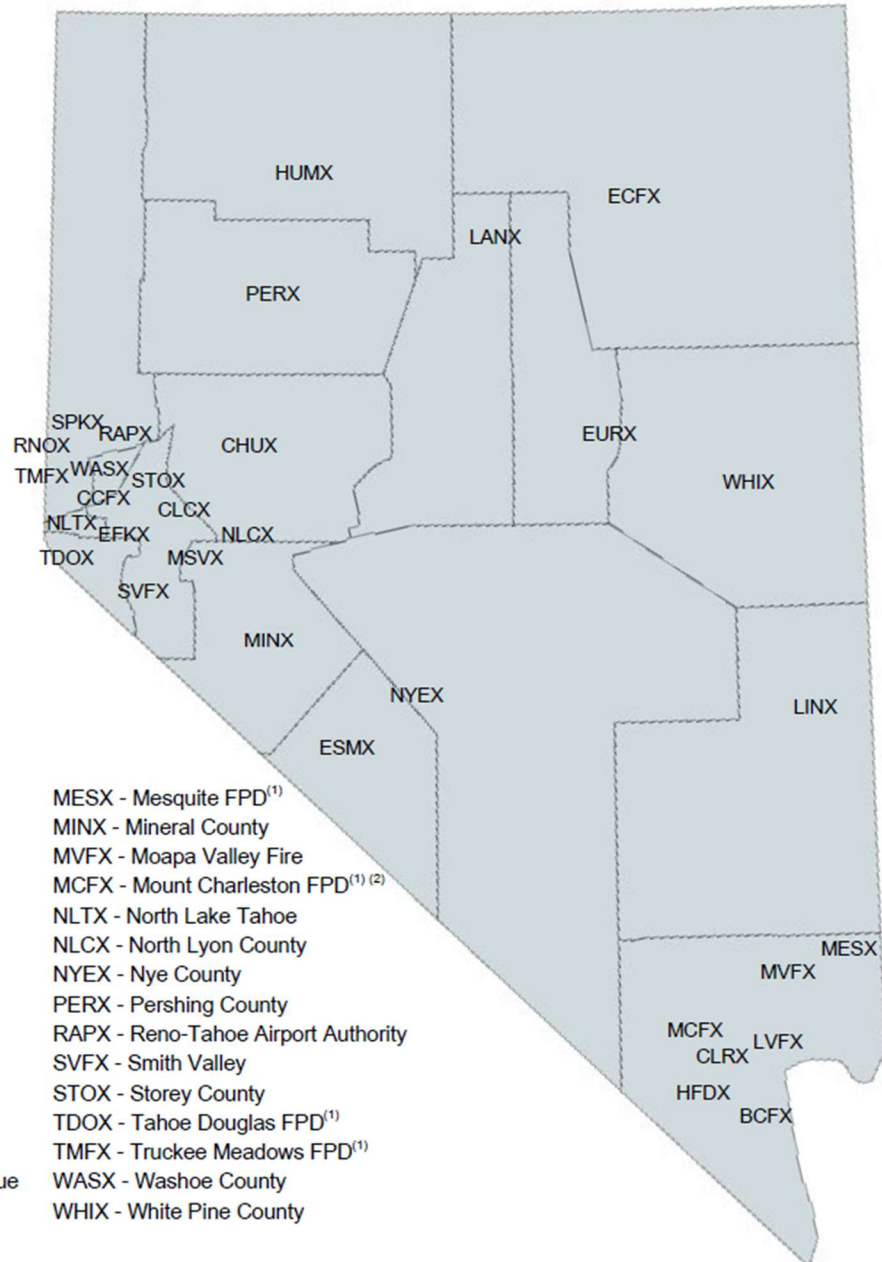
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82nd Session (2023)

Appendix B

2023 – 2025 Biennium Wildland Fire Protection Program Cooperators



Active WFPP Cooperators:

BCFX - Boulder City
CCFX - Carson City Fire
CLCX - Central Lyon County
CHUX - Churchill County
RNOX - City of Reno
SPKX - City of Sparks
CLRX - Clark County
EFKX - East Fork FPD⁽¹⁾
ECFX - Elko County
ESMX - Esmeralda County
EURX - Eureka County
HFDX - Henderson FPD⁽¹⁾
HUMX - Humboldt County
LVFX - Las Vegas Fire and Rescue
LANX - Lander County
LINX - Lincoln County
MSVX - Mason Valley

MESX - Mesquite FPD⁽¹⁾
MINX - Mineral County
MVFX - Moapa Valley Fire
MCFX - Mount Charleston FPD^{(1) (2)}
NLTX - North Lake Tahoe
NLCX - North Lyon County
NYEX - Nye County
PERX - Pershing County
RAPX - Reno-Tahoe Airport Authority
SVFX - Smith Valley
STOX - Storey County
TDOX - Tahoe Douglas FPD⁽¹⁾
TMFX - Truckee Meadows FPD⁽¹⁾
WASX - Washoe County
WHIX - White Pine County

Source: Auditor created using NDF records.

⁽¹⁾ FPD – Fire Protection District

⁽²⁾ Mount Charleston FPD joined the program on December 1, 2023.

Appendix C

Incident Locations Corresponding to NDF and WFPP Cooperator Responses⁽¹⁾ for Out-of-State Unbilled Reimbursements

Fiscal Years 2021 through 2024

Incident Location ⁽²⁾	2021	2022	2023	2024	Total
Alaska	\$ 5,233	\$ -	\$ 224,667	\$ 908,074	\$ 1,137,974
Arizona	40,115	17,073	459,402	396,656	913,246
California	107,692	3,173,740	4,168,155	4,657,927	12,107,514
Colorado	148,909	56,639	179,171	374,018	758,737
Florida	6,742	45,559	27,439	266,627	346,367
Georgia	-	-	461,277	30,054	491,331
Idaho	221,787	357,467	4,629,798	2,520,240	7,729,292
Michigan	-	20,861	34,587	-	55,448
Minnesota	4,054	11,063	-	-	15,117
Montana	-	82,332	10,452	366,932	459,716
New Mexico	-	328,565	1,434,781	192,830	1,956,176
North Carolina	-	-	8,397	-	8,397
Oregon	36,378	1,295,036	426,211	967,182	2,724,807
Texas	7,179	100,934	59,186	51,446	218,745
Utah	19,514	100,115	700,473	338,319	1,158,421
Washington	-	11,484	1,275,119	38,887	1,325,490
Wyoming	4,001	-	6,679	-	10,680
Totals	\$601,604	\$5,600,868	\$14,105,794	\$11,109,192	\$31,417,458

Source: Auditor analysis using NDF records and the state accounting system for fiscal years 2021 through 2024.

- (1) Amounts do not include NDF's invoice processing fee and fiscal year 2024 amounts do not include NDF costs for personnel and equipment. As noted on page 9, NDF began sending out invoices during our audit. Fiscal year 2023 amounts include five incidents that were invoiced as of June 7, 2024.
- (2) State listed is where the incident occurred and is not always indicative of jurisdiction responsible to pay. Responsible jurisdiction could include state or federal agencies.

Appendix D

Audit Methodology

To gain an understanding of the Nevada Division of Forestry (NDF), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to NDF's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of NDF. In addition, we documented and evaluated NDF's controls related to the Forest Fire Suppression budget account billing practices and the accounts receivable and payable functions.

Our audit included a review of NDF's internal controls significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objective of the entity. The scope of our work on controls related to the Forest Fire Suppression budget account included the following:

- Exercise oversight responsibility; establish structure, responsibility, and authority (Control Environment);
- Design control activities; design information system control activities; and implement control activities through policy (Control Activities);
- Use quality information and communicate externally (Information and Communication); and
- Perform monitoring activities, evaluate issues, and remediate deficiencies (Monitoring).

Deficiencies and related recommendations to strengthen NDF's internal control systems are discussed in the body of this report. The design, implementation, and ongoing compliance with internal controls is the responsibility of NDF management.

To verify fire incident information provided by NDF was accurate and complete, we obtained NDF's tracking logs for fiscal years 2019 to 2023. Then, we judgmentally selected a total of 25 billable incidents from the logs, out of 1,231, sampling 5 from each fiscal year, based on the type of incident: cost-share and Federal Emergency Management Agency's Fire Management Assistant Grant fires and out-of-state fires. We reviewed NDF's supporting documentation and state accounting system reimbursement and expenditure information related to each incident to verify it agreed to the logs. In addition, we searched National Interagency Fire Center information related to the incidents and verified its location agreed to NDF's logs. Finally, to verify the completeness of NDF's incident logs, we randomly selected 10 incident payments posted to the state accounting system, out of 2,710 unique payments that contained incident data, and verified key information agreed to incident logs.

To calculate the amount of unbilled fire incidents, we selected all incidents with recorded expenditures in the state accounting system that did not have a cash receipt for fiscal year 2019 up through March 5, 2024. Next, we requested confirmation from NDF it did not seek reimbursement for a list of out-of-state incidents. In addition, for those incidents where an invoice existed, but NDF could not confirm the invoice had been sent, we contacted the appropriate jurisdiction for confirmation that NDF submitted the invoice to them and proof of payment; and if not, if NDF could still seek reimbursement. We also requested 15 incident fire folders for those out-of-state incidents where the expenditures in the state accounting system did not agree to the cash receipts posted, reconciling receipt amounts to total expenditures. These 15 incidents were judgmentally selected out of 20 incidents where the cash receipts posted did not agree to the total expenditures based on a 25% error rate. We also verified if NDF's accounts receivable tracking logs were accurate and if NDF correctly reported amounts to the State Controller's Office for the fiscal year 2023 Annual Comprehensive Financial Report and in hearing documents submitted to the Legislature.

To determine the accuracy of expenses invoiced by Wildland Fire Protection Program (WFPP) cooperators, we judgmentally selected a total of 30 invoices to test, out of 748, sampling 10 from each

fiscal year in 2022, 2023, and 2024. Our judgmental sample was based on the region each member is located in within the state, selecting multiple members within each region if available, and the highest dollar amount of the invoice. To test these invoices, we reviewed supporting documentation requested from both NDF and directly from the WFPP cooperators to verify the accuracy of their invoices, if rates billed agreed to allowable amounts, if mileage billed was reasonable, and to confirm the entity participated in the incident. In addition, we judgmentally selected a total of 71 pay stubs, out of 307 possible employees, from 10 of the cooperators we met with in person (out of 18 cooperators whose invoices were tested), selecting three to four employees from each invoice with different titles and employees with the same titles across cooperators, and verified employee hours billed agreed to their pay stubs and the appropriate billing rates. We also judgmentally selected 31 pieces of equipment out of 51 total, from the 10 cooperators' invoices we met with in person, selecting the same type of equipment across cooperators; we confirmed the billed rate agreed to supporting documentation. Finally, to determine if a cooperator submitted the invoice timely and if NDF paid timely, once the fire incident was concluded, we calculated the time required for entities to submit their invoice to NDF, if it was in accordance with the WFPP's cooperative agreement, and the time required by NDF to pay the invoice.

To test NDF's accounts payable processing, we judgmentally selected 5 out of 16 (31%) largest payment vouchers for federal cooperators in fiscal year 2024, 5 out of 63 (8%) largest payment vouchers for federal cooperators in fiscal year 2022, and 5 out of 71 (7%) payment vouchers for federal cooperators in fiscal year 2021. No payments were made to federal cooperators in fiscal year 2023. In total, we judgmentally selected the 15 largest payment vouchers paid to federal cooperators during fiscal years 2021, 2022, and 2024. We reviewed the backup documentation and confirmed amounts billed agreed to submitted backup documentation. Additionally, we calculated the timeliness of invoices and verified if invoicing was within the Federal Government's Master Cooperative Agreement deadline.

We repeated this testing for other state cooperator invoices, selecting a judgmental sample, based on largest payment amount,

of 4 out of 4 (100%) payment vouchers for other state cooperators in fiscal year 2023, 1 out of 1 (100%) payment voucher for other state cooperators in fiscal year 2022, and 5 out of 5 (100%) payment vouchers for other state cooperators in fiscal year 2021. No payments were made to other state cooperators in fiscal year 2024 as of April 19, 2024. In total, we selected the 10 payment vouchers paid to other state cooperators from fiscal year 2021 through fiscal year 2023. We verified whether the billed amounts were accurate and invoicing was timely according to the applicable agreement. If any of the federal or other state cooperators' invoices were for a cost-share fire, we confirmed the completeness and accuracy of NDF's liability amount on the final cost-share adjudication.

To determine the accuracy and timeliness of a partnering state agency's invoices to NDF, we judgmentally selected a total of 15 invoices, out of 122, sampling 5 from each fiscal year in 2021, 2022, and 2023. We requested the invoice backup from NDF and requested the applicable billing rates used from the partnering state agency. We also tested the timeliness of the state agency's submittal based on the interlocal contract between both agencies, and determined the length of time it took NDF to reimburse the partnering state agency.

To test the reasonableness of NDF's budget methodology, we calculated fiscal years 2018 to 2022 average fire expenditures for each fiscal year using the state accounting system. We reviewed the budget closing report for the fiscal years 2024 to 2025 biennium and interviewed LCB Fiscal staff to gain an understanding of the current budget formula. We also compared NDF's requested budget to Legislative approved budgets for the 5-year period. In addition, we verified the 5-year average fire revenue and expenditure information for NDF's fiscal years 2024 and 2025 budget request was reasonable and followed the Legislatively approved budget formula. Furthermore, we analyzed different methodologies to identify a more accurate estimate of fire incident expenditures. Specifically, we calculated the average expenditure using the 5 highest years for a 10-year period and adjusted this amount using the Consumer Price Index. In addition, we researched other states' budget methodologies in comparison to Nevada.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population because our samples were judgmentally selected.

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

Our audit work was conducted from November 2023 to November 2024. In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Nevada Division of Forestry. On December 16, 2024, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix E, which begins on page 33.

Contributors to this report included:

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Appendix E

Response From the Nevada Division of Forestry



NEVADA DIVISION OF FORESTRY

STATE OF NEVADA
Department of Conservation & Natural Resources
Joe Lombardo, *Governor*
James A. Settelmeyer, *Director*
Kacey KC, *State Forester/Firewarden*

December 31, 2024

Daniel L. Crossman, Legislative Auditor
Legislative Counsel Bureau (LCB)- Audit Division
401 S. Carson Street
Carson City, Nevada 89701

Dear Mr. Crossman,

Nevada Division of Forestry (NDF) is in receipt of audit report # LA26-04 regarding Forest Fire Suppression Budget Account (BA 4196). NDF appreciates and accepts all 13 recommendations and provides its responses along with the audit recommendation checklist as an attachment to this letter.

Operating and managing within the statutory authority in NRS 472 for wildfire response is both operationally and fiscally complex. NDF appreciates the audit team for delving into this complex system and providing recommendations for process improvements. This audit has highlighted areas requiring immediate attention. Please know that NDF also recognized some of these challenges and has made strides over the last year to address them and achieve the recommended efficiencies set forth in this audit. NDF has also taken immediate action to begin implementing these audit recommendations, and others, to resolve these issues. NDF appreciates these audit recommendations and hopes the efficiencies will provide rapid improvements.

The overall complexity of national fire billing, coupled with the transition to a new fire billing system (FBS), and an unprecedented turnover in each of the six incident billing unit (IBU) positions, exacerbated the delays in reimbursement requests and errors addressed in this report. In recent months, NDF has made progress in making the FBS operational and standardizing FBS procedures. NDF also continues to work with the FBS system developers to achieve full function and implement changes necessary to address these audit findings. I would like to thank your audit staff for their professionalism during this audit and the opportunities provided for discussion and input on the report.

If you have additional questions or require further clarification, please contact me. We look forward to showing the progress made on these recommendations in future updates.

Sincerely,

Kacey KC, State Forester-Firewarden

NDF Responses to Audit Recommendations

Recommendation 1: Promptly invoice all outstanding out-of-state fire incident reimbursable expenditures and processing fees.

NDF agrees with this recommendation and has begun implementation. When the auditors brought the issue of out-of-state assignments not having been invoiced, NDF leadership immediately set the IBU staff on invoicing. The FBS system was built to have cooperators and agencies bill NDF. FBS, in its initial design, did not allow for invoicing reimbursable costs so NDF was required to work with the contractor to update the system to allow that functionality. This feature became available to local government/state cooperators in July 2024, and to the federal agencies in October 2024. As of today, NDF has invoiced more than \$16.2 M in out-of-state expenditures identified in this audit report, as well as additional cost share and FEMA fire management assistance grant (FMAG) invoices to federal and state cooperators. All funds identified in the audit as unbilled reimbursements are still available for collection.

As of today, NDF has three vacancies in this unit, including the Incident Business Specialist, Accounting Assistant 3, and Accounting Assistant 1. Currently, NDF has its remaining IBU staff, as well as two fiscal staff from budget account 4195, fully focused on incident bill payments and reimbursement invoicing so the costs will be eligible for reimbursement (where applicable). NDF has also contracted a former employee through Acro Service Corporation to assist with reimbursables prior to FY23. This contract employee will begin work on January 6, 2025, and will remain with NDF until June 30, 2025, with the potential for extension.

Recommendation 2: Develop procedures to track, prioritize, and bill all reimbursable out-of-state incident expenditures and ensure these incidents are billed timely.

NDF agrees with this recommendation and has begun implementation. NDF has policies and procedures to track, prioritize, and bill all reimbursables, including in and out-of-state incidents. These policies and procedures were being updated prior to and during the audit period to account for practices in the new FBS. There have been evolutions of FBS development over time to work through bugs, features, and capability enhancements that also required policy and procedure adjustments. NDF's Administrative Services Officer (ASO) 1 has finalized her Certified Public Manager (CPM) capstone project with NDF's incident billing system as the focal point. This included the finalization of the updated policies and procedures as well as internal controls for the IBU. NDF has temporarily reassigned the ASO 1 to the IBU to provide necessary oversight and training to staff in the unit.

Recommendation 3: Develop and implement policies and procedures for the timely recording and reporting of accounts receivable for reimbursable fires in accordance with state policy and Generally Accepted Accounting Principles.

NDF agrees with this recommendation and has begun implementation. As stated above under Recommendation 2, NDF has been updating policies and procedures through staff CPM pursuits prior to and during this audit process. NDF's past standard practice was to report the accounts receivable for reimbursable fires when the invoice was sent for reimbursement. NDF anticipates adding this to the recently completed policies and procedures in the next few months, following discussions with the FBS contractor on a solution to the current system discrepancies as identified by the audit team.

Recommendation 4: Accurately track accounts receivable by maintaining an accounts receivable aging schedule and include supervisory review over the accounts receivable tracking and reporting process.

NDF agrees with this recommendation. NDF has a separate tracker for accounts receivable and will update it to reflect Recommendation 3 and 4. The new FBS system tracks aging receivables and can print a report, however, as noted by the auditors, that is only once the receivable is billed. NDF will work with Gold Systems, the state contracted entity providing FBS, to update the system to meet this recommendation. If an FBS system update is not possible, NDF will develop a new tracking mechanism.

In recognition of this challenge, NDF previously requested two additional positions for the IBU in the 20/21 biennium. One position was a higher level ASO to provide improved oversight of the IBU unit. The other position was a second Incident Business Specialist to address the billing and invoicing backlog, and increased incident response needs in and out-of-state. These two positions can be funded by the administrative processing fee assessed on all bills and invoices and, therefore, do not require any general fund allocation. NDF is working to update the administrative processing fee to secure additional funding that would support an additional ASO for oversight of the IBU unit. In the meantime, NDF has temporarily assigned the fiscal ASO 1 directly to the IBU at the cost of reduced oversight in other accounting areas in the agency. The ASO 1's other fiscal duties for the rest of NDF fiscal operations are being covered by the ASO 4 during this temporary reassignment. Based on the audit report and the workload requirements, NDF is analyzing possibly reclassifying additional positions in the IBU to provide required capacity and oversight for full IBU function.

Recommendation 5: Separately track in the state accounting system fully reimbursable out-of-state fire costs from fire suppression costs where NDF is fully or partially responsible. Consider placing reimbursable out-of-state costs in a separate budget account.

NDF agrees with this recommendation and has begun implementation. As identified in the audit report, out-of-state response is necessary to maintain national qualifications of in-state firefighters and to ensure reciprocity of out-of-state assistance to Nevada when wildfires exceed Nevada's response capabilities. FBS currently has mechanisms that track all out-of-state and in-state fire bills in a way that allows separation of reporting. NDF will also include unique coding for the out-of-state, fully reimbursable fires to help easily identify these fire costs in the State's new CoreNV/Advantage 4 accounting system. NDF will continue to work with GFO and LCB to ensure the best tracking mechanism in this account is utilized.

The average annual expenditures in BA 4196 are approximately \$18.3M according to the 5-year average. Budget Account 4196 is hindered by only having \$4.5M in cash to begin each fiscal year, with expenditure authority further hindered by using the 5-year cost average reduced by any one-time funding sources including contingency/supplemental requests that were required to pay bills. Any revenue brought in requires a work program to increase authority in current year or past year fire billing categories to continue paying bills timely and/or compiling all bills for a single fire for reimbursement. By the time the authority/cash has been rectified through an approved work program, the payment priorities often change to support higher priority payment of those bills with concrete deadlines first (i.e., FEMA Fire Management Assistance Grants (FMAG)) before other bills or reimbursements.

Recommendation 6: Seek funding for fully reimbursable out-of-state fire suppression costs separately based on a mutually agreeable formula, with LCB Fiscal and the GFO, that provides for NDF's short-term cash flow needs while also accounting for timely reimbursements.

NDF agrees with this recommendation and will work with LCB and GFO fiscal to develop a mutually agreeable formula for out-of-state fires. Historically, all fires in and out-of-state have co-existed in the account and were broken up by current year fires (category 10) and past year fires (category 82). Both in and out-of-state fires have been lumped into the agreed upon 5-year average formula over the past three biennia. NDF can account for in and out-of-state fires separately using the current category payment structure, and NDF will work to add account coding through the new CoreNV system that will provide the separation in tracking as recommended.

Recommendation 7: Routinely reconcile an aged accounts receivable listing of out-of-state reimbursable costs, agreeing what was paid, invoiced, and reimbursed to amounts recorded in the state accounting system.

NDF agrees with this recommendation and has begun implementation. NDF has historically tracked and reconciled accounts receivable for both in and out-of-state reimbursable costs using a multi-tabbed spreadsheet that was attached to all work programs requesting funds or authority shifts. FBS also tracks aged accounts receivable. NDF staff will be trained to track accounts receivable per policies and procedures and will again start routine reconciliation to the state accounting system at least monthly.

Recommendation 8: Revise the 5-year average budget calculation to remove fully reimbursable out-of-state transactions and reconcile this revised 5-year Nevada jurisdiction average fire suppression cost calculation with the GFO to arrive at a mutually agreed upon funding amount.

NDF agrees with this recommendation and will continue to work with LCB and GFO fiscal on the methodology best suited to ensure the account has the appropriate levels of cash and authority to pay bills timely and thus be reimbursed timely. The methodology selected and used will help resolve the issues in the account. The underfunding of state accounts does not allow the agency to keep up with current fire occurrence, costs, and additional state financial responsibilities that were assumed following the 2018 federal audit where the US Forest Service no longer banked all the debts for non-federal fires. This challenge is not unique to Nevada and is also currently occurring in many states across the west with recent examples in Oregon, California, Wyoming, and South Dakota.

Recommendation 9: Formally document the process for calculating the 5-year out-of-state and Nevada jurisdiction average budget amounts and maintain supporting documentation.

NDF agrees with this recommendation and has begun implementation. For the last three biennia, since LCB, GFO and NDF agreed upon the 5-year average formula, the methodology for NDF has been attached to the agency submitted budget in NEBS. Some iterations of the formula included reducing the costs by taking out individual fire anomalies and/or entire fire years considered to be abnormally high.

Recommendation 10: Improve internal controls over reviews of cooperator and state agency invoices to ensure amounts are accurate, appear reasonable, and agree to supporting documentation.

NDF agrees with this recommendation and has begun improving the internal controls over reviews of all bills and invoices in the IBU. As stated in earlier responses, NDF has updated its internal controls and policies and procedures in the IBU to ensure they are current to the FBS system. In addition, NDF has placed a supervisory level of approval in the FBS system for all bills and invoices to ensure that a higher level of fiscal approval occurs (at the ASO 1/ASO4). Unprecedented staff turnover of 450% over the past four years in the six IBU positions has caused delays, inaccuracies, and some bills to be paid outside of current policy compliance. Due to staff turnover and the switch to FBS, NDF was delayed in auditing some bills and receivables. Having entered all FY23 cooperator bills into FBS, NDF is now going back to FY22 and FY21 to ensure billing and invoicing accuracy. Conducting the audit during this difficult transition has helped NDF leadership identify and correct many issues in the system and the team. NDF is hopeful that having the new FBS functional and having policies, procedures, and internal controls in place following this audit will help recruitment, boost staff capabilities, and result in longer employee retention.

Recommendation 11: Develop policies and procedures for processing cost-share fire invoices, which include supervisory review and reconciling expenditures paid to the incident's dispatch record, or other available resources, to ensure all applicable amounts paid are included in NDF's total costs; and submitting supplemental bills when necessary.

NDF agrees with this recommendation and has begun implementation. As stated above, NDF had policies and procedures in place that required updates for the newly acquired FBS to ensure staff have the appropriate guidance and process to follow while performing these functions. NDF has also added the recommended supervisor review level as mentioned earlier to the suggested IBU processes. NDF has submitted supplemental bills for those found to have errors by the auditors and has trained existing staff to do a thorough review process that will be sustained into the future to ensure the accuracy of all others submitted. All newly hired staff will be trained and expected to perform to the currently updated policies, procedures and internal controls.

Recommendation 12: Develop policies and procedures to ensure accurate incident records are maintained in the computerized fire billing system, including supervisory reviews of bills and invoices entered into the system before amounts are paid or are sent for reimbursement.

NDF agrees with this recommendation and has begun implementation. As mentioned earlier, NDF has updated the policies and procedures reflecting the transition to FBS and will ensure that incident records are accurately maintained in the future. During the audit, NDF worked with Gold Systems to add an additional level of supervisory review of bills and invoices before submittal within FBS. Previously in FBS, the highest level of review ended with the Incident Business Specialist, which was an underfilled position for NDF during the time of audit. The Incident Business Specialist has been a historically difficult position to recruit, hire, and retain. The incumbent has moved to a new position in another department, and NDF is working to reclassify that position to a Management Analyst II position to attract a wider array of candidates that will provide more qualified and skilled oversight to the IBU. NDF is also working with GFO on adding an ASO position, as requested in a past biennium, to meet this recommendation.

Recommendation 13: Enhance policies and procedures to define how incidents should be recorded in the computerized fire billing system and in the state accounting system to improve accuracy and reliability of incident cost data.

NDF agrees with this recommendation and has begun implementation. NDF has been working on this and will continue to do so as outlined above. The new online billing system was purchased by NDF to address many of the above recommendations, which NDF recognized as being opportunities to make improvements in BA 4196 operations. When fully functional, FBS will create efficiencies and expedite the billing process, as well as provide the recommended tracking, accuracy, and accountability. NDF will continue to make upgrades to FBS based on feedback from cooperators and the audit team. The audit period covered two years under a manual spreadsheet-based system and two years in the new FBS, during a time when neither system was fully functional and staff and cooperators required extra training. The same six staff assigned to IBU for billing and invoicing were also assigned to this system transition, contributing to some of the audit findings.

Nevada Division of Forestry's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Promptly invoice all outstanding out-of-state fire incident reimbursable expenditures and processing fees.....	<u>X</u>	<u> </u>
2. Develop procedures to track, prioritize, and bill all reimbursable out-of-state incident expenditures and ensure these incidents are billed timely.....	<u>X</u>	<u> </u>
3. Develop and implement policies and procedures for the timely recording and reporting of accounts receivable for reimbursable fires in accordance with state policy and Generally Accepted Accounting Principles	<u>X</u>	<u> </u>
4. Accurately track accounts receivable by maintaining an accounts receivable aging schedule and include supervisory review over the accounts receivable tracking and reporting process	<u>X</u>	<u> </u>
5. Separately track in the state accounting system fully reimbursable out-of-state fire costs from fire suppression costs where NDF is fully or partially responsible. Consider placing reimbursable out-of-state costs in a separate budget account	<u>X</u>	<u> </u>
6. Seek funding for fully reimbursable out-of-state fire suppression costs separately based on a mutually agreeable formula, with LCB Fiscal and the GFO, that provides for NDF's short-term cash flow needs while also accounting for timely reimbursements	<u>X</u>	<u> </u>
7. Routinely reconcile an aged accounts receivable listing of out-of-state reimbursable costs, agreeing what was paid, invoiced, and reimbursed to amounts recorded in the state accounting system.....	<u>X</u>	<u> </u>
8. Revise the 5-year average budget calculation to remove fully reimbursable out-of-state transactions and reconcile this revised 5-year Nevada jurisdiction average fire suppression cost calculation with the GFO to arrive at a mutually agreed upon funding amount.....	<u>X</u>	<u> </u>
9. Formally document the process for calculating the 5-year out-of-state and Nevada jurisdiction average budget amounts and maintain supporting documentation	<u>X</u>	<u> </u>
10. Improve internal controls over reviews of cooperator and state agency invoices to ensure amounts are accurate, appear reasonable, and agree to supporting documentation	<u>X</u>	<u> </u>

11. Develop policies and procedures for processing cost-share fire invoices, which include supervisory review and reconciling expenditures paid to the incident's dispatch record, or other available resources, to ensure all applicable amounts paid are included in NDF's total costs; and submitting supplemental bills when necessary	<u>X</u>	<u> </u>
12. Develop policies and procedures to ensure accurate incident records are maintained in the computerized fire billing system, including supervisory reviews of bills and invoices entered into the system before amounts are paid or are sent for reimbursement	<u>X</u>	<u> </u>
13. Enhance policies and procedures to define how incidents should be recorded in the computerized fire billing system and in the state accounting system to improve accuracy and reliability of incident cost data.....	<u>X</u>	<u> </u>
TOTALS	<u>13</u>	<u> </u>