STATE OF NEVADA

Legislative Counsel Bureau
Audit Division
Audit Report Summaries

Seventy-Ninth
Nevada Legislature

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
MAGGIE CARLTON, *Assemblywoman, Chair*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

MEMORANDUM

TO: Members of the Senate Committee on Finance
Members of the Assembly Committee on Ways and Means

FROM: Rocky Cooper, Legislative Auditor RC

DATE: February 9, 2017

SUBJECT: **Audit Report Summaries**

This document contains summaries of audits issued during the past biennium. The table of contents references both the summary page and the agency's corresponding page in the Executive Budget. Each section contains one-page highlights of the audits performed, followed by additional information regarding agency action on recommendations. The complete audit reports are available on the Audit Division's website at www.leg.state.nv.us/audit/.

The involvement of the money committees is an important part of the audit follow-up process that helps ensure corrective action is taken. Consequently, the committees' involvement has contributed to continuing financial benefits. We have identified measurable cost reductions or enhanced revenues totaling more than $62 million over the past two years resulting from the implementation of our audit recommendations. These savings would not have been possible without the support and involvement of the Legislature.

STATE OF NEVADA
AUDIT REPORT SUMMARIES

Table of Contents

STATE OF NEVADA
AUDIT REPORT SUMMARIES

Table of Contents
(continued)

STATE OF NEVADA
AUDIT REPORT SUMMARIES

Table of Contents
(continued)

Elected Officials

Audit Highlights

Highlights of performance audit report on the Office of the Attorney General issued on November 19, 2015. Legislative Auditor report # LA16-06.

Background

The Office of the Attorney General (Office) is directed by the Attorney General, an elected officer of the State of Nevada. In fiscal year 2014, the Office had 350 authorized positions and personnel expenditures totaled about $33 million. One of the duties performed by the Office is to enforce consumer protection statutes, including those involving deceptive trade 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.

In August 2012, the Office approached the Interim Finance Committee (IFC) to propose using about $33 million of the settlement funds to establish the program known as the Home Again Program. Under this Program, nonprofit organizations provide consumers free access to financial guidance services and legal counsel, as well as to specialized information about available state and federal housing assistance. The Program was approved by the IFC and again by the Legislature in the 2013 and 2015 Sessions. In addition, the Office pursued litigation against other financial institutions involved with mortgage lending in Nevada and reached settlements in fiscal years 2011 to 2014.

Purpose of Audit

The purpose of the audit 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. Our audit focused on activities related to deceptive trade practice litigation during fiscal years 2011 through 2014, but also 2015 for some activities.

Audit Recommendations

This audit report contains six recommendations to improve the Office's controls over the disbursement of restitution funds from deceptive trade practice cases.

The Office of the Attorney General accepted the six recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Office of the Attorney General

Summary

Between fiscal years 2011 and 2014, the Office pursued and obtained over $164 million in settlement funds from financial institutions for deceptive mortgage lending practices. These funds were to be used to help mitigate the effects of the foreclosure crisis on Nevada citizens. Although most of these funds were appropriately disbursed to victims and other entities, the Office's monitoring needs to be strengthened in some areas. For example, about $33 million of these funds were set aside to administer the Home Again Program. The Program provides a foreclosure hotline, and legal and credit counseling services through nonprofit organizations acting as grantees. We found the Office's review of grantee reimbursement requests for expenses was not adequate, annual fiscal audits of grantees were not performed, and performance data reported to the Legislature was not always accurate. As of July 2015, about $22 million remains to be disbursed under the Home Again Program. In addition to the Home Again Program, other settlement funds received were to be paid to homeowners that were affected by deceptive mortgage lending practices. We found that over $11 million in funds for victims that could not be located were not returned timely to the Office. Adequate monitoring of mortgage settlement funds in these areas is important to help ensure they are properly safeguarded and disbursed timely for the intended purposes.

The Office can also improve its 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 that were charged for parts and services not provided. Although most restitution funds tested were disbursed after being collected, payments to victims for several cases were delayed from about 1 year to 3 years. Finally, the Office does not have adequate controls over the disbursement of restitution funds in its court settlement account. In fiscal year 2015, over $20 million was held in the account. Although we did not identify inappropriate disbursements, procedures are needed to help ensure funds are disbursed timely and adequately safeguarded.

Key Findings

Since inception of the Home Again Program through fiscal year 2015, the Office reimbursed program grantees about $8 million. Although most payments we tested were appropriate, almost 15% of the amounts paid did not agree to supporting documentation originally provided to the Office. Even though additional supporting documentation was later provided upon our request for most of the amount tested, grantees could not provide documentation to support $21,000 in expenses tested. After our audit inquiries, a total of $56,195 in overpayments to grantees have been identified and repaid to the Office. (page 6)

The Legislature requested the Office submit quarterly reports to the IFC on the activities of the Home Again Program. We found that the reported number of services provided by grantees were not always accurate. Specifically, the information for one of four quarters tested in calendar year 2014 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. (page 9)

The Office did not perform annual fiscal audits of its three grantees for the Home Again Program. In the 2.5 years since the Program began, the Office performed one partial audit. Office procedures require annual fiscal audits of grantees. Audits help the Office ensure grantee expenses billed to the Program are appropriate. (page 10)

For 10 cases tested where the Office received restitution payments, we observed that funds collected were disbursed accurately. In addition, the majority of the funds were disbursed timely. However, funds for four cases were not disbursed timely. The funds were disbursed from about 1 year to 3 years after being received. The amount of restitution funds associated with the four cases totaled $213,079. Delaying restitution funds may cause financial hardship to victims. (page 15)

The Office does not have adequate controls over the disbursement of restitution funds in its court settlement account, which had disbursements ranging from $5 million to $46 million in the past 5 years. Disbursements were authorized through memorandums issued by attorneys and did not include supporting documentation or evidence of supervisory review and approval. (page 17)

STATE OF NEVADA

OFFICE OF THE ATTORNEY GENERAL

100 North Carson Street
Carson City, Nevada 89701

ADAM PAUL LAXALT
Attorney General

WESLEY K. DUNCAN
First Assistant
Attorney General

NICHOLAS A. TRUTANICH
First Assistant
Attorney General

MEMORANDUM

To: Rocky Cooper
Legislative Auditor
Legislative Counsel Bureau

From: Nicholas A. Trutanich
First Assistant Attorney General
Office of the Attorney General

Date: August 18, 2016

Subject: Legislative Audit of the Office of the Attorney General

Prior to Attorney General Laxalt taking office, your office commenced this independent audit of the Office of the Attorney General (OAG) to not only help the Attorney General's Home Again Program run more efficiently, but also to increase the speed with which restitution was timely paid to victims. In addition to this audit, prior to taking office, Attorney General Laxalt also voluntarily requested an audit by the Division of Internal Audits. Improving the organizational structure of the OAG and the overall responsiveness to clients and constituents continues to be a top priority for AG Laxalt.

After conducting this audit, on November 19, 2015, your office released its report. Subsequently, the OAG timely filed its corrective action plan on February 19, 2016. Pursuant to NRS 218G.270, the OAG reports on the measures taken to comply with the audit findings. The extent of the OAG's compliance with the audit recommendations is as follows:

//
//
//

Recommendation Number 1:

Ensure adequate documentation is provided for Home Again Program reimbursement requests, and perform thorough reviews of these requests to help ensure charged expenses are appropriate under the grant agreement.

Status – Fully Implemented

Prior to the audit's findings being finalized, the OAG proactively implemented new grant agreements with the legislatively approved Home Again Program grantees, which require that grantees' reimbursement requests include additional supporting documentation. The new grant agreements are designed to clarify for the grantee that reimbursements will be made upon receipt of adequate documentation. The OAG will continue to refine and develop appropriate procedures as needed to monitor and perform thorough reviews of these requests.

Recommendation Number 2:

Develop procedures to help ensure Home Again Program Information reported to the Legislature and management is reliable.

Status – Fully Implemented

Since being notified of certain discrepancies in reporting made to the legislature in 2013 and 2014, the OAG has since endeavored to ensure the accuracy of its Home Again Program reports to the Interim Finance Committee (IFC). Namely, the OAG corrected an underlying clerical error that propagated earlier mistakes. Additionally, the OAG has expanded its evaluation and monitoring procedures to include backup documentation consisting of individual monthly reports from each of the housing counseling agencies in the Housing and Urban Development consortium. The OAG will continue to ensure any future Home Again Program data or information reported is as reliable as possible.

Recommendation Number 3:

Ensure annual on-site fiscal audits of Home Again Program grantees are completed as outlined in the Office's policies for the Program, and develop procedures for performing these audits.

Status – Fully Implemented

As a result of this audit (and its continued goal of improved management), the OAG revised monitoring procedures that require annual on-site fiscal audits by the Grant & Project Analyst. Similarly, the OAG has added semi-annual fiscal desk audits of the Home Again Program grantees and revised procedures for performing the on-site fiscal audits of Home Again Program grantees. As of the submittal of this six month report, the Grant & Project Analyst has completed the three on-site fiscal audits required for fiscal year 2016.

Recommendation Number 4:

Develop procedures to help ensure settlement funds not tracked within the state accounting system are properly monitored, and returned timely to the State for proper safeguarding.

Status – Fully Implemented

Outside of national distributions which occur in joint-federal multistate settlements pursuant to federal court-orders and extraordinary circumstances, the OAG has decided not to utilize the services of a third party administrator. In the rare circumstance a third party administrator is utilized in a state settlement, the process will be monitored by fiscal staff. All settlement funds will be properly monitored and follow the procedure outlined in Recommendation Number 5 to ensure timely restitution payments are made to victims. Since there are no current state settlement funds in the custody of a third party administrator, the OAG has refined and implemented a process to ensure future settlement funds, that in rare circumstances are not tracked within the state accounting system, are properly monitored and returned timely to the State for proper safeguard as a supplement to the procedures outlined in Recommendation Number 5.

Recommendation Number 5:

Develop centralized procedures for the payment of restitution funds, including supervisory review and approval of amounts payable to victims and supporting documentation for the disbursements.

Status – Fully Implemented

The OAG has developed written procedures that include the review and auditing of all incoming monies whether in "cash receipt" or "journal voucher" form. All outgoing monies are reviewed and audited to make sure the documentation matches the payment amounts and that the Judgement of Conviction also backs up the outgoing payment. In order to ensure internal controls and separation of duties outgoing payments are created and Pend 3 approved by the Accounting Assistant III, audited for completion and accuracy by the Accountant Technician II, and then reviewed and Pend 4 approved by the Management Analyst II or the Administrative Service Officer II.[1]

Recommendation Number 6:

Develop procedures to reconcile state accounting records to the Office's records of restitution funds received and disbursed in the court settlement account.

Status – Fully Implemented

The OAG has developed written procedures that instruct the user how to reconcile the State accounting records as found in Nevada's financial data warehouse (DAWN) to BA 6181's reconciliation spreadsheet. The OAG is also testing a procedure to enter the information directly into each "matter" in our ProLaw system. While only a few personnel will be able to enter the

[1] Pend 3 and 4 are state accounting system terms. Pend 3 is a first level of approval required in the state accounting system. Pend 4 is the second – and final – level of approval in the same system.

information, everyone with clearance to that case can verify and see the deposits and payments made -- unlike the very restricted access to the spreadsheet the OAG maintained in prior years.

The OAG concurrently considers the degree of ongoing compliance with these recommendations to be the responsibility of its staff.

/s/ Nicholas A. Trutanich
Nicholas A. Trutanich
First Assistant Attorney General
Office of the Attorney General

Audit Highlights

Highlights of performance audit report on the Unclaimed Property Program issued on November 19, 2015. Legislative Auditor report # LA16-07.

Background

The Unclaimed Property Program has the responsibility to collect, safeguard, and distribute unclaimed property. The primary mission of the Program is to reunite rightful owners with their property. The State Treasurer is the Administrator of Unclaimed 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.

Unclaimed property can be any asset owed to a person or business. Property is considered unclaimed when there has been no activity and/or contact with the owner for a period specified in statute. Some common examples are securities, savings bonds, bank accounts, uncashed payroll checks, utility deposits, insurance proceeds, gift certificates, and other items specified in Nevada statute. The person or legal entity entitled to receive the property never loses the right to make a claim for the asset or value of items sold.

All collections of unclaimed property are recorded in the Abandoned Property Trust Account and totaled over $62 million in fiscal year 2014. Collections are used to pay claims, transferred to other funds like the Millennium Scholarship Fund, and fund the Program. Operating expenditures for fiscal year 2014 were about $1.85 million. The Program has one office in Las Vegas and had 12 authorized positions during fiscal year 2014.

Purpose of Audit

The purpose of this audit was to evaluate the program's processes for collecting, administering, and returning unclaimed property. Our audit focused on the program's activities related to collecting, administering, and returning unclaimed property from July 2013 through February 2015.

Audit Recommendations

This audit report contains eight recommendations to improve the processes for collecting, administering, and returning unclaimed property.

The State Treasurer accepted the eight recommendations.

Recommendation Status

The program's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Unclaimed Property Program

Office of the State Treasurer

Summary

The Program could improve inventory controls over assets in its vault and securities held in various broker accounts. The Program did not properly track savings bonds in its possession or maintain an accurate inventory report. Further, reconciliations were not timely for securities in accounts held by custodians. As a result, program records did not include all property to which owners are entitled. In addition, the Program did not always comply with statutory requirements for timely deposits. Improvements to inventory controls could help ensure the Program meets its safekeeping responsibilities.

Better practices for processing claims are needed to help ensure unclaimed property is properly distributed. The Program did not approve or deny claims timely. Untimely processing of claims can result in an action filed in district court by the claimant against the Treasurer. In addition, the Program does not have adequate controls to ensure data in the unclaimed property database is not inappropriately altered.

Key Findings

The Program did not properly track many of the savings bonds in its vault. We tested savings bonds belonging to 70 individuals and found the bonds belonging to 35 of the individuals were not recorded in the program's database. In total, we identified $133,950 of savings bonds that were not recorded in the program's database. As a result, potential claimants searching the database would not know they were the rightful owners of these savings bonds. (page 4)

The Program did not have an accurate inventory list or perform annual reconciliations of unclaimed property held in its vault. We performed an inventory observation and prepared a list of packages in the vault. We compared the program's inventory report to our list of items in the vault. We found 18 of 25 items selected from the program's report were not in the vault. This included 12 items that were not in the vault and there was no evidence of the items' disposal. It also included six items when the disposal of the items was recorded in the database, a significant amount of time had passed since the disposal, and the items were still on the inventory report. We also requested the Program provide documentation of its two most recent inventories. However, it did not provide evidence that any reconciliations of properties held in the vault to properties recorded in the database had been performed. (page 5)

The Program did not adequately monitor securities held in its main custodian account. We found that semi-annual reconciliations between program records and custodian statements were not completed timely. Additionally, the Program did not follow-up timely on discrepancies noted during its semi-annual reconciliations and its review of weekly transaction reports. The Program contracts with one custodian to maintain its primary account. This custodian had custody of shares valued at about $20 million, as of December 31, 2014. Our review found there was a difference of 933,000 shares between the custodian statement and program records. According to staff, many of the unreconciled shares are worthless. However, we found certain unreconciled shares had a market value of about $313,000. (page 7)

The Program did not adequately monitor securities held in other custodian accounts. According to program records, there were securities in 49 accounts with custodians other than the main custodian. For 14 of the 49 accounts, a December 31, 2014, statement was not obtained by staff. Therefore, there were no reconciliations performed for these accounts. When reconciliations are not performed, the Program does not know if its records are accurate. Further, when statements are not obtained, the Program does not have confirmation that the securities recorded in its database are still in the custody of the designated custodian. (page 8)

More than half of the claims we tested were not processed timely. For example, 27 of 50 paid claims tested and 17 of 30 denied claims tested were not processed timely. NRS 120A.640 requires the Administrator to allow or deny a claim within 90 days after it is filed. The Program has not implemented procedures that require a tracking system or management report for monitoring the timely processing of claims. In addition, the Program does not have adequate procedures for large claims to ensure they are properly approved. The current procedure does not establish when a claim needs a second approval, such as a dollar threshold, or require the second approval be documented. (page 13)

Security controls over the unclaimed property database could be stronger. Our review found the Program did not review reports showing who has edited data in the database. As a result, there is an increased risk data could be inappropriately altered, which could allow a fraudulent claim to be processed without detection. (page 14)

Dan Schwartz
State Treasurer

STATE OF NEVADA
OFFICE OF THE STATE TREASURER

To: Rocky Cooper, CPA
Legislative Auditor
Legislative Counsel Bureau

From: Dan Schwartz
Nevada State Treasurer

Date: August 19, 2016

Subject: Legislative Audit of the Office of the State Treasurer
Unclaimed Property Program

On November 19, 2015, your office released an audit report on the Unclaimed Property Division. On February 19, 2016 our office submitted our Corrective Action Plan to you. NRS 218G.270 provides that within 6 months after submission of the plan our office is to report to the Legislative Auditor on the measures taken to comply with the audit findings.

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

Recommendation 1

Develop procedures to help ensure savings bonds are properly entered in the program's database.

Status – Fully Implemented

Agency Actions – Safekeeping procedures and internal controls have been revised and approved detailing how savings bond information is received and stored in the department's database. All savings bonds received will be assigned a property identification number, SKID (safekeeping IDs) and entered into the department's database.

CARSON CITY OFFICE
101 N. Carson Street, Suite 4
Carson City, Nevada 89701-4786
(775) 684-5600 Telephone
(775) 684-5623 Fax

STATE TREASURER PROGRAMS
Governor Guinn Millennium Scholarship Program
Nevada Prepaid Tuition Program
Unclaimed Property
College Savings Plans of Nevada
Nevada College Kick Start Program
Education Savings Account (ESA)

LAS VEGAS OFFICE
555 E. Washington Avenue, Suite 4600
Las Vegas, Nevada 89101-1074
(702) 486-2025 Telephone
(702) 486-3246 Fax

Website: NevadaTreasurer.gov E-mail: StateTreasurer@NevadaTreasurer.gov

Recommendation 2

Revise safekeeping procedures to help ensure an accurate inventory report is maintained and develop management controls to ensure procedures for annual reconciliations are followed.

Status – Fully Implemented

Agency Actions - Safekeeping procedures and internal controls have been revised and approved. The department's database vendor made several program changes updating previously disposed items. The department added additional steps to ensure proper receipt, identification and logging of property into the department's database utilizing SKIDS. Internal procedures have been implemented which require two State Treasurer's Office senior management employees that are not part of the unclaimed property staff perform the annual reconciliation.

Recommendation 3

Revise procedures and develop a tracking system to help ensure all custodian accounts are reconciled timely and to perform timely follow up when discrepancies are identified.

Status – Fully Implemented

Agency Actions – Securities reconciliation procedures and internal controls have been revised and approved. The new procedures have been developed with specific required reconciliation dates (weekly, monthly, semi-annually and annually). A master spreadsheet has been developed for the tracking of the detailed reconciliation exceptions and the required follow-up from the Management Analyst II to the Management Analyst IV and Deputy Treasurer of Unclaimed Property.

Recommendation 4

Revise procedures to ensure deposits are timely, per NRS 353.250.

Status – Fully Implemented

Agency Actions – The department has revised its cash receipts policy to mandate and instruct staff to secure pending deposits and to deposit all checks within the timeframe detailed in NRS 353.250.

Recommendation 5

Revise procedures and develop a tracking system to help ensure claims are processed timely, per NRS120A.640.

Status – Fully Implemented

Agency Actions – The department has updated its claims procedure to require the Deputy Treasurer of Unclaimed Property to review the claims aging report on a monthly basis to ensure compliance with NRS 353.250.

Recommendation 6

Revise procedures to establish a threshold for claims requiring a second approval and to ensure the second approval is documented.

Status – Fully Implemented

Agency Actions – The department has revised its claims procedure to ensure that the appropriate thresholds have been implemented. All claims approvals are processed in the department database with the required approvals documented.

Recommendation 7

Develop policies and procedures to monitor changes to data in the program's database, including timely review of computer logs.

Status – Fully Implemented

Agency Actions – A new policy was created to require a quarterly review of changes made in the database. New reports were developed to better identify and research changes in the database; these reports are reviewed quarterly by the Unclaimed Property Deputy. These are researched and reconciled by the Unclaimed Property Deputy and reviewed by the Senior Deputy Treasurer in the South.

Recommendation 8

Implement additional controls for Fast Track claims to help prevent and detect fraudulent claims.

Status – Partially Implemented

Agency Actions - Additional safeguards and matching information have been implemented for the Fast Track claims process. Due to security concerns, the specific changes cannot be outlined in this public document but will be provided to the LCB auditors upon request. Further controls with the addition of a new module are currently being programmed with our database vendor. The final implementation should be completed in early fall 2016.

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

RICK COMBS, *Director*
(775) 684-6800

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

October 7, 2016

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

In November 2015, we issued an audit report on the Office of the State Treasurer, Unclaimed Property Program, that contained eight recommendations. The Office filed its plan for corrective action in February 2016. NRS 218G.270 provides that the Office shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Office on the status of the eight recommendations. The six-month report indicated seven of the recommendations have been fully implemented and one has been partially implemented. The partially implemented recommendation is related to implementing additional controls for the automated claims process to help prevent and detect fraudulent claims. The Office has indicated it has implemented some additional safeguards, but further controls would be programmed into the database by the program vendor. The Office reported it expects to have this recommendation fully implemented in early fall 2016.

Question

1. Have the Office and the vendor completed the changes necessary to fully implement the additional controls over the automated claims process? If not, when does the Office anticipate the changes will be completed?

Respectfully Submitted,

Rocky Cooper, CPA
Legislative Auditor

RC:sy
cc: The Honorable Dan Schwartz, Nevada State Treasurer

Finance/Admin

Audit Highlights

Highlights of performance audit report on the Department of Administration's Division of Human Resource Management, Information Security issued on October 18, 2016. Legislative Auditor report # LA16-15.

Background

The Division of Human Resource Management is within the Department of Administration. The mission of the Division is to provide exceptional human resource services with integrity, respect, and accountability. The Division is divided into seven sections which provide services to state employees, state agencies, and the general public.

The Division has two offices, one in Carson City and the other in Las Vegas.

The state Department of Personnel became the Division of Human Resource Management, within the Department of Administration, during a State government reorganization that became effective in July of 2011. The Division was authorized 75 full-time equivalent employees and had expenditures of $7.9 million in fiscal year 2015.

The Division has no information technology staff of its own. The Division relies on the Division of Enterprise Information Technology Services for all of its information technology support.

Purpose of Audit

The purpose of our audit was to determine if the Division of Human Resource Management has adequate information security controls in place to protect the confidentiality, integrity, and availability of its information and information processing systems. Our audit covered the systems and practices in place from March to August of 2015.

Audit Recommendations

This audit report contains 11 recommendations to improve the security over the Division's information systems. The Division of Human Resource Management accepted the 11 recommendations.

Recommendation Status

The Division of Human Resource Management's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Division of Human Resource Management, Information Security

Department of Administration

Summary

Confidential information about state employees was stored unencrypted in the Division's databases, increasing the risk of unauthorized access of this information. State security standards require that confidential personal data be encrypted whenever possible. In addition, weaknesses exist in managing network users. These weaknesses include not disabling former employee computer accounts when they leave Division employment and some staff had not completed their annual information technology security awareness training.

Desktop computers used by Division employees lacked adequate virus protection and were missing Windows operating system security updates. In addition, some of the Division's servers lacked adequate virus protection and contained security vulnerabilities due to missing operating system updates. These deficiencies make computers more vulnerable.

Controls were not in place to ensure sensitive information stored in the Division's photocopiers was erased. Office copiers contain hard drives that store information. This data must be deleted prior to the photocopiers being replaced or there is a risk that the sensitive information could remain on the copiers' hard drives when they leave Division control.

Key Findings

Confidential information about state employees was stored unencrypted in the Division's databases, increasing the risk of unauthorized access of this information. One database contained Social Security numbers of over 145,000 current and former state employees and their beneficiaries. State security standards require that confidential personal data be encrypted whenever possible. However, this confidential personal information was not encrypted in the Division's databases. Enterprise Information Technology Services (EITS) support staff, who manage the Division's databases, indicated they were not aware that there was a requirement to encrypt this information. (page 3)

Weaknesses exist in managing network users. We identified 42 computer accounts of former staff among the 179 Division computer user accounts whose network credentials (login identification and passwords) had not been disabled. Thirty-one of these former employees had been gone for over one year. One employee had been gone almost 10 years. Untimely disabling of former employees' network credentials increases the risk that someone could gain unauthorized access to the state's information and systems. (page 4)

Five of the Division's 77 staff had not completed their annual security awareness training. State security standards require that state employees each receive annual information technology security awareness refresher training to ensure they stay aware of current security threats as well as understanding their responsibility to keep state information confidential. (page 5)

Desktop computers lacked adequate virus protection. Seven of the Division's 85 computers did not have adequate virus protection installed. State security standards require that virus protection software be updated regularly to retain protection from evolving online threats. Without current virus protection installed, computers could become infected with malicious software. (page 6)

Seventeen of the Division's 85 computers were not receiving Windows operating system updates on a regular basis. Operating system updates are released monthly by Microsoft. State security standards require updates be installed timely to fix security vulnerabilities. Computers without current software security patches installed represent weaknesses in a computer network that can be exploited by a malicious entity to gain unauthorized access to state computer resources and sensitive data stored on them. (page 6)

Some servers had vulnerabilities. For example, one of the Division's four servers did not have virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. In addition, three of the four servers had critical or high-level vulnerabilities due to missing Windows operating system updates. Without installation of these software patches, computers remain vulnerable to online threats. (page 8)

The Division's office copiers were not configured to securely process confidential information. Four of the Division's six photocopiers did not have the Immediate Image Overwrite function enabled as required by state security standards. This function configures the device to erase the processed job immediately after the copy, scan, or fax job is completed, thereby reducing the likelihood of any confidential information being stored on the copier's hard drive. (page 10)

Brian Sandoval
Governor

Patrick Cates
Director

Peter Long
Administrator

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
Division of Human Resource Management

209 E. Musser Street, Suite 101 | Carson City, Nevada 89701
Phone: (775) 684-0150 | http://hr.nv.gov | Fax: (775) 684-0122

January 18, 2017

James R. Wells, Director
Governor's Finance Office
209 East Musser Street, Room 200
Carson City, NV 89701

Dear Director Wells,

Pursuant to our responsibilities to file a plan of corrective action with your office due to the Legislative Counsel Bureau's audit of DHRM, the following is a plan with the audit recommendations, implementation status and description.

Recommendation #1 Encrypt confidential personal data in Division databases at the earliest opportunity.

Status: Fully Implemented

Purchased and implemented Oracle encryption software for HR databases.

Recommendation #2 Implement a more effective procedure to ensure departing employee's computer accounts are disabled timely.

Status: Fully Implemented

Revised internal checklist to include specific steps for documenting email and network user account termination as well as supervisor/managerial reviews of checklists.

Recommendation #3 Implement quarterly reviews of computer user accounts, as required by state security standards, to identify any former staff whose computer accounts were not disabled when they terminated employment with the Division.

Status: Fully Implemented

Assigned staff the task of working with EITSD to receive quarterly reports and reconcile with current employee roster.

Recommendation #4 Periodically reemphasize the Division's commitment to seeing that all employees complete their annual security awareness training.

Status: Fully Implemented

Department ISO sends out monthly notices to agencies with names of employees who are due for their renewal of the security course.

Recommendation #5 Implement a procedure to periodically review the status of all Division computers to identify computers without up-to-date virus protection.

Status: Fully Implemented

EITSD has implemented a statewide virus protection system to ensure updates are provided daily. Department ISO notifies DHRM when devices are not compliant.

Recommendation #6 Implement a procedure to periodically check Windows operating system software update installations to detect failed or missing updates.

Status: Fully Implemented

EITSD scans all computers to ensure they are up to date with their supported operating system. Devices not in compliance are reported to DHRM.

Recommendation #7 Develop a Division policy and procedure requiring employees with laptop computers to periodically update the virus definitions and install Windows operating system updates timely.

Status: Fully Implemented

DHRM established docking stations for laptops to be powered on and connected to the network to receive software updates while charging.

Recommendation #8 Establish a procedure with EITS that includes providing the Division with documentation to independently verify that servers have current virus protection as well as Windows operating system updates installed.

Status: Fully Implemented

Department ISO scans servers to ensure all levels of security are maintained. Results along with any deviations with security requirements are reported to DHRM and corrective actions coordinated between DHRM and EITSD.

Recommendation #9 Ensure all Division servers maintained by EITS have current service agreements.

Status: Fully Implemented

EITSD provides the Department's internal agency IT support. Services are documented online as the Service Catalog and DHRM receives full IT services including servers, networks, database administration, project management, desktop support, help desk support and application development.

Recommendation #10 Train staff to be aware that office copiers contain hard drives that store processed information and this information should be erased when each copier is replaced.

Status: Fully Implemented

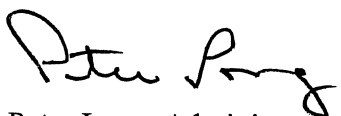
DHRM coordinates with Desktop Services, Purchasing and agency managers to ensure staff are knowledgeable and photocopiers are setup properly to prohibit permanent data storage and that hard drives are wiped when sent to surplus or returned to vendors.

Recommendation #11 Implement procedure to ensure that photocopiers are configured to not store processed data as indicated in state security standards.

Status: Fully Implemented

DHRM coordinates with Desktop Services, Purchasing and agency managers to ensure photocopiers are setup properly to prohibit permanent data storage and that hard drives are wiped when sent to surplus or returned to vendors.

Respectfully,



Peter Long, Administrator

cc : Patrick Cates, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Rocky Cooper, Legislative Auditor, Legislative Counsel Bureau

Education

Audit Highlights

Highlights of performance audit report on the Department of Education, Use of Class-Size Reduction Funds by School Districts issued on January 18, 2017. Legislative Auditor report # LA18-02.

Background

Responsibility for educating K-12 students is shared among the State, local school districts, and charter schools. The Department is responsible for regulating and supporting the school districts and charter schools.

The Legislature first provided school districts with CSR funds in 1991. The Legislature intended districts to use CSR funds to supplement funding sources, not to supplant existing funding sources. The 2013 Legislature approved "Regular" CSR funding of $161.7 million for grades 1 to 3 in 2014 and $166.5 million in 2015. It also provided Kindergarten CSR funds of $25.5 million in 2014 and $27.9 million in 2015.

During the 2010 Special Session, the Legislature reduced the amount of funds provided to school districts due to the State's fiscal crisis. However, to allow flexibility in addressing budget shortfalls, the Legislature allowed school districts to use a portion of its CSR funds to minimize the impact of budget reductions on class sizes in grades 4 to 12. This portion of CSR funds is referred to as "Plus 2" savings. This flexibility in using some CSR funds was continued by the 2011 and 2013 Legislatures and remained in effect until June 30, 2015.

Purpose of Audit

This audit was required by Chapter 499, Statutes of Nevada, 2015 (A.B. 278). The purpose of this audit was to: (1) evaluate the use of CSR funds by each school district for the 2013-2015 biennium, and (2) analyze the use of CSR funds for school districts that elected the Plus 2 flexibility, including whether Plus 2 savings were used to minimize the impact of budget reductions on class sizes in grades 4 to 12.

Audit Recommendations

This audit report contains two recommendations to the Department of Education for improving accountability over school districts' use of CSR funds. The Department accepted the two recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on April 13, 2017. In addition, the six-month report on the status of audit recommendations is due on October 13, 2017.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Use of Class-Size Reduction Funds by School Districts

Department of Education

Summary

Class-Size Reduction (CSR) funds expended by school districts for fiscal years 2014 and 2015 were appropriately used to pay for the costs of CSR-grade teachers. CSR funds allowed many districts to meet, or come relatively close to meeting, target pupil-to-teacher ratios for each CSR grade on a districtwide basis. Nevertheless, to improve accountability of CSR funds, the Department of Education (Department) needs to better monitor ratios on a districtwide basis to help ensure target class-size ratios are met in the future. In addition, we discovered that the Department did not identify more than $6 million of unused Kindergarten CSR funds, or ensure that those funds were returned to the State when the time for using them had passed.

We found that school districts used the portion of CSR funds permitted to be spent on teachers for grades 4 to 12 ("Plus 2" savings) as intended by the Legislature. Plus 2 savings, generated by increasing class sizes by 2 pupils in grades 1 through 3, were authorized to minimize the impact of budget reductions on class sizes in the upper grades. Although the school districts that chose to utilize Plus 2 funds for such purposes did not submit quarterly reports on class sizes for grades 4 to 12, as required by law, we used other information to obtain assurance that the savings were used as intended. Nevertheless, the Department should have ensured school districts reported class-size information for the upper grades. Without that type of information, the Department could not monitor that the districts used Plus 2 savings to meet the program objectives.

Key Findings

Our tests support that amounts expended by the districts from their CSR funds for fiscal years 2014 and 2015 were used for the salaries and benefits of CSR-grade teachers. Furthermore, most districts met target class-size ratios for many grades, or came relatively close to meeting them, on a districtwide basis. Specifically, districts met target ratios in about 70% of grades in fiscal years 2014 and 2015. Another 20% of grades came relatively close to target ratios, based on our analysis. We analyzed districtwide ratios because that is the basis used by the State to determine the amount of CSR funds provided to districts. (page 9)

The Department needs to improve its monitoring of class-size ratios, by grade, on a districtwide basis. Since reporting requirements changed in 2013 from a districtwide basis to a school-level basis, the Department's focus has been on monitoring school-level ratios. Although monitoring ratios at the school-level is important, districtwide ratios remain important. Monitoring districtwide ratios, by grade, provides assurance to State and local decision-makers that districts are spending enough funds on teachers to achieve target ratios. For districts not meeting target ratios on a districtwide basis, the Department should request a plan of what efforts will be made to meet ratios in the future, and monitor progress toward target ratios. (page 13)

Clark County School District did not return to the State approximately $6.1 million of unused Kindergarten CSR funds received during the 2013-2015 biennium, as required by law. District personnel cited an inability to hire enough teachers and problems setting up enough classrooms as the reasons why funds were not spent. Due to an inadequate review of districts' annual reports of expenditures, the Department did not detect the unused funds. (page 14)

Quarterly reports filed by the districts did not include upper grade pupil-to-teacher ratios (grades 4 to 12) as required under the Plus 2 legislation. The reports were a key part of the accountability the Legislature intended over the use of Plus 2 savings. The Department did not ensure that districts provided this information. (page 20)

Our analyses of various data indicated Plus 2 savings were used by school districts as intended by the Legislature. This included analyses showing: (1) minimal or no increases in upper grade class sizes, and (2) increases in instructional expenses while districts' revenues were flat or declining. These analyses provide assurance that Plus 2 savings were spent to minimize the impact of budget reductions on class sizes in upper grades, as required by education funding legislation. (page 20)

Audit Division
Legislative Counsel Bureau

Commerce/Industry

Audit Highlights

Highlights of performance audit report on the Division of Museums and History issued on November 19, 2015. Legislative Auditor report # LA16-03.

Background

The Division of Museums and History is a division of the Department of Tourism and Cultural Affairs. Its mission is to engage people in the cultural and natural history of Nevada so they may celebrate the past, learn from it, and develop perspective for present and future generations. The Division is responsible for the collection, preservation, education, community development (cultural tourism), interpretation of objects and documents representing Nevada's history and pre-history, and the development and preservation of these collections for the public, now and in the future.

The Division consists of the Office of the Administrator, six museums, and a historical society. 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, curatorial and archival services, photography and publication sales, investment income, and other sources.

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.

Purpose of Audit

The purpose of this audit was to evaluate controls over the Division's museum store merchandise and museum revenues. Our audit focused on the state museums in Carson City and Las Vegas and the railroad museum in Carson City for the 18 months ending December 31, 2014.

Audit Recommendations

This audit report contains seven recommendations to improve controls over museum store merchandise and museum revenues.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Division of Museums and History

Department of Tourism and Cultural Affairs

Summary

Improvements can be made to strengthen the Division's controls over its store merchandise. We reviewed store merchandise controls at the Carson City State Museum, Carson City State Railroad Museum, and Las Vegas State Museum and found a lack of policies and procedures over store inventory processes and adjustments to merchandise inventory records were not adequately reviewed. Additionally, control weaknesses found at the Las Vegas State Museum led to inaccurate merchandise inventory records. Stronger controls are also needed over the accounting for commemorative medallions at the Carson City State Museum. Strengthening store merchandise inventory controls would help ensure merchandise is accurately accounted for and safeguarded against loss or theft. The total cost of inventory at the three museum stores tested was about $115,000 on June 30, 2014.

Although we found all money collected was deposited at the three museums tested, we did find some control weaknesses. Improvements can be made regarding the timeliness of deposits, reconciling receipts to deposits, and updating written policies and procedures. Good revenue controls minimize the risk of revenues being lost or stolen. For the 18 months ended December 31, 2014, the Division's museums collected over $1.5 million.

Key Findings

For the three museums tested, we found a lack of written policies and procedures over each museum store's inventory processes. Although limited procedures were developed for processing merchandise sales in the store's point-of-sale (POS) system, procedures for purchasing and maintaining accurate merchandise inventory records did not exist. (page 6)

Adjustments made to merchandise inventory records were not adequately documented and reviewed. We 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. (page 8)

For the Las Vegas State Museum, we found additional store merchandise inventory problems. The fiscal year 2014 physical inventory was not conducted properly, and inventory adjustments were not made to reflect the physical count. 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. We also identified merchandise purchases not properly recorded in the POS system. For the 18 months ending December 31, 2014, we identified 6 of 10 purchases, of a total of 65 purchases, that were not properly recorded in the POS system when received. The 6 purchases improperly recorded involved 28 items totaling $1,800. These control weaknesses increase the risk of undetected theft and loss, unexpected shortages of merchandise, and unnecessary purchases of items already on hand. (page 9)

Control weaknesses were identified in the accounting for commemorative medallions. Staff duties in the minting process were not segregated and no physical inventories were performed of stored blanks and medallions. A lack of policies and procedures contributed to these weaknesses and are needed to help ensure these assets are properly accounted for. (page 11)

At the three museums tested, we found deposits were not always made timely. We reviewed 100 days of cash receipts from admissions, train rides, and store sales 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. (page 15)

Receipts collected at museums are 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. (page 15)

The Division's revenue policies and procedures have not been updated in more than 7 years. Several differences were identified between written procedures and actual processes we observed. Since the same individuals have been performing the key revenue functions for several years, updating policies and procedures has not been a priority. Management indicated they have begun updating some policies and procedures. (page 16)

Brian Sandoval
Governor

James R. Wells, CPA
Director

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE

209 E. Musser Street, Suite 200 | Carson City, NV 89701-4298
Phone: (775) 684-0222 | http://gfo.nv.gov | Fax: (775) 684-0260

MEMORANDUM

To: Rocky Cooper, Legislative Auditor
Legislative Counsel Bureau

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

Date: August 19, 2016

Subject: Legislative Audit of the Department of Tourism and Cultural Affairs, Division of Museums & History

On November 19, 2015, your office released an audit report on the Department of Tourism and Cultural Affairs, Division of Museums & History (division). The division subsequently filed a corrective action plan on February 17, 2016. 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 seven recommendations contained in the report. The extent of the division's compliance with the audit recommendations is as follows:

Recommendation 1

Develop policies and procedures to improve controls over museum store merchandise, including segregating key duties and adequately documenting and reviewing adjustments to inventory records.

Status – Partially Implemented

Agency Actions – The division reports it implemented a multi-step process to improve controls over museum store merchandise, which includes: revising internal controls for handling fiscal responsibilities, conducting spot-checks of inventory and developing a process to provide division oversight on inventory adjustments, and implementing a new Point-of-Sale (POS) system for all museum stores. The division states complete implementation of this recommendation is tied to the timeline for delivery, training, and start-up of the newly acquired POS system, which is anticipated by October 2016.

Recommendation 2

Provide supervisory oversight and training of Las Vegas State Museum staff to ensure store merchandise is properly recorded and accurately accounted for in the point-of-sale system.

Status – Partially Implemented

Agency Actions – The division reports it has made short-term control improvements at the Las Vegas State Museum, which includes hiring and training a part-time museum attendant and shifting duties of inventory management to an existing administrative assistant position. The division states complete implementation of improved supervision and oversight of store operations are tied to the timeline for delivery, training, and start-up of the newly acquired POS system, which is anticipated by October 2016.

Recommendation 3

Segregate duties over the medallion minting process, including purchasing of medallion blanks, selling of minted medallions, and reconciling records by an individual independent of the minting process.

Status – Partially Implemented

Agency Comments – The division hired a Sales & Promotion Representative II position at the end of last year to ensure segregation of duties and responsibilities over the medallion minting process. Additionally, the division developed new policies and procedures over the medallion process. We reviewed policies and procedures and noted no exceptions.

Auditor Comments – All medallion production was ceased in September 2015 for the coin press to be repaired due to some component failures. The division anticipates the coin press will continue operations once repaired but could not provide an estimated resume date. We were not able to review any minted medallions to ensure policies and procedures were being followed.

Recommendation 4

Develop policies and procedures over the control of commemorative medallions, including performing physical inventories of stored blanks and minted medallions.

Status – Partially Implemented

Agency Comments – The division developed new policies and procedures over the control of commemorative medallions. We reviewed policies and procedures and noted no exceptions.

Auditor Comments – All medallion production was ceased in September 2015 for the coin press to be repaired due to some component failures. The division anticipates the coin press will continue operations once repaired but could not provide an estimated resume date. We were not able to review any minted medallions to ensure policies and procedures were being followed.

Recommendation 5

Deposit museum cash receipts in a timely manner in accordance with state law.

Status – Partially Implemented

Agency Comments – The division issued a policy directive on February 16, 2016 to all museum directors to emphasize the importance of depositing museum cash receipts in a timely manner.

Auditor Comments – We reviewed museum cash receipts for the month of June 2016 and found nine of 23 deposits (39%) were not made timely in accordance with state law.

Recommendation 6

Enhance policies and procedures to include reconciling cash receipts per cash register reports to amounts deposited.

Status – Partially Implemented

Agency Comments – The division issued a policy directive on July 1, 2016 to all museum directors to emphasize the proper procedure for reconciling cash receipts per cash register reports to amounts deposited.

Auditor Comments – We reviewed museum cash receipts for the month of June 2016 and found 14 of 23 deposits (61%) were not reconciled by an individual independent of the cash receipting functions. Additionally, we found 10 of 14 discrepancies (71%), such as shortages and overages, were not initialed and investigated.

Recommendation 7

Revise policies and procedures to reflect current museum operations concerning the collection of money.

Status – Partially Implemented

Agency Actions – The division reports it is in the process of revising policies and procedures to reflect current museum operations and has completed 30-35% of its internal controls. The division anticipates implementation of this recommendation by November 2016.

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

James R. Wells, Director
Governor's Finance Office

cc: Mike Willden, Chief of Staff, Office of the Governor
Claudia Vecchio, Director, Department of Tourism and Cultural Affairs
Peter Barton, Administrator, Division of Museums & History
Steve Weinberger, Administrator, Division of Internal Audits

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

October 7, 2016

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

In November 2015, we issued an audit report on the Department of Tourism and Cultural Affairs, Division of Museums and History (Division). The Division filed its plan for corrective action in February 2016. NRS 218G.270 requires a report be issued 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 seven recommendations contained in the audit report. As of August 19, 2016, the Finance Office indicated seven recommendations were partially implemented.

We met with Division officials in September 2016 and reviewed various agency records and policies and procedures on all seven recommendations. Our review indicates the Division has now fully implemented six recommendations, and one recommendation remains partially implemented. The partially implemented recommendation (Recommendation No. 1) concerns improving controls over museum store merchandise. The Division indicated this recommendation will be implemented by the end of November 2016 after its new inventory system is running.

Because the Division has taken action to address the partially implemented recommendations, we have no questions for Division officials. We will continue to monitor the Division's progress on the one remaining partially implemented recommendation.

Respectfully Submitted,

Rocky Cooper, CPA
Legislative Auditor

RC:sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
Claudia Vecchio, Director, Department of Tourism and Cultural Affairs (DTCA)
Peter Barton, Administrator, Division of Museums and History, DTCA

Audit Highlights

Highlights of performance audit report on the Manufactured Housing Division issued on November 19, 2015. Legislative Auditor report # LA16-04.

Background

The Manufactured Housing Division of the Department of Business and Industry was created in 1979. The Division is primarily responsible for administering and enforcing manufactured housing laws and regulations to ensure that manufactured structures are constructed and installed in a manner that provides reasonable safety and protections to residents and other occupants. The Division's mission is to protect occupants of manufactured homes and commercial structures.

During fiscal year 2014, there were over 79,000 titled manufactured structures. Generally, structures regulated by the Division include manufactured or mobile homes, commercial coaches, portable and modular buildings, and factory-built housing. The Division's primary means of regulation is the issuance of licenses and titles, and the Division requires the purchase of permits for installations, remodels, and repairs of manufactured or mobile homes and commercial coaches.

As of November 2014, the Division had 13 employees located in its Carson City and Las Vegas offices. The Division operates from four budget accounts primarily funded by user fees and had revenues of $1.5 million in fiscal year 2014.

Purpose of Audit

The purpose of the audit was to determine if certain operating and administrative controls related to inspections, deposits, information technology, and performance measures were adequate. Our audit focused on certain operating and administrative controls, primarily during calendar year 2014; however, certain information technology and inspection activity was reviewed through February 2015.

Audit Recommendations

This audit report contains 11 recommendations to improve operating and administrative practices over inspections, deposits, information technology, and performance measures.

The Division accepted the 11 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Manufactured Housing Division

Department of Business and Industry

Summary

The Manufactured Housing Division (Division) can improve its operating and administrative practices over inspections, deposits of certain fees, protecting sensitive electronic information, and documenting performance measures. Specifically, the Division needs to strengthen its program oversight to ensure inspections are performed on manufactured structures. In addition, weaknesses over revenue collections resulted in untimely deposits and inadequate safeguarding of cash and checks. We also found the Division collected and inadequately stored sensitive information. Finally, the Division maintains insufficient underlying records to support published performance measure results. Weak controls over these operating and administrative functions does not provide adequate assurance Division functions will be carried out properly and efficiently.

Key Findings

The Division needs to develop a process to ensure inspections are performed on structures, including a process to monitor permits where work did not meet adopted standards and permits where an inspection was never scheduled (open permits). Our review of permit and inspection records, or lack thereof, found 58% of failed inspection permits and 80% of open permits did not have a subsequent or an original inspection performed by the Division. Inspections were not performed by the Division because the Division relies solely on permit purchasers to schedule inspections and does not have a monitoring process in place to identify and perform necessary inspections when not notified by permit purchasers. (page 7)

The Division was unable to provide all records regarding inspections because inspection and permit records were not maintained appropriately. Our review of available records found the Division could usually provide permit documentation but not inspection checklists or correction notices. Furthermore, the Division does not cross-reference permit and inspection documentation to efficiently determine if regulation activities are complete and appropriate. As a result, the Division is unable, with any certainty, to determine whether work performed on regulated structures is adequate. (page 10)

The Division needs to develop a compliance label inventory system from receipt to affixation of the label. We found the Division does not maintain an adequate inventory of labels, does not complete a periodic reconciliation of labels stored in its possession, and labels are not properly safeguarded. Also, the database used to maintain the record of labels contained incomplete or inaccurate information. A compliance label inventory system is important because the Division affixes labels to structures to signify that adopted health and safety standards have been met. (page 12)

Control weaknesses exist over revenue collections and deposits. Weaknesses include fee revenue for licensing, titling, and annual park fees not always being deposited timely. The Division does not have a process to log checks upon initial receipt of payment. In addition, the Division does not perform a reconciliation between the receipt log and the state accounting system to ensure all amounts are deposited. Also, we found cash and checks received were not adequately safeguarded and access was not restricted. Finally, the Division has not adequately segregated the duties related to receipting and depositing of fees. Stronger controls over revenue collections and deposits are important because the Division collected almost $1.5 million in fee revenue during fiscal year 2014. (page 14)

The Division is collecting and storing records of personal identifying information without statutory authority. Over 2,000 unencrypted social security numbers and names of applicants were found on the Division's network. In addition, approximately 200 files containing unencrypted personal identifying information were stored on local drives of individual desktop computers used by staff. Collecting and storing personal identifying information without appropriate safeguards puts the Division at risk of losing sensitive data. (page 17)

The Division can take steps to strengthen its oversight of performance measure results used in the State's budget process. We found records for some performance measures were not available or were incomplete for purposes of verifying reported results. Performance measures must be reliable because they can affect budget and policy decisions made by oversight bodies, including judgments made by stakeholders and the public about the Division's operations. Performance measures cannot be considered reliable; however, unless underlying records exist to support them. (page 18)

Brian Sandoval
Governor

James R. Wells, CPA
Director

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE

209 E. Musser Street, Suite 200 | Carson City, NV 89701-4298
Phone: (775) 684-0222 | http://gfo.nv.gov | Fax: (775) 684-0260

MEMORANDUM

To: Rocky Cooper, Legislative Auditor
Legislative Counsel Bureau

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

Date: August 19, 2016

Subject: Legislative Audit of the Department of Business and Industry, Manufactured Housing Division

On November 19, 2015, your office released an audit report on the Department of Business and Industry, Manufactured Housing Division (division). The division subsequently filed a corrective action plan on February 19, 2016. 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 eleven recommendations contained in the report. The extent of the division's compliance with the audit recommendations is as follows:

Recommendation 1

Establish a process to ensure inspections, either original or reinspections, are scheduled and performed in a timely manner. Document the process in policies and procedures.

Status – Fully Implemented

Agency Actions – The division reports it implemented an inspection process to ensure that inspections, original or re-inspections, are performed in a timely manner. Additionally, the process is documented in the division's policies and procedures. We reviewed 52 permits, original inspection and re-inspection records, and determined they were properly scheduled and performed in a timely manner.

Recommendation 2

Develop a method of record maintenance that ensures information related to permits and inspections is easily retrievable and supports review of performed inspections. The system should include some method of correlating all records related to a particular project and should be documented in policies and procedures.

Status – Fully Implemented

Agency Actions – The division implemented a record maintenance system that correlates all records related to a particular project, allowing for the easy retrieval and review of permits and corresponding inspection records. The system is documented in the division's policies and procedures. We reviewed the policies and procedures, 52 permits, and inspection records with no exceptions noted.

Recommendation 3

Update compliance label policies and procedures to establish a retrievable inventory system for labels from receipt to affixation. The system should include a periodic reconciliation of compliance labels on hand.

Status – Partially Implemented

Agency Comments – The division reports it updated policies and procedures and established a retrievable inventory system for compliance labels from receipt of to affixation. The system includes procedures for the reconciliation of compliance labels.

Auditor Comments – We reviewed the division's updated policies and procedures and noted no exceptions. We also reviewed the division's fourth quarter 2015 physical inventory reconciliation of labels and insignias. We determined the reconciliation to be incomplete as it failed to address key elements such as additions, deletions, and inventories held in the custody of third parties. The division anticipates full implementation of this recommendation by August 31, 2016.

Recommendation 4

Develop controls and modify policies and procedures to ensure receipts are deposited timely, in accordance with NRS 353.250.

Status – Fully Implemented

Agency Actions – The division reports it developed controls and implemented policies procedures for depositing receipts timely, in accordance with NRS 353.250. We reviewed the division's policies and procedures and all deposits for the month of May 2016 for timeliness and compliance with NRS 353.250 and noted no exceptions.

Recommendation 5

Modify policies and procedures to ensure cash and checks are logged at the initial point of receipt.

Status – Fully Implemented

Agency Actions – The division reports it implemented policies and procedures for logging all cash and checks at the point of receipt. We reviewed the division's policies and procedures and receipt logs for all deposits for the month of May 2016. Additionally, we observed the logging of cash and check receipts at the initial point of receipt during fieldwork. We noted no exceptions during our review and observations.

Recommendation 6

Establish a process and develop policies and procedures to compare receipt log(s) to amounts recorded in the accounting system.

Status – Fully Implemented

Agency Actions – The division reports it established a process and developed policies and procedures to compare receipt log(s) to amounts recorded in the accounting system. We reviewed the division's newly established policies and procedures. In addition, we interviewed staff and determined Department of Business and Industry fiscal staff compares receipt log(s) to amounts recorded in the accounting system.

Recommendation 7

Secure cash and checks prior to deposit including limiting access to only necessary personnel.

Status – Fully Implemented

Agency Actions – The division reports it purchased and installed two safes for securing cash and checks prior to deposit, one located in each of the northern and southern division offices. Additionally, the division updated and implemented policies and procedures for security and safekeeping of assets. We reviewed the division's policies and procedures and verified through observations and discussions that access to the newly installed safes are restricted to only authorized personnel.

Recommendation 8

Ensure duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are segregated.

Status – Fully Implemented

Agency Actions – The division reports it updated and implemented policies and procedures to ensure the duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are segregated. We reviewed the division's policies and procedures and determined via observations and discussions that duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are properly segregated.

Recommendation 9

Discontinue collection of sensitive personal identifying information where not authorized by law and remove existing sensitive data.

Status – Partially Implemented

Agency Comments – The division reports it discontinued the collection of sensitive personal identifying information where not authorized by law. Procedures were updated to ensure redaction of personal identifying information on documents received by the division. In addition, the division reports 100 percent of the park files and lot rent recipient files have been redacted.

Auditor Comments – We reviewed the division's policies and procedures; applications and forms; database records; and a sample of ten park physical files without exception. Review of seven lot rent recipient physical files disclosed sensitive personal identifying information such as driver's license, identification card, and bank account numbers were not redacted. Additionally, we noted two instances of failure to redact an individual's social security number. The division anticipates full implementation of this recommendation by October 5, 2016.

Recommendation 10

Develop procedures to periodically review Division computers for unauthorized and unencrypted sensitive data.

Status – Fully Implemented

Agency Actions – The division developed procedures to periodically review division computers for unauthorized and unencrypted sensitive data on all identified division computers. We reviewed the division's policies and procedures, the park and lot rent recipient databases, and documentation generated from the division's computer scans

for unauthorized and unencrypted sensitive data for the months of May 2015 and January 2016 and determined periodic computer reviews are being performed.

Recommendation 11

Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.

Status – Fully Implemented

Agency Actions – The division developed policies and procedures for performance measures to ensure reported results are reliable, including the methodology of data gathering and processing, computations, supervisory review of calculations and methodology, and supporting document retention. We reviewed the division's policies and procedures and the accuracy of calculations for six measures for the months of May and June 2016 with no exceptions noted.

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
Bruce Breslow, Director, Department of Business and Industry
James deProsse, Administrator, Manufactured Housing Division
Steve Weinberger, CPA, Administrator, Division of Internal Audits

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

October 7, 2016

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

In November 2015, we issued an audit report on the Department of Business and Industry, Manufactured Housing Division (Division). The Division filed its plan for corrective action in February 2016. NRS 218G.270 provides that the Director of the Office of Finance shall issue a report 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 11 recommendations contained in the report. As of August 19, 2016, the Governor's Finance Office indicated nine recommendations were fully implemented and two were partially implemented. The recommendations not fully implemented and their status are shown below.

Recommendation Number		Status
3	Update compliance label policies and procedures to establish a retrievable inventory system for labels from receipt to affixation. The system should include a periodic reconciliation of compliance labels on hand.	Partially Implemented
9	Discontinue collection of sensitive personal identifying information where not authorized by law and remove existing sensitive data.	Partially Implemented

Regarding Recommendation No. 3, the Governor's Finance Office indicated in their report that the Division has made progress in this area. However, the Division's reconciliation was determined to be incomplete since it failed to address key elements such as additions, deletions, and inventories held in the custody of third parties. Further, discussion with the Division indicated they have contracted with a company to build new databases to account for label inventories since current systems do not adequately support retrievable inventory information. Without updates to database systems or alternative inventory recordkeeping, the Division is not able to perform an inventory reconciliation that addresses the key issues that were noted as lacking in the six-month report. While the Division originally anticipated this finding to be fully implemented by August 31, 2016, the Division Administrator recently indicated the databases should be complete by the end of calendar year 2016. Based on our discussions with

the Division regarding database development, we do not have any questions regarding the implementation status of this recommendation at this time.

Regarding Recommendation No. 9, the Governor's Finance Office indicated in their response that the Division has not completed the process of redacting personal identifying information from applicable files. At the time of the six-month report, the Division anticipated full implementation of this recommendation by October 5, 2016.

Question

1. Has the Division redacted all sensitive information from Division files at this time?

Respectfully Submitted,

Rocky Cooper, CPA
Legislative Auditor

RC:sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry (DBI)
Stephen G. Aichroth, Administrator, Manufactured Housing Division, DBI

Audit Highlights

Highlights of performance audit report on the Division of Mortgage Lending issued on October 18, 2016. Legislative Auditor report # LA16-16.

Background

The mission of the Division of Mortgage Lending (Division) is to promote and grow Nevada's non-depository mortgage lending and related industries through implementation and enforcement of laws; to protect industry and consumer interests and safeguard the public trust by creating a regulatory climate that fosters a competitive level playing field and advances professionalism, education, compliance, and ethics in the mortgage lending and related industries; and to provide a thorough and fair consumer complaint resolution process.

The Division licenses and regulates mortgage brokers, agents, bankers, escrow agencies, and covered service providers. It has one office located in Las Vegas, with the licensing and fiscal functions centralized at the Department in Carson City. The Division has one budget account, which is self-funded, primarily by license and examination fees, as well as industry assessments. In fiscal year 2016, the Division had 19 authorized positions.

The Division must conduct examinations of each licensed mortgage broker, mortgage banker, escrow agency, and covered service provider it regulates. Upon completion of an examination, the examiner prepares the examination report and assigns a rating to the licensee on a scale from "1" to "5", denoting the best to the worst ratings.

Purpose of Audit

The purpose of this audit was to determine if the Division performed timely examinations of mortgage companies and has adequate controls over the examination fee billing process. Our audit focused on examination and billing activities conducted from July 2014 through December 2015, and included fiscal year 2016 in some instances.

Audit Recommendations

This audit report contains two recommendations to improve activities related to compliance examinations of mortgage companies. The Division accepted the two recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Division of Mortgage Lending

Department of Business and Industry

Summary

The Division of Mortgage Lending (Division) continues to have problems completing timely examinations of most mortgage companies it regulates. An inadequate staffing plan coupled with employee turnover led to the Division's inability to meet its statutory mandate to perform examinations. Although problems persist since our prior audit, the Division's implementation of additional controls over the examination process has helped reduce the number of unexamined licensees. However, the Division needs to take steps to ensure it maintains appropriate staffing levels before it can achieve and sustain compliance in completing all required examinations.

The Division needs to address inconsistencies in its billing practices for examination fees. Examiners' time is frequently recorded as non-billable hours, resulting in wide fluctuations in the percentages of hours that are billed to licensees. Because of inconsistent practices, many examination hours are not billed to licensees, and billing disputes can occur. By implementing written procedures for the tracking and billing of examiners' time, the Division can help ensure consistent billing practices and reduce its potential for subsequent billing problems.

Key Findings

The Division did not perform required examinations timely for most of the 238 licensed mortgage companies it regulates. Over the 18-month period ended December 31, 2015, 58% of licensees either were not examined or had untimely examinations. Furthermore, as of December 31, 2015, examinations for 124 licensees were past due by an average of 13 months. (page 4)

Examiners did not conduct timely follow-up examinations for 14 of 22 licensees (64%) that had adverse ratings on their most recent examinations. For these 14 high-risk licensees, the follow-up examinations averaged 5 months past due but some went unexamined for longer periods of time. Timely follow-up with licensees that receive adverse ratings is important to help ensure they implement appropriate corrective action. The Division may conduct limited scope examinations when following up on these licensees. Performing a limited scope examination in these situations conforms to best practices for regulatory programs by focusing on the specific areas of concern from the prior examination. (page 6)

The Division needs to address its staffing issues before efforts to reduce the examination backlog will be effective. An inadequate staffing plan coupled with employee turnover directly affected examination timeliness. Specifically, the Division does not use workload projections to determine the number of examiner positions it needs. In addition, during 2015, four of seven examiner positions (57%) had turnover, and one examiner position remained unfilled for nearly 10 months as of March 31, 2016. Until the Division develops and utilizes a plan for determining the proper number of examiner positions it needs and fills vacancies timely, it will likely continue to fall short of its statutory mandate to examine all licensees. (page 7)

The Division does not use a consistent method for recording billable examination hours to licensees. Examination fees billed to licensees were inconsistent due to variances in allocations of examiners' time between billable and non-billable hours. This inconsistent billing practice occurred because staff do not have written guidelines for determining how much of the time they spend on examinations should be billed to the licensee. During fiscal year 2015, examiners' timesheets showed 2,252 hours were non-billable, which is 37% of their total examination hours. Therefore, about $135,000 was not billed based upon the timesheet allocations to non-billable hours. For 25 examinations we tested, allocations of the examination time to billable hours ranged from 42% to 100% of the total examination hours. (page 10)

BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
DIVISION OF MORTGAGE LENDING
7220 Bermuda Road, Suite A
Las Vegas, Nevada 89119
(702) 486-0780 Fax (702) 486-0785
www.mld.nv.gov

BRUCE BRESLOW
Director

CATHY SHEEHY
Commissioner

January 19th, 2017

Via e-mail at cooper@lcb.state.nv.us
and U.S. Mail

Rocky Cooper, CPA
Legislative Auditor
State of Nevada
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Cooper:

The Department of Business and Industry, Division of Mortgage Lending (the "Division") has reviewed the findings reported in the Performance Audit report ("Audit Report") as presented by the Legislative Counsel Bureau on October 18, 2016 (#LA16-16). The Division has implemented the two recommendations set forth in the Audit Report.

The Division offers the following 60-day plan for corrective action to the specific recommendations:

Recommendation #1:
Implement a staffing plan for determining the number of examiner positions needed and fill vacancies timely.

Plan:

The Division has implemented a Staffing Plan, and related examination workload projection to address and eliminate the identified deficiencies. The Staffing Plan will be continually reviewed and refined as conditions warrant.

The Division conducts examinations of licensed escrow agencies, mortgage brokers, mortgage bankers, mortgage servicers and covered service providers. The Division's goal is to conduct an

examination of each licensee's books, records, and business practices. The Division has undergone significant reforms intended to improve the efficiency and consistency of its regulatory oversight to ensure this goal is met.

Per statute, annual examinations are only required for escrow agencies, covered service providers and mortgage brokers and bankers that:

1. maintain trust accounts or arrange loans funded by private investors; or
2. received a rating of "3" or higher on the previous examination; or
3. have been subject to a formal disciplinary action by the Division since the last examination; or
4. had an adverse change in their financial condition.

Mortgage brokers and mortgage bankers who are not required to have annual examinations, are on a biennial examination schedule.

The Audit found that over the 18-month period ended December 31, 2015 one hundred-twenty four (124) licensees were past due for examination. The Division is pleased to report that since the end of the scope period outlined in the Audit Report, one hundred and twelve (112) of the one hundred twenty-four (124) licensees identified as "Licensees Not Examined" have received an examination with Final Reports of Examinations having been issued. The Division implemented a prioritized, risk-based approach to scheduling, whereby the Division examines higher risk licensees before lower risk licensees. Thus, the remaining twelve (12) currently being examined have a previous rating of "1," or the lowest risk rating possible. The remaining twelve (12) are currently in the process of examination and are on schedule to be finished by or before January 31, 2017.

In FY17 (7/1/16 – 6/30/17), two hundred twenty-one (221) licensees are due for examination.

Projected Examinations Due FY2017			
Licensees Due Annual Examination	Licensees Due Biennial Examination	Estimated Follow-up Examinations	**Projected Examinations Due in FY17**
60	**135**	**25**	**221**

The Division's examination staff is currently staffed with six (6) fulltime mortgage lending examiners and one (1) fulltime supervisory examiner. With this staff, the Division expects to meet its statutory obligation of examining all 221 licensees due an examination in FY17.

Examination Workload Projection			
	Annual Reports	Average Annual Hours Per Examiner	Average Number of Examiners per FTE
Projected Licensees Due Examination FY17	221		
Projected Avg. Hours Per Examination*	46.09		
Total	**10,188**	**1698**	**6**

The Division has made a budget enhancement request for two (2) additional fulltime mortgage lending examiners, which would bring the total number of examiners to eight (8) in FY18. (The Staffing Plan will be updated if and when that budget enhancement request is approved.)

With eight (8) fulltime examiners, the Division anticipates being able to allocate more hours per exam as necessary, given the wide discrepancy in volume of loans and documents, and the complexity of possible violations found. Additionally, adverse ratings of "3" or higher require a more frequent follow-up examination schedule.

The examination workload projection makes use of a projected average for each examination, with an implicit understanding that some examinations will take longer than others based upon the nature of licensee size and scope, and investigation of suspected violations. With six (6) fulltime examiners, the Division can allocate on average forty-six point nine (46.09) hours per examination and meet its statutory examination obligation. With eight (8) fulltime examiners, the Division can allocate on average sixty-one point forty-six (61.46) hours per examination and meet its statutory examination obligation.

Examination Workload Projection – Future			
	Annual Reports	Average Annual Hours Per Examiner	Average Number of Examiners per FTE
Projected Licensees Due Examination FYXX	221		
Projected Avg. Hours Per Examination	61.46		
Total	**13,584**	**1698**	**8**

Examination Workload Projection – Scope of Examination			
	Estimated Hours Per Examination	**FTE Required Per 221 Examinations Due**	
"Full-Scope" Examination++	80.00	10	
Projected Avg. Hours Per Examination	61.46	8 *(Requested)*	
Projected Avg. Hours Per Examination	46.09	6 *(Current)*	
"Limited-Scope" Examination**	40.00		
"Targeted-Scope" Examination^^	30.00		

Full-Scope Examination++ – A full-scope is a comprehensive examination where a detailed picture is considered in the overall assessment of a licensee. This examination includes an evaluation of the licensee's quality of management; a review and evaluation of the licensee's financial records, including, net-worth and solvency, trust accounts, payroll, etc.; a review and evaluation of the licensee's policies, procedures, and compliance programs; a review of the licensee's reports filed with the Division and/or Registry for accuracy; and the review of a sampling of transaction files for compliance with applicable law.

Limited-Scope Examination** – A limited-scope examination is similar to a full-scope examination, but the scope is significantly smaller and the focus of the examination is narrower. A limited-scope examination might be employed: (1) due to limited resources; (2) follow-up to a previous full-scope examination to assess the Licensee's adoption and implementation of corrective measures; (3) in a limited-pull examination of a licensee that has low risk-factors, low activity volume, or a history of compliance; (4) to focus on compliance with specific law; or (5) for other similar situations where the issues or risk do not merit a full-scope examination.

Targeted-Scope Examination^^ – A targeted-scope examination is an examination that focuses on a particular issue, or specific area of concern. The focus of these examinations generally relates to statutory consumer protection and license qualification requirements, but may be utilized for any number of targeted exams depending on the issues or past concerns. A targeted scope might be employed: (1) due to limited resources; (2) to follow-up to a previous full-scope examination to assess the Licensee's adoption and implementation of corrective measures; (3) in a targeted-pull examination of a licensee that has low risk-factors, low activity volume, or a history of compliance; (4) to focus on compliance with specific law; or (5) other similar situations where the issues or risk do not merit a full-scope examination.

The averages contemplated above should be informative as a time allocation average across the examination pool in any given year, not a number of hours equally distributed for each licensee. It is also important to note that not all examinations can be conducted within a "Full-Scope" estimated time frame of eighty (80) hours. For example, some licensee exams will necessitate a one hundred (100) hour exam, or more, due to their loan volume, number of loan files and documentation, and scope of any violations found. Some licensee exams will only necessitate a "Targeted-Scope" thirty (30) hour exam due to their size, risk-weighted business activities, and lack of any previous violations found.

While the Division believes it can meet its statutory obligation of examining the licensees with a staff of six (6) fulltime mortgage examiners, the examination workload demonstrates that with an enhanced staff of eight (8) fulltime mortgage examiners: 1) a greater number of licensees would receive a more in-depth "Full-Scope" examination, and 2) more hours could be allocated across the examination pool for each examination.

Lastly, through historical averages, and as highlighted by the Audit Report, the Division is aware that inadequate staffing problems have directly led to the backlog of examinations year to year. All future mortgage examiner vacancies will be filled by the Division on a timely basis as a responsibility of the Supervisory Examiner, with direction, oversight and approval of the Commissioner.

Recommendation #2:

Implement written procedures for tracking and billing examination hours.

Plan:

The Division has implemented this recommendation by modifying existing procedures, and by developing additional written policies and procedures for the tracking and billing of examination hours as reflected in Division Policy and Procedure No. 3.06. The procedure includes the training of staff members and internal reviews to ensure compliance. "Non-billable time" is no longer kept, and will no longer be utilized on the Examination Time Sheet.

Upon the assignment of an examination to an examiner, an expectation of the timeframe to complete the examination will be set forth by the Supervisory Examiner. This timeframe will be based upon: 1) the Examination Manager's Questionnaire Timeframe ("Examination Timeframe"); 2) historical data available for the subject licensee; and 3) the examination workload projection.

The Examination Timeframe will be reviewed and updated on an annual basis by the Supervisory Examiner and Commissioner or Deputy Commissioner.

The examination tracking method that will be utilized includes written guidelines for staff to document their time segments consistently, so that the billing process is uniform. These guidelines include, but are not limited to:

- Approved outlined timeframes shall be classified as "Examination Hours" on the Examination Time Sheet;
- Each segment of an examination shall be performed and completed within the designated timeframe;
- Daily hours shall be kept contemporaneously by each examiner for work as it is performed to ensure accuracy;
- Each examiner shall maintain a monthly time report that accurately and concisely summarizes the details of all examiner activities.

Oversight of the tracking and billing of examination hours is ensured by requiring the Examiner's signature and Supervisory Examiner's initials on the Examination Time Sheet. Entries will only be made to the Examination Time Sheet by the Examiner during the course of their daily work log. In the event that an Examiner requests a deviation from the time allotments specified in the written procedures, the Examiner must provide written support for such deviation. Permission from the Supervisory Examiner must be given and any deviation will be noted on the Total Examination Timesheet report.

Examination billings will be reviewed for accuracy and consistency by the Supervisory Examiner and Commissioner, or Deputy Commissioner. In keeping with the written policy and procedures, if an adjustment is necessary to maintain billing consistency between examinations: 1) the adjustment will be reflected on the Total Examination Timesheet report by the Supervisory Examiner, 2) an explanation for the adjustment shall be provided by the Supervisory Examiner, and 3) will be signed by the Supervisory Examiner, and the Commissioner or Deputy Commissioner.

On behalf of the Division, I would like to express my appreciation to you and your staff. We look forward to continuing to work with the Legislative Counsel Bureau as we implement the recommended changes through the six month status report, and beyond. If there are additional questions, please contact me at (702) 486-0789 or by e-mail at csheehy@mld.nv.gov. Sincerely,

Cathy Sheehy,
Commissioner

Enclosure

cc: Bruce Breslow, Director, Department of Business and Industry
Diana Giovannoni, Deputy Legislative Auditor, Legislative Counsel Bureau

Audit Highlights

Highlights of Legislative Auditor report on the Division of Health Care Financing and Policy issued on May 4, 2015. Report # LA16-02.

Background

The Division of Health Care Financing and Policy administers two major federal health coverage programs, Medicaid and the Children's Health Insurance Program (CHIP). The largest program is Medicaid, which provides health care to low-income families, and the aged, blind, and disabled. The CHIP provides health care to low-income, uninsured children who are not eligible for Medicaid.

The Patient Protection and Affordable Care Act (ACA) was signed into law on March 23, 2010. The Act includes expanding Medicaid to individuals and families with incomes up to 133% of the federal poverty level, including adults without disabilities and without dependent children. Medicaid expansion has resulted in a significant increase in Nevada enrollment. Nevada enrollment has increased from 314,166 in July 2013, to 573,119 in July 2014, an 82% increase.

Funding for Medicaid programs comes from several sources including federal funds, state appropriations, and local governments. In fiscal year 2014, Medicaid expenditures totaled $2.3 billion. The Division had 278 authorized positions with offices located in Carson City, Elko, Las Vegas, and Reno.

Purpose of Audit

The purpose of this audit was to determine if sufficient controls were in place to detect and prevent fraud, abuse, and billing errors that result in Medicaid overpayments. Our audit focused on paid claims for behavioral health services during fiscal years 2013 and 2014, and dental services during fiscal years 2012 and 2013.

Audit Recommendations

This audit report contains six recommendations to strengthen processes for detecting and preventing fraud, abuse, and billing errors that result in Medicaid overpayments.

The Division of Health Care Financing and Policy accepted the six recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on July 29, 2015. In addition, the six-month report on the status of audit recommendations is due on January 29, 2016.

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. Because edits were not in place, other providers also submitted incorrect claims. However, the number of incorrect claims by other providers was minimal in comparison to excessive billing practices by one provider. (page 10)

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)

Brian Sandoval
Governor

James R. Wells, CPA
Director

Steve Weinberger, CPA
Administrator

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE
Division of Internal Audits

209 E. Musser Street, Room 302 | Carson City, NV 89701-4298
Phone: (775) 687-0120 | http://iaudits.nv.gov | Fax: (775) 687-0145

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

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

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. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
Richard Whitley, Director, DHHS

Audit Highlights

Highlights of performance audit report on the Division of Child and Family Services issued on May 24, 2016. Legislative Auditor report # LA16-11.

Background

The Division of Child and Family Services (Division) was established in 1991 within the Department of Health and Human Services. Its mission, together in genuine partnership with families, communities, and county governmental agencies, is to provide support and services to assist Nevada's children and families in reaching their full human potential.

The Division provides a wide range of services for the children, youth, and families in Nevada. Program areas include Child Welfare Services, Juvenile Justice Services, Children's Mental and Behavioral Health Services, Administrative and Support Services, and direct services as well as oversight for programs administered at the county and local levels.

In fiscal year 2015, the Division had 23 budget accounts with revenues and expenditures of over $227 million. The Division is funded primarily by state and federal funds, which amounted to $120 million and $89 million, respectively, in fiscal year 2015. As of June 30, 2015, the Division had 791 filled positions located in Carson City, Las Vegas, Reno, and various offices in rural Nevada. The Administrator's Office is located in Carson City.

Purpose of Audit

The purpose of this audit was to analyze and describe funding and expenditures relating to services provided by the Division, including key controls and performance data, and evaluate controls over performance measures. Our audit focused on funding, expenditures, and performance data for fiscal years 2010 to 2015, and performance measures for fiscal year 2014.

Audit Recommendations

This audit report contains three recommendations to improve the monitoring of child welfare services block grants and the reliability of performance measures.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 18, 2016. In addition, the six-month report on the status of audit recommendations is due on February 20, 2017.

Division of Child and Family Services

Department of Health and Human Services

Summary

The Division provides a wide range of services for the children, youth, and families in Nevada. Child Welfare Services are provided by the Division in the 15 rural Nevada counties, and by Clark County Department of Family Services and Washoe County Department of Social Services in the remaining two counties. The Division provides Juvenile Justice Services statewide and Children's Mental and Behavioral Health Services in the urban counties. We found that although the Division provided adequate oversight of county-administered child welfare services, improvements are needed to ensure statutory reports are submitted complete and timely, and thoroughly reviewed for compliance with state law.

The Division can take steps to strengthen the reliability of its performance measures. Underlying records did not adequately support some of the reported measures and an inappropriate methodology was used for one measure. It is important for performance measures to be reliable because they can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. Following written procedures for review and document retention will improve oversight and the reliability of performance measures.

Key Findings

Child Welfare Services' revenues and expenditures are recorded in nine state budget accounts. During fiscal year 2015, this amounted to over $142.3 million, with 64% relating to services provided in Clark County, 21% in Washoe County, and 13% in the rural counties. The other 2% relates to services provided statewide. Since fiscal year 2010, Child Welfare Services' revenues and expenditures have increased by $17.2 million or 14%. Revenue consists of approximately 50% state and 46% federal funds, with the remainder coming from fee collections, county assessments, and other miscellaneous revenue. (page 6)

Improvements are needed over the Division's monitoring of county block grants. The Division awards a block grant to Nevada's urban counties for providing child welfare services. The Division also allocates grant funds for adoption assistance programs and incentive funds to stimulate and support improvements in child welfare services. State law specifies certain reporting requirements for child welfare agencies. We reviewed the reports relating to fiscal year 2015 funding and found untimely submittals, incomplete reports, and undocumented reviews. With $64.6 million in block grant funding in fiscal year 2015, it is imperative the Division adequately monitor the performance of child welfare agencies to ensure state and federal funds are being appropriately spent on child welfare services and help ensure the children and families served receive quality services. (page 11)

Juvenile Justice Services' revenues and expenditures are recorded in 10 state budget accounts. During fiscal year 2015, this amounted to over $30.9 million, with 60% relating to services provided by Juvenile Correctional Care, 17% Youth Parole Bureau, and 13% Youth Alternative Placement. The other 10% represents services provided by the Juvenile Justice Programs' Office, which sub-grants federal funds to local jurisdictions for community-based programming. Since fiscal year 2010, Juvenile Justice Services' revenues and expenditures have decreased by $3.2 million or 9%. Revenue consists of 86% state funds, 12% county assessments, and 2% federal funds. (page 14)

Children's Mental and Behavioral Health Services' revenues and expenditures are recorded in four state budget accounts. During fiscal year 2015, this amounted to over $31 million, with 74% relating to services provided by Southern Nevada Child and Adolescent Services and 26% by Northern Nevada Child and Adolescent Services. Since fiscal year 2010, Children's Mental and Behavioral Health Services' revenues and expenditures have decreased by $1.5 million or 5%. Revenue consists of 52% federal and 46% state funds, with the remainder coming from patient collections and rental income. (page 21)

We found that the Division lacked sufficient controls to ensure performance measures were reliable. During fiscal year 2014, the Division reported 45 performance measures, and we found control weaknesses in 8 of these measures. Detailed supporting documentation was not retained for seven measures. Methodology used for calculating one measure was not appropriate. Performance measures cannot be considered reliable unless sufficient underlying records support them and calculations are adequately reviewed. (page 27)

BRIAN SANDOVAL
Governor

STATE OF NEVADA

RICHARD WHITLEY, MS
Director

KELLY WOOLDRIDGE
Administrator

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF CHILD AND FAMILY SERVICES
4126 Technology Way, Suite 300
Carson City, Nevada 89706
Telephone (775) 684-4400

August 18, 2016

Rocky Cooper, CPA
Legislative Auditor
Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701

On May 24, 2016, the Legislative Council Bureau issued an audit report for the Division of Child and Family Services. I appreciate the opportunity to provide the Corrective Action Plan on the LCB Audit report #LA16-11 for the three audit recommendations. The Division has accepted all recommendations made by the auditors. Following is an overview of the recommendations and response for each recommendation. Attached is the Corrective Action Plan to be implemented.

Recommendation 1:
Develop policies and procedures to enforce county child welfare agency statutory reporting deadlines, including taking appropriate action for noncompliance.

Division Response:

- The Division has a policy regarding submission of Clark and Washoe County Agency Improvement Plans (AIP's). This policy was approved in 2013. The policy does not address appropriate action for non-compliance and is being updated. The Division historically has worked with the Counties by providing technical assistance and feedback regarding the reports to help them in submitting correct reports or changes needed to comply with statutory requirements. At times, this practice of giving feedback and assistance to counties to submit a correct report has made the final reports exceed the deadlines. The Division considered this period of time to be under review by the Division.

- The Division utilized its policy as the baseline to determine if AIP's were reviewed and approved. This review occurred at the Administrator level. If changes were needed, it was sent back to the agencies for corrections via email by the Administrator or during phone meetings to address needed changes. Although most of the AIP activity and final product was done in a non-formal approach with meetings and dialogue, the Division will create a more formal process that documents communication and timelines.

Recommendation 2:
Follow Division policies and procedures for review of county child welfare agency reports and document the review to demonstrate compliance with statutory requirements. Consider the use of standardized review checklists.

Division Response:

- The Division agrees the process for reviewing the County Incentive applications and improvement plans has not met the standards of a formal evaluation process. The Division is working with a Research Psychologist within the Divisions Children's Mental Health Program to develop a standardized review process. The Division will implement a formal documentation process of communication with the Counties regarding compliance reviews. The policy is being updated to address this issue.

- The Division would like to make note that as of July 1, 2014 and 2015, both child welfare agencies were in compliance with the submission of their incentive applications per the statewide policy. In addition, as of January 1, 2016, all child welfare agencies submitted their AIP status reports on time. The Division believes it is making progress with these statutory requirements and look forward to further formalization to enhance tracking mechanisms and communication efforts to show activities and dialogue more clearly.

Recommendation 3:
Develop controls to ensure Division and state polices are followed for retaining documentation on the compilation of performance measure and the review of the methodology and calculations used to compute performance measures.

Division Response:

- The Division is currently working with our Information Management Services staff to develop programming within UNITY to collect data on performance measures to that excel spreadsheets are not needed.

- The Division is updating the policy regarding collecting, measuring, calculating, and reporting performance measures.

You will find attached the Division's Corrective Action Plan to your findings. If you have any questions, please contact DCFS Administrator Kelly Wooldridge at 775-684-6559.

Sincerely,

Kelly C. Wooldridge, LCSW

Kelly C. Wooldridge, LCSW
Administrator
Division of Child and Family Services

cc: Steve Weinberger, CPA, Administrator, Division of Internal Audits
James R. Wells, CPA, Director, Governor's Finance Office
Richard Whitley, Director, Department of Health and Human Services
Ellen Crecelius, Deputy Director, Department of Health and Human Services
Danette Kluever, Deputy Administrator, Division of Child and Family Services

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF CHILD AND FAMILY SERVICES
2016 PERFORMANCE AUDIT
(LA16-11)
ACTION PLAN

RECOMMENDATION	ACTION	DUE DATE
Develop policies and procedures to enforce county child welfare agency statutory reporting deadlines, including taking appropriate action for noncompliance	1. DCFS will review and update as needed the Child Welfare Agency Incentive Funds Policy (#1602) which creates the process and procedure for DCFS to receive, review and approve incentive applications. • Ensure timelines match NRS • Specifically outline procedures for developing goals, objectives, and baseline data • Specifically outline penalty for failure to meet goals 2. DCFS will review and update as needed the Agency Improvement Plan Policy (#1601) which directs the child welfare agencies to submit biennial Agency Improvement Plans. • Ensure timelines match NRS • Outline steps required to ensure public input pursuant to NRS • Outlines procedures for developing measureable performance targets and baseline data • Outline penalty for failure to meet targets	Completed January 1, 2017
Follow Division policies and procedures for review of county child welfare agency reports and document the review to demonstrate compliance with statutory requirements. Consider the use of standardized review checklists	1. Develop a standardized review and documentation process. • Ensure review includes Federal and State best practice standards • Ensure training of State staff to complete review in a timely and thorough manner.	January 1, 2017

	2. Implement a formal tracking and documentation process of communication. • Ensure both State and County staff have training to implement process.	
Develop controls to ensure Division and state policies are followed for retaining documentation on the compilation of performance measures and the review of the methodology and calculations used to compute performance measures	1. Develop method to standardize documentation and collection of performance measures data and methodology. 2. Develop and implement retention policy for performance measure documentation. • Ensure policy meets Division and State best practice standards. 3. Develop and implement a formal process to review the methodology and calculations used to compute performance measures. • Ensure training of State staff to complete the review in a timely and thorough manner.	Completed August 18, 2016 January 1, 2017

Audit Highlights

Highlights of performance audit report on the Aging and Disability Services Division issued January 18, 2017. Legislative Auditor report # LA18-04.

Background

The Division develops, coordinates, and delivers a comprehensive support system of services for Nevada residents aged 60 and over, and children and adults with disabilities or special health care needs. Most of the Division's expenditures relate to services for intellectually disabled persons, which are primarily funded through state appropriations and Medicaid funds. Expenditures for these services totaled about $160 million in fiscal year 2016, mostly for payments to SLA and JDT providers.

SLA providers offer residential support services to individuals who require assistance to live in the least restrictive community setting possible. SLA services were provided to about 1,900 persons per month in fiscal year 2016. JDT providers assist individuals in obtaining meaningful employment and living skills to help them achieve community inclusion, independence, and productivity. JDT services were provided to about 2,400 persons per month in fiscal year 2016.

Purpose of Audit

The purpose of this audit was to determine whether the Division has: (1) adequate controls over payments to providers of Supported Living Arrangement services and Jobs and Day Training services, and (2) effectively monitored these providers to ensure the safety and welfare of individuals with intellectual disabilities. The scope of our audit was calendar year 2015, although we included some activities in 2016.

Audit Recommendations

This audit report contains 10 recommendations to improve the Division's oversight of providers of services to intellectually disabled persons. Six recommendations improve controls to ensure the Division only pays providers for services performed. Four recommendations help ensure the Division effectively monitors providers to ensure the safety and welfare of individuals with intellectual disabilities.

The Division accepted the 10 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 13, 2017. In addition, the six-month report on the status of audit recommendations is due on October 13, 2017.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Aging and Disability Services

Department of Health and Human Services

Summary

The Division needs additional controls to prevent overpayments to providers of services to individuals with intellectual disabilities. Based on our test results, we estimate the Division overpaid providers a combined total between $3.5 million and $4.3 million in 2015. Overpayments to providers included those providing 24-hour care, as well as those providing jobs and day training to the Division's clients. The combined total is based on overpayments identified in three areas: (1) overbilling issues for 24-hour care homes ($2.2 million to $ 3.0 million); (2) billing for more supported living arrangement (SLA) services than were agreed upon ($504,000); and (3) billing for more jobs and day training (JDT) services than were provided ($766,000). Improved controls would help ensure the Division receives the services it pays for and intellectually disabled individuals receive the services they need. Furthermore, by eliminating overpayments to providers, the Division can serve more clients. The Division paid a total of $106 million in calendar year 2015 to providers serving clients of the Desert Regional Center (DRC) and Sierra Regional Center (SRC).

Some of the overbilling problems described in this report may be the result of provider fraud, while others may be unintentional errors. Therefore, as required by NRS 218G.140(2), we reported this information to the Governor, each Legislator, and the Attorney General.

Although the Division has a thorough process for certifying SLA providers, the timeliness of certifying these providers needs to be improved. In addition, the Division has not yet developed a rigorous process for certifying JDT providers, several years after legislation was passed requiring them to do so. A well-developed certification process will include standards for the provision of quality care and training by JDT providers to the Division's intellectually disabled clients. Finally, the Division did not always have documentation showing that deficiencies noted during home inspections were corrected.

Key Findings

We estimate the Division overpaid providers of 24-hour SLA services between $2.2 million and $3.0 million in 2015. Our estimate is based on a detailed review of about $550,000 in payments for about 1,800 days of service, which found overbillings of between 3.1% and 4.3% of the total billed. (page 7)

The level of SLA services provided to the Division's clients often varied from the level agreed upon. In about one-fourth of the days tested, the number of staff hours provided were less than the number established when the contract was developed. On days that clients are underserved, it can affect their health and welfare, as well as the safety of provider staff. Conversely, in about one-fourth of the days tested, the number of hours provided was greater than the number agreed upon. We estimate the Division overpaid providers of SLA services an additional $504,000 in 2015 for days when more hours were provided than were agreed upon. (page 10)

For 27 of 150 (18%) JDT billings tested, the number of days billed was more than the number shown on providers' logs of staff and client daily attendance or other records. We estimate the Division overpaid providers of JDT services about $766,000 in calendar year 2015. Based on the average cost of providing JDT services for a year, eliminating overpayments to JDT providers could have paid for JDT services to about 50 more clients for one year. (page 13)

Our testing of the 29 largest SLA providers found 27 were not certified timely. Certification reviews include inspections and testing to help ensure that clients' living conditions are safe and provider staff are properly trained and have cleared criminal background checks. (page 16)

The Division's certification process for JDT providers is limited to administrative requirements, such as verifying the provider has a Nevada business license. The process excludes criminal background checks, documentation of employee licensure, and proof of staff training. The Division has not yet adopted regulations with more rigorous certification requirements, as required by legislation passed in 2009. In addition, the Division has not documented that additional certification requirements from legislation passed in 2011 have been met. (page 18)

Although the Division inspected homes timely, it did not have an effective process to ensure deficiencies identified during home inspections were corrected. In 14 of the 29 homes we tested that were inspected, corrective action was required to address deficiencies found in the home. However, for 6 of the 14 (43%) homes with deficiencies, the Division did not have documentation showing that corrective action was completed. (page 21)

Audit Division
Legislative Counsel Bureau

Review Highlights

Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on May 24, 2016. Report # LA16-13.

Background

Nevada Revised Statutes 218G.570 through 218G.585 authorize the Legislative Auditor to conduct reviews, audits, and unannounced site visits of governmental and private facilities for children.

As of June 30, 2015, we had identified 59 governmental and private facilities that met the requirements of NRS 218G: 19 governmental and 40 private facilities. In addition, 125 Nevada children were placed in 22 facilities in 13 different states as of June 30, 2015.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the period from July 1, 2014, through June 30, 2015, we received 1,183 complaints from 36 facilities in Nevada. Twenty-three facilities reported that no complaints were filed during this time.

Purpose of Reviews

Reviews were conducted pursuant to the provisions of NRS 218G.570 through 218G.585. This report includes the results of our reviews of 5 children's facilities, unannounced site visits to 11 children's facilities, and a survey of 59 children's facilities. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards, as outlined in *Government Auditing Standards* issued by the Comptroller General of the United States, or in accordance with the *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of our reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities, and whether the facilities respect the civil and other rights of the children in their care. These reviews included an examination of policies, procedures, processes, and complaints filed since July 1, 2013. In addition, we discussed related issues and observed related processes during our visits. Our work was conducted from October 2014 through December 2015.

Review of Governmental and Private Facilities for Children

May 2016

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at four of the five facilities reviewed provide reasonable assurance that they adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of youths in their care.

The policies, procedures, and processes at Northwest Academy (Academy) need to be improved in order to provide reasonable assurance that it adequately protects the youths in its care. Policies and procedures related to health, safety, welfare, civil, and other rights were incomplete and not incorporated into a comprehensive set of policies and procedures. Five of the eight youths' files we reviewed indicated they were prescribed at least one psychotropic medication after admission to the Academy, and none of the five files contained an adequate consent from the person legally responsible for the psychiatric care of the youths. In addition, the Academy did not have policies or procedures to verify the medication received when youths are admitted. For example, staff do not document that the medications received match the medication bottles or verify any other information received from the placing agency. (page 40)

Facility Observations

In this report and the two prior reports, we have noted three concerns that could potentially impact the health and safety of children at several of the facilities reviewed. These concerns are related to facilities' compliance with state law requiring the consent of the person legally responsible for the psychiatric care of children prior to administering psychotropic medications; the disposal of medications; and employee fingerprint background check requirements at certain mental health treatment facilities. (page 7)

Three of the five facilities reviewed for this report needed to improve their processes and procedures for obtaining consent to administer psychotropic medications to youths from the persons legally responsible for the psychiatric care of each youth. Two of the facilities' forms for obtaining consent did not contain the information required by NRS 432B.4687(2), and the third's policies require the youth to sign the form rather than the person legally responsible. This or a similar concern has been repeated during several of our recent facility reviews. Our two prior reports, issued in April 2014 and October 2014, include reviews of 13 facilities. Of those 13 facilities, 4 either did not have an adequate process or procedure for obtaining the required consent or did not have documentation that consent was obtained for some youths. (page 7)

Four of the five facilities included in this report need to improve their methods or documentation of the destruction of expired, unused, or wasted medications. Two facilities dispose of unused medications by flushing them in a toilet, placing them in the garbage, or crushing and rinsing them down a sink with water. Two other facilities did not have adequate policies or procedures describing acceptable methods of destruction of medication. Disposing of medications by flushing, rinsing, or putting in the garbage are not in compliance with the intent of the federal Secure and Responsible Drug Disposal Act of 2010. The Act's goal is to decrease the amount of pharmaceutical controlled substances introduced into the environment, particularly into the water. Nine of the thirteen facilities included in the prior two reports also needed to improve their methods or documentation of the destruction of medications. (page 8)

Some mental health treatment facilities licensed by the Bureau of Health Care Quality and Compliance (Bureau) within the Department of Health and Human Services have not been able to obtain fingerprint-based background checks of current or potential employees using the requirements found in NRS 449.123. Facilities that provide acute psychiatric services to children are not required to obtain fingerprint-based background checks for employees working with children, even though the children may spend more than a week at the facilities. NRS 449.123 requires all medical facilities that provide residential services to children to obtain fingerprint-based background checks of employees at least every 5 years. However, NRS 449 does not include a definition of "residential services" and the Bureau has interpreted "residential services" according to the definition used by Medicaid and Medicare. The Legislature may wish to consider enacting legislation to amend NRS 449 to include a definition of "residential services" to encompass all psychiatric hospitals that provide inpatient treatment and services to children. (page 9)

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Audit Division
Legislative Counsel Bureau

Review Highlights

Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on January 18, 2017. Report # LA18-06.

Background

Nevada Revised Statutes 218G.570 through 218G.585 authorize the Legislative Auditor to conduct reviews, audits, and unannounced site visits of governmental and private facilities for children.

As of June 30, 2016, we had identified 56 governmental and private facilities that met the requirements of NRS 218G: 20 governmental and 36 private facilities. In addition, 124 Nevada children were placed in 20 facilities in nine different states as of June 30, 2016.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the period from July 1, 2015, through June 30, 2016, we received 1,723 complaints from 30 facilities in Nevada. Twenty-six facilities reported that no complaints were filed during this time.

Purpose of Reviews

Reviews were conducted pursuant to the provisions of NRS 218G.570 through 218G.585. This report includes the results of our reviews of 4 children's facilities, unannounced site visits to 4 children's facilities, and a survey of 56 children's facilities. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards, as outlined in *Government Auditing Standards* issued by the Comptroller General of the United States, or in accordance with the *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of our reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities, and whether the facilities respect the civil and other rights of the children in their care. These reviews included an examination of policies, procedures, processes, and complaints filed since July 1, 2014. In addition, we discussed related issues and observed related processes during our visits. Our work was conducted from January 2016 through December 2016.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Review of Governmental and Private Facilities for Children

January 2017

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at three of the four facilities reviewed provide reasonable assurance that they adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of youths in their care.

The policies, procedures, and processes at one of the four facilities reviewed were not adequate to provide reasonable assurance that they protect the health, safety, and welfare of the youths at the facility. We reported our concerns to this facility's licensing agency in August 2016 after our visits to the facility in June and July 2016.

We also conducted unannounced site visits to four children's facilities and did not note anything that caused us to question the health, safety, welfare, or protection of the rights of the children in those facilities.

Facility Observations

ART Homes' policies, procedures, and processes need substantial improvements related to: medication administration and documentation; ensuring treatment plans are complete and accurate; maintaining comprehensive personnel records related to background investigations and training; and ensuring the safety of the youths in its foster homes. There was no documentation of consent by the person legally responsible for the psychiatric care of the youths for any of the psychotropic medications administered to the three youths whose files we reviewed who were administered psychotropic medications. We also observed a filing cabinet in the ART Homes' office that was filled with expired and unexpired psychotropic medications and expired non-psychotropic prescription medications, including physicians' samples. All nine treatment plans reviewed were missing signature, dates, and the number of approved hours of Medicaid treatment services. Finally, ART Homes did not comply with NRS 424.135, which requires comprehensive personnel records, and was unable to provide 8 of 11 clearance letters upon our request. Clearance letters provide evidence that employees or potential employees have satisfactorily completed the background investigation process. (page 6)

Three of the four facilities reviewed for this report needed to improve their processes and procedures for obtaining consent to administer psychotropic medications to youths from the persons legally responsible for the psychiatric care of each youth. One of the facilities' forms for obtaining consent did not include the information required by statute, and its policy did not address all the required elements of a consent. The other two facilities were missing signed consent forms for one or more youths whose files indicated they received psychotropic medications while at the facilities. (page 8)

Three of the four facilities reviewed did not have evidence that employees who are statutorily required to attend medication administration training had received the training in the timeframe required. At these three facilities, there was no evidence in half (13 of 26) of the employees' files that they had received the training in the timeframes required. NRS 424.0365 and NRS 63.190 require employees who have direct contact with youths to receive certain training, including the administration of medication, within 30 days of employment and annually thereafter. There was no evidence two employees received any medication training even though they had worked at the facility for 3 and 5 years. Another employee had not received training since 2012, and another was missing evidence of training between January 2011 and May 2015. (page 9)All four of the facilities reviewed either did not complete youths' treatment plans timely or the treatment plans were incomplete. In addition, two of the facilities did not review treatment plans periodically or have updated treatment plans in the youths' files. (page 10)

Audit Division
Legislative Counsel Bureau

Public Safety

Audit Highlights

Highlights of performance audit report on the Department of Motor Vehicles issued on October 18, 2016. Legislative Auditor report # LA16-19.

Background

The Department of Motor Vehicles (DMV) is a multi-functional agency with responsibilities that include the collection and timely distribution of State Highway Fund revenues and improving traffic safety through licensing, registration, monitoring, and intervention programs. It also assists the State in meeting federal air quality standards, ensuring the integrity and privacy of record information, and protecting consumers and businesses against fraud and unfair business practices.

The Department continues to enhance the use of alternative technologies by providing citizens with the option of conducting various routine transactions, such as vehicle registration renewals, through the internet and kiosks. The Department operates 45 kiosks in DMV offices and partner locations statewide to facilitate renewals of vehicle registrations and driver licenses, provide driver history reports, and reinstate registrations after an insurance lapse.

The DMV collects annually more than $1 billion and distributes funds pursuant to statutory requirements to the State Highway Fund, state agencies, cities, counties, school districts, and other entities.

Purpose of Audit

The purpose of this audit was to determine whether controls over the revenue distribution processes and the DMV accounting system year-end balances are adequate and evaluate the adequacy of internal controls over the process for depositing collected funds. Our audit focused on revenue distribution spreadsheets and DMV Application balances for fiscal years 2010 to 2015 and receipts deposited in fiscal year 2015.

Audit Recommendations

This audit report contains 10 recommendations to improve controls over revenue distributions, accounting records, and the revenue collection process.

The Department accepted the 10 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Department of Motor Vehicles

Summary

The Department needs to improve its internal controls to ensure the accuracy of accounting and revenue distribution records. Certain nonroutine accounting entries were not always completed as required during the fiscal year-end closing process resulting in significantly misstated DMV accounting records. Additionally, certain significant accounting entries were not adequately supported. Although we did not identify significant instances of incorrect amounts being distributed or distributions to the wrong entity, several billion dollars in adjustments were needed to correct accounting and revenue distributions records dating back to fiscal year 2012. Revenue distribution accounting errors in the DMV Application and state accounting system were not identified by the Department because certain reconciliations of DMV records to the state accounting system were not being completed.

While the Department's internal controls over deposits of funds collected were generally operating effectively, some improvements can be made. Specifically, deposit records were not always closed timely to lock deposit transactions in the DMV Application. Records retention policies were also not followed resulting in the premature disposal of 14% of the deposit packets we selected for testing. Additionally, control processes can be improved over fee overrides, timely deposit of revenues, and safeguarding sensitive payment information in certain program areas. Enhancing these controls will help management ensure funds received, sensitive payment information, and related accounting records are properly safeguarded and processed consistent with established policies and procedures.

Key Findings

For fiscal years 2012 through 2014, certain nonroutine, fiscal year-end accounting entries were not made to maintain accurate accounting records. As a result, asset accounts in the DMV Application and distribution spreadsheets were significantly misstated starting in fiscal year 2013. Specifically, certain cash account balances increased, per the accounting records, to more than $5.6 billion in fiscal year 2015. In comparison, actual collections in fiscal year 2015 were $1.3 billion, significantly less than the accounting records reflected. The manual accounting entries were not completed due to inadequate policies and procedures and insufficient supervisory oversight. (page 9)

Two of 16 nonroutine accounting entries in fiscal year 2015 were not adequately supported. Staff indicated the two entries, totaling more than $100 million, were needed to correct an imbalance between the DMV and state accounting records caused by an accounting error. However, the entries did not contain sufficient information for a reviewer to understand the rationale and justification for the adjustment. The supervisory review process over adjusting accounting entries was also not sufficient to determine the accuracy of and reason for each entry. Additionally, policies and procedures did not include sufficiently detailed requirements for what information should be included to support nonroutine accounting entries. Enhancing policies and procedures and supervisory review will help ensure entries are appropriate and reasons for adjustments can be examined to identify potential systemic issues. (page 10)

We identified various accounting discrepancies between DMV records and the state accounting system from fiscal years 2010 through 2015. These discrepancies were not identified by the Department primarily because only 3 of 24 quarterly account-level reconciliations between the state accounting system and the DMV records were completed from fiscal years 2010 through 2015. The discrepancies identified included misclassifications in the DMV distribution records and miscoded expenditure categories in the state accounting system. The findings in this and the two preceding paragraphs did not result in improper distributions of DMV revenues. (page 13)

The records of deposit transactions in the DMV Application were not always closed timely. Deposit records must be closed in the DMV Application by DMV fiscal staff to lock the transaction in the system, after verification of the accuracy of the deposit record. When not closed, inadvertent or intentional modifications to deposit records in the system could occur. We did not identify any such instances of improper modifications to records in the 350 deposits tested, but the potential for this to occur exists due to untimely closing of records. (page 18)

The DMV did not retain original deposit documentation for 50 of the 350 (14%) selected deposit dates as required by DMV policy. In some instances, the recreated documentation did not provide enough information to determine the date funds were received or the timeliness of deposits. Improved supervisory oversight would help identify deviations from policies designed to protect the integrity of financial accounting records. (page 19)

Brian Sandoval
Governor

DMV
dmvnv.com

Terri L. Albertson
Director

555 Wright Way
Carson City, Nevada 89711
Telephone 775-684-4368

January 23, 2017

Rocky Cooper, CPA, Legislative Auditor
State of Nevada Legislative Counsel Bureau
Legislative Building
401 S. Carson Street
Carson City, Nevada 89701-4747

Dear Mr. Cooper,

The Department of Motor Vehicles (DMV) continues efforts to implement the accepted recommendations as a result of the 2016 Performance Audit. Following, please find a status update for each audit recommendation.

Recommendation 1: Update policies and procedures and desk procedure manuals to properly address the non-routine year-end accounting entries to ensure required entries are properly made.

- DMV developed policy and procedure ASD J-32 Financial Adjustments and Reconciling to address this LCB recommendation.

Recommendation 2: Enhance supervisory review procedures to ensure necessary non-routine accounting entries are completed, properly supported, and consistently recorded in the DMV Application and distribution spreadsheets.

- DMV developed policy and procedure ASD J-32 Financial Adjustments and Reconciling to address this LCB recommendation.

Recommendation 3: Improve supervisory review procedures to investigate unexpected accounting entries or imbalances that impact distribution spreadsheets and take timely corrective actions.

- DMV developed policy and procedure ASD J-32 Financial Adjustments and Reconciling to address this LCB recommendation.
- The desk procedures for the DMV ASO III (PCN 0027) have been updated to address unexpected accounting entries.
- A threshold requirement has been implemented requiring additional approval from the DMV Chief of Administration (PCN 0001) for any unexpected accounting entries. This threshold limit has been added to the newly developed policy and procedure ASD J-32 Financial Adjustments and Reconciling and to the ASO III desk procedure.

Recommendation 4: Enhance supervisory review procedures to ensure reconciliations between DMV records and the state accounting system are completed timely.

- DMV developed policy and procedure ASD J-32 Financial Adjustments and Reconciling to address this LCB recommendation.

- Desk Procedures for the Department's ASO III (PCN 0027) have been modified to include review and approval of revenue reconciliations to the state accounting system.

Recommendation 5: Limit access to distribution spreadsheets to staff needing access to complete their job duties.

- DMV created a secure file for the distribution spreadsheets with restricted access and permissions in January 2016. Only DMV staff required to complete distribution tasks can edit distribution spreadsheets.

Recommendation 6: Enhance supervisory review procedures to ensure only properly authorized changes are made to the distribution spreadsheets.

- DMV enabled restricted permissions to the distribution spreadsheets, resulting in limited access to edit distribution spreadsheets to only authorized staff in January 2016. All changes to the distribution spreadsheet require acknowledgement from the ASO III (PCN 0027). An authorization form must be submitted with management approval to the DMV IT Helpdesk to allow new access to edit the distribution spreadsheets.

Recommendation 7: Develop policies and procedures to ensure system reports are utilized frequently to help ensure the timely close of deposit records in the DMV Application.

- DMV developed policy and procedure ASD J-31 Deposit Office Closing to address this LCB recommendation.

Recommendation 8: Improve management oversight processes to ensure deposit records are maintained for the period required by the Department's records retention policy.

- Current and new staff is trained on the proper record retention schedules and management authorization will be required prior to destruction of any deposit records.

Recommendation 9: Develop policies and procedures to ensure fee override reports are routinely reviewed to identify performance improvement opportunities and potential improper fee overrides.

- New DMV policy and procedures ASD J-33/FSD 020.01, Fee Override Report Guidelines, has been drafted and is currently under review to address this recommendation.

Recommendation 10: Enhance management oversight processes over safeguarding sensitive payment information and timely deposit of funds to ensure staff comply with existing policies and procedures and related statutory requirements.

- Management provided a reminder to staff on proper Funds Handling requirements and will continue to provide opportunities for refresher Fund's Handling Training to staff.

Please let us know if you have any additional questions or concerns.

Sincerely,

Terri Albertson

Terri Albertson, Director

Audit Highlights

Highlights of performance audit report on the Nevada Highway Patrol issued on November 19, 2015. Legislative Auditor report # LA16-05.

Background

The Nevada Highway Patrol (NHP) is a division of the Department of Public Safety (DPS). Its mission is to promote safety on Nevada highways by providing law enforcement and traffic services to the motoring public. NHP is located in Carson City, with regional offices in Elko, Las Vegas, and Reno. In fiscal year 2014, NHP had 573 legislative authorized full-time positions. Of these 573 positions, 484 are commissioned officers, and 89 are civilians. NHP is primarily funded by Highway Fund appropriations. Actual expenditures for fiscal year 2014 totaled $76.7 million, with personnel costs accounting for 66% of the total.

NHP responsibilities include patrol operations, commercial enforcement, and support services. NHP is the primary authority for enforcing laws and regulations on highways across the State of Nevada. The Commercial Enforcement team promotes safe travel for commercial vehicles and school buses. Personnel certified to conduct mechanical safety inspections ensure school buses meet minimum safety specifications established by the State Board of Education. NHP is also responsible for issuing hazmat permits to carriers transporting hazardous materials.

Purpose of Audit

The purpose of this audit was to determine if certain administrative controls related to school bus inspections, fuel procurement cards, inventory, and the hazmat permit issuing process are adequate.

The audit focused primarily on NHP activities from fiscal year 2014 and some activities related to bus inspections and inventory practices during fiscal year 2015.

Audit Recommendations

This audit report contains three recommendations to improve the school bus inspection program. In addition, four recommendations were made to improve administrative controls over hazmat permits, fuel cards, and self-reported inventory.

NHP accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Nevada Highway Patrol

Department of Public Safety

Summary

Although the Nevada Highway Patrol's (NHP) efforts to conduct mechanical inspections of school buses have been adequate, the process can be improved. NHP inspects approximately 2,470 school buses twice a year across the State to detect out-of-service conditions. These conditions include mechanical and emergency equipment safety defects. Our review of 60 school bus inspections found that almost all recommendations made by NHP were corrected by the various school districts selected in our sample. However, NHP can enhance the results of its efforts by inspecting vehicles such as vans and smaller buses, which are also used to transport pupils, and reporting inspection results to the school districts' superintendents in accordance with state law. The inspection of all vehicles used in the transport of pupils and reporting the inspection results may prevent pupil injuries during transport to and from school related events.

NHP can strengthen administrative practices for the hazmat permit issuing process to ensure compliance with state regulations. Our testing identified that out of 67 vehicles, 16 were issued multiple permits in violation of state regulations. Furthermore, NHP does not have a written contract specific to the issuance of hazmat permits. NHP also needs to improve controls over fuel cards. We found active fuel cards for individuals no longer employed by NHP, two of which incurred charges after the cardholder transferred into another division of the Department. Lastly, NHP lacks controls over the self-reporting inventory process. For example, we found that the self-reported inventory is not verified in accordance with NHP operating practices.

Key Findings

NHP's efforts to inspect school buses resulted in out-of-service conditions being addressed. We visited 12 school bus yards throughout the State to verify observable repairs, such as inoperable window latches, horns, mirrors, inaccessible or missing first aid kits, and unsecured seats. We found that not all vehicles used to transport pupils are inspected as required by NRS 392.400. There are about 155 vans and other vehicles, besides buses, used to transport pupils across the State that need to be inspected. In addition, the school bus inspection results are not reported to the school district superintendent. Pursuant to NRS 392.400, NHP shall make written recommendations to the school district superintendent for the correction of any defects discovered during the inspection. Furthermore, NHP does not have operating standards for the school bus inspection program. Inspectors rely on the State Board of Education Out-of-Service criteria; however, this document only provides standards for placing a bus out of service. Additional guidelines are needed to ensure the inspections are conducted the same across the State and in accordance with NHP's operating standards. (page 4)

NHP does not have adequate controls over the single-trip hazmat issuing process. The Division is responsible for issuing permits for the transportation of hazardous material throughout the State. There are three types of permits issued by NHP: an annual permit for multiple vehicles, a 72-hour single-trip hazmat permit for a single vehicle, and an emergency 15-day permit. A total of 97 single-trip 72-hour hazmat permits were issued to 67 vehicles between January 1, 2014, and June 30, 2014. We found that 16 of these vehicles or 24% were issued multiple permits within a 3-month period, which is a violation of state regulation. Pursuant to NAC 459.984, temporary hazmat permits are limited to one every 3 months per vehicle. This reduces the risk of hazmat incidents. Further, NHP does not have a contract with the vendor issuing the temporary hazmat permits. (page 9)

NHP does not have an adequate process to identify when employees with fuel cards leave the Division. Our review of 454 total active fuel cards identified 23 active cards for individuals no longer employed by NHP. Out of the 23 active cards, 2 incurred charges after the cardholders transferred to another division of the Department. (page 11)

NHP lacks controls over the self-reported inventory process. This process was implemented as of January 2015 for employees to self-report their inventory via an electronic questionnaire stored on a third-party website. We tested the self-reported process and found it to be effective; however, additional controls are needed to ensure the integrity of the self-reported data and to reduce the risk that errors and theft could occur and go undetected. Finally, NHP's inventory procedures are outdated and do not reflect the self-reported inventory process, including the safeguarding of information on a third-party website. (page 12)

Brian Sandoval
Governor

James R. Wells, CPA
Director

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE

209 E. Musser Street, Suite 200 | Carson City, NV 89701-4298
Phone: (775) 684-0222 | http://gfo.nv.gov | Fax: (775) 684-0260

MEMORANDUM

To: Rocky Cooper, Legislative Auditor
Legislative Counsel Bureau

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

Date: August 19, 2016

Subject: Legislative Audit of the Department of Public Safety, Nevada Highway Patrol

On November 19, 2015, your office released an audit report on the Department of Public Safety, Nevada Highway Patrol (division). The division subsequently filed a corrective action plan on February 19, 2016. 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 seven recommendations contained in the report. The extent of the division's compliance with the audit recommendations is as follows:

Recommendation 1

Ensure all vehicles used to transport pupils are inspected.

Status – Partially Implemented

Agency Comments – The division developed inspection procedures and forms to ensure all vehicles used to transport pupils are inspected as required.

Auditor's Comments – We reviewed procedures and noted no exceptions. The division is in the process of implementing procedures to ensure all vehicles used to transport pupils are inspected.

Recommendation 2

Develop a division-wide process to report inspection results to school district superintendents.

Status – Partially Implemented

Agency Comments – The division developed a division-wide process to report inspection results to school district superintendents.

Auditor's Comments – We reviewed the procedures and noted no exceptions. The division is in the process of implementing procedures to ensure inspection results are reported to school district superintendents.

Recommendation 3

Adopt division-wide guidelines to ensure all vehicles needing inspection are identified and inspected, inspection results are addressed, and records are retained.

Status – Partially Implemented

Agency Comments – The division adopted division-wide guidelines to ensure all vehicles needing inspection are identified and inspected, inspection results are addressed, and records are retained.

Auditor's Comments – We reviewed the procedures and noted no exceptions. The division is in the process of implementing procedures to ensure all vehicles needing inspection are identified and inspected, inspection results are addressed, and records are retained.

Recommendation 4

Develop controls to ensure single-trip hazmat permits are issued in accordance with NAC 459.984.

Status – Partially Implemented

Agency Comments – The division reports it is in the process of developing controls to ensure single-trip hazmat permits are issued in accordance with NAC 459.984. The division also reports it will discontinue the use of the vendor for issuing permits as of October 1, 2016 and issue them internally per guidance from their Deputy Attorney General.

Auditor's Comments – Since the division has not completed developing controls, we were unable to review and ensure the division's procedures were being followed.

Recommendation 5

Establish a formal state contract with the vendor for the issuance of single-trip hazmat permits.

Status – Partially Implemented

Agency Actions – The division reports it will discontinue the use of the vendor for issuing permits as of October 1, 2016 and issue them internally per guidance from their Deputy Attorney General. The division is drafting a letter to the permit vendor to end their ability to issue temporary hazmat permits effective September 30, 2016.

Recommendation 6

Improve controls to ensure fuel cards are only assigned to active employees.

Status – Fully Implemented

Agency Actions – The division improved controls to ensure fuel cards are only assigned to active employees. We tested a sample of 25 active fuel cards and compared it to a listing of current employees and noted fuel cards were for active employees without exception.

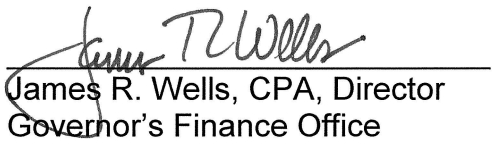
Recommendation 7

Update property and equipment procedures to reflect the current inventory process, including the verification of inventory and the controls over data on the third-party website.

Status – Fully Implemented

Agency Actions – The division updated property and equipment procedures to reflect the current inventory process, including the verification of inventory and the controls over data on the third-party website. We examined the division's procedures and noted no exceptions.

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
Colonel Dennis S. Osborn, Chief, Department of Public Safety, Nevada Highway Patrol
Steve Weinberger, CPA, Administrator, Division of Internal Audits

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
ROCKY COOPER, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

October 7, 2016

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

In November 2015, we issued an audit report on the Department of Public Safety, Nevada Highway Patrol. The audit report contained seven recommendations. The Division filed its plan for corrective action in February 2016. NRS 218G.270 requires a report be issued within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Governor's Finance Office on the status of the seven recommendations contained in the audit report. As of August 19, 2016, the Governor's Finance Office indicated two recommendations were fully implemented and five were partially implemented.

Based on additional information provided by the Division and the Finance Office in September 2016, six recommendations are fully implemented and one is partially implemented. The partially implemented recommendation listed below relates to the Division's use of a vendor for issuing single-trip hazmat permits.

Recommendation Number	
5	Establish a formal state contract with the vendor for the issuance of single-trip hazmat permits.

The Division indicates they intend to discontinue using the vendor and issue the permits internally based on guidance from their Deputy Attorney General. The Division intended to make this change by October 1, 2016. However, they have extended this deadline to November 30, 2016.

Question

1. Does the Division still anticipate it can start issuing permits internally by November 30, 2016?

Respectfully Submitted,

Rocky Cooper, CPA
Legislative Auditor

RC:sy
cc: Michael J. Willden, Chief of Staff, Office of the Governor
James R. Wells, CPA, Director, Office of Finance, Office of the Governor
Steve Weinberger, CPA, Administrator, Division of Internal Audits, Office of the Governor
James M. Wright, Director, Department of Public Safety (DPS)
Colonel Dennis S. Osborn, Chief, Nevada Highway Patrol, DPS

Audit Highlights

Highlights of performance audit report on the Division of Parole and Probation issued on May 24, 2016. Legislative Auditor report # LA16-10.

Background

The primary mission of the Division of Parole and Probation (Division) is to protect the community and to reduce crime by supervising individuals who have been convicted of crimes but are living in the community. Offenders include individuals convicted of murder, kidnapping, crimes against a child, sex offenses, street gang activities, and other violent and non-violent crimes. In February 2015, the Division reported a total caseload of 18,500, of which, about 12,400 were actively supervised by sworn officers.

The Division operates supervision activities from the Northern urban, Northern rural, and Southern commands with ten offices located throughout the State. The Division's headquarters are located in Carson City. The Division is largely supported by a general fund appropriation although the Division collects some fees.

The Legislature has provided 51 additional positions to the Division since the 2014-2015 biennium. For fiscal year 2016, the Division had 499 approved positions of which 415 were directly related to offender management. The Division presented information attesting to vacancy and turnover rates of roughly 8% and 13% respectively, in positions directly related to offender management.

Purpose of Audit

The purpose of this audit was to evaluate if the Division complied with its directives regarding 1) personal home contacts for high-risk offenders, and 2) the intake process for offenders entering parole and probation. Our audit focused on specific offender supervision activities from July 2013 to March 2015.

Audit Recommendations

This audit report contains eight recommendations to improve the supervision of offenders on parole and probation. The Division of Parole and Probation accepted the eight recommendations.

Recommendation Status

The Division of Parole and Probation's 60-day plan for corrective action is due on August 18, 2016. In addition, the six-month report on the status of audit recommendations is due on February 20, 2017.

Division of Parole and Probation

Department of Public Safety

Summary

The Division of Parole and Probation did not always conduct home contacts with high-risk offenders in accordance with stated directives. For these offenders, home contacts are an important element of their supervision because they provide insight into an offender's living situation and can identify non-compliance with supervision requirements. Additionally, rural high-risk offenders are not supervised under the same home contact directive as those living in urban areas. Even though the Division has issues with hiring and retaining parole and probation officers, which can affect home contact timeliness, additional measures can be instituted to assist officers and management in ensuring home contact directives are met.

The Division had problems completing key intake steps that help ensure the proper foundation for new offenders on parole and probation. For example, initial home contacts were not always completed within the first 30 days of supervision. In addition, supervisory reviews, completed to ensure intake processes are done in accordance with directives, were not always performed. Furthermore, probationary offenders do not always report to the Division within the first 5 days of supervision, and the Division does not have procedures to identify and follow-up with these offenders. Better monitoring by Division management and clear written policies and procedures can help ensure the Division complies with its own directives established to protect the public.

Key Findings

Ongoing home contacts with high-risk offenders, classified as intensive supervision, house arrest, or sex offenders, were not always completed within the time frames detailed in Division directives. Of 50 high-risk offenders tested, 14 (28%) had one or more untimely ongoing home contact(s) between July 1, 2013, and March 31, 2015. Of 141 ongoing home contacts that were required during this period, 19 (13%) were late. On average, ongoing home contacts were late by 32 days. Some were late by a few days, but others were late by months. (page 5)

The Division has less stringent requirements for ongoing home contacts with high-risk offenders residing in rural areas than for their urban counterparts. For example, home contacts are required every 60 to 90 days for sex offenders living in Las Vegas and Reno; however, caseload directives do not require home contacts for sex offenders living in Carson City and other less populated areas. This occurs because the Division uses general caseload directives to supervise high-risk offenders in rural areas. General caseload directives do not require periodic home contacts. Other western states we contacted indicated home contact requirements are the same for all high-risk offenders regardless of geographical location. Although home contact requirements are less stringent for high-risk rural offenders, rural management indicated officers try to conduct contacts according to the 60- or 90-day directive. (page 8)

Initial home contacts were untimely for 23 of 94 (24%) offenders tested. The Division's directive requires new offenders to have an initial home contact within 30 days of beginning supervision. This requirement follows best practices by focusing on the early period of supervision when offenders are at the greatest risk of reoffending. We found initial home contacts were often late for offenders regardless of risk classification. Some home contacts were only late by a few days while others were more than 3 months late. (page 12)

Intake reviews, in which sergeants perform a review of all of the processes associated with supervising a new offender, were not always performed as required. Specifically, 10 of 50 (20%) files either did not have an intake review or it was untimely. Division directives require intake reviews to be performed within 90 days, yet one file was reviewed after a full year had passed. Intake reviews provide necessary oversight of officer duties and can identify problem areas where the Division can improve. (page 13)

Offenders did not always have contact with the Division in the first 5 days as detailed in Division directives. Specifically, 7 of 40 (18%) offenders on probation did not have timely initial contacts. Of these, two offenders did not have contact with the Division for several weeks. (page 14)

The Southern Command did not always charge offender supervision fees of $30 per month. Specifically, 6 of 30 (20%) southern offenders on probation were not properly charged supervision fees in the month(s) their probation began. Based upon the results of testing, we estimate initial supervision fees totaling $38,000 went uncharged. (page 15)

The Division did not have procedures to ensure only active users had proper access to the Division's offender database. We found 53 (10%) users should not have had access to the database out of 515 active user accounts. (page 16)

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Audit Division
Legislative Counsel Bureau

Brian Sandoval
Governor

Nevada Department of Public Safety

James M. Wright
Director

Natalie Wood
Chief

DIVISION OF PAROLE AND PROBATION

OFFICE OF THE CHIEF
1445 Old Hot Springs Road, Suite 104
Carson City, NV 89706
(775) 684-2605 (775) 684-2697

July 12, 2016

State of Nevada
Legislative Counsel Bureau/Legislative Auditor
401 S. Carson Street
Carson City, NV 89701

Re: Audit 2016

Greetings:

The following is an update of the Division's implementation of the recommendations made from Legislative Counsel Bureau's Audit of 2016.

Recommendation #1 — Develop additional monitoring processes to help ensure ongoing home contacts with high-risk offenders are preformed timely.

Status: Fully implemented

Effective July 8, 2016, the Division updated Division Directive 6.3.145 Sergeant Duties and 6.3.148 Lieutenant Duties. The updated sergeant duty directive adds language to reflect the requirement for sergeants to ensure home contacts are performed timely in accordance with 6.2.101 Contact Guidelines. The updated lieutenant duty directive adds language that requires lieutenants to complete a quarterly review of sergeants' case plans to ensure contact requirements as well as other requirements are being performed by sergeants.

Recommendation #2 — Revise the contacts directive for rural offenders classified as intensive supervision, sex offenders, and house arrest to provide for consistent home contact requirements based on risk.

Status: Fully implemented

Effective July 8, 2016, the Division updated Division Directive 6.2.101, Contact Guidelines. The updated directive changed the contact guidelines for high risk offenders residing in rural communities to the same contact guidelines as high risk offenders in urban areas.

Recommendation #3 Develop procedures to ensure an initial home contact is made within 30 days of the start of supervision.

Status: Fully implemented

Effective July 8, 2016, the Division updated Division Directive 6.3.145 Sergeant Duties and 6.3.148 Lieutenant Duties. The updated sergeant duty directive adds language to reflect the requirement for sergeants to ensure home contacts are performed timely in accordance with 6.2.101 Contact Guidelines and 6.3.101 Intake Process. The updated lieutenant duty directive adds language that requires lieutenants to complete a quarterly review of sergeants' case plans to ensure contact requirements and other requirements are being performed by sergeants.

Recommendation #4 Develop controls to ensure intake reviews are performed timely.

Status: Fully implemented

Effective July 8, 2016, the Division Directive 6.3.148 Lieutenant Duties was updated. The updated lieutenant duty directive adds language that requires lieutenants to complete a quarterly review of sergeants' case plans to ensure contact requirements and other requirements are being performed by sergeants. Furthermore, the lieutenants' reports will be standardized in Northern Command and Southern Commands for consistency.

Recommendation #5 Implement a process to help identify and contact offenders that fail to report within the initial contact period.

Status: Fully implemented

Effective June 15, 2016, the Division updated Division Directive 6.3.101 Intake Process. The update outlines the procedure for officers when offenders fail to report within the first 10 days of supervision. The Directive also modified the minimum reporting date for offenders from 5 days of supervision grant to 10 days.

Recommendation #6 Revise directives to clarify Division supervision requirements for DUI Diversion Court participants during the period offenders are supervised by another agency.

Status: Fully implemented

Effective May 25, 2016, the Division updated Division Directive 6.3.115 Supervision of DUI (SB277) Diversion Cases. The directive update provides clarifying language for Diversion Court participants during the period offenders are supervised by another agency.

Recommendation #7 Develop controls to ensure timely billing of initial supervision fees.

Status: Fully implemented

Effective July 1, 2015, the Southern Command implemented a new billing process for offenders' supervision fee accounts. The new process requires the Restitution Unit staff to verify information from the court minutes on a daily basis. Accounts are established in OTIS and offenders are charged supervision fees based on sentencing dates as shown in the court minutes.

Recommendation #8 Develop written policies and procedures regarding periodically updating access to information systems. This includes monitoring for the proper removal of users and ensuring access levels are appropriate.

Status: Partially implemented

On July 11, 2016, a draft of Division Directive 8.3.106, Employee Computer Access, was distributed to command staff for review and approval. Once reviewed and finalized, the Division will have a formalized process in place regarding employee access to information systems.

Respectfully,

Natalie Wood, Chief
Nevada Parole and Probation
Department of Public Safety

Audit Highlights

Highlights of performance audit report on the Investigation Division issued on January 18, 2017. Legislative Auditor report # LA18-01.

Background

The Investigation Division (Division) is a division of the Department of Public Safety. The Division is a law enforcement agency dedicated to public safety statewide. This is accomplished through the professional enforcement of controlled substance laws; by providing comprehensive investigative services to all criminal justice agencies; and, by supporting law enforcement statewide through the collection and dissemination of relevant and timely criminal and threat information.

The Division's headquarters is located in Carson City, with field offices in Elko, Ely, Fallon, and Winnemucca. Funding for the Division is provided primarily from general fund appropriations and grant funding. During fiscal year 2016, the Division's revenues and expenditures amounted to over $6 million. As of June 2016, the Division had 50 authorized, and 48 filled, full-time equivalent positions.

Purpose of Audit

The purpose of the audit was to evaluate the Division's process for administering and tracking fuel procurement, performance measures, and confidential drug buy funds during calendar year 2015.

Audit Recommendations

This audit report contains five recommendations to improve administrative controls over fuel cards, performance measures, and confidential drug buy funds. The Investigation Division accepted the five recommendations.

Recommendation Status

The Investigation Division's 60-day plan for corrective action is due on April 13, 2017. In addition, the six-month report on the status of audit recommendations is due on October 13, 2017.

Investigation Division

Department of Public Safety

Summary

The Investigation Division (Division) can improve administrative controls over certain areas. First, fuel cards and related purchases should be reviewed to verify purchases are made for only Division vehicles. Furthermore, some fuel cards were not canceled when employees left the agency. The Division can also enhance all aspects of determining and reporting adequate and reliable performance measures. Additionally, our review of bank statements revealed control weaknesses existed over certain bank accounts where key duties were not segregated. Finally, although the Division processed confidential drug buy funds accurately, documentation was not consistent among offices.

Key Findings

The Division does not have a process for reviewing fuel purchases. Our review of 45 fuel transactions found 11 (24%) transactions had unexpectedly low miles per gallon (MPG) ratios for assigned vehicles. The Division did not identify or review these purchases. Reviewing fuel card activity will help verify purchases are made for only Division vehicles. (page 3)

The Department of Public Safety does not have an established process to cancel fuel cards for investigators no longer employed by the Division. We reviewed 148 total active fuel cards and found 61 cards were assigned to 26 investigators no longer with the Division. None of the cards had charges after the termination date of the investigator. Division management indicated cards are turned in by investigators upon termination but actual cancellation or deactivation of the card is handled by the Department of Public Safety's fiscal unit who did not notify vendors. (page 4)

The Division can take steps to strengthen the reliability of its performance measures. Underlying records for previously reported measures were not retained, nor did the Division have policies and procedures in place for the calculation and review of performance measures. Performance measures must be reliable because they can affect budget and policy decisions made by oversight bodies, as well as judgments made by stakeholders and the public about the Division's operations. (page 5)

Our review of bank reconciliations revealed control weaknesses over bank accounts in the Carson City office where key duties are not segregated. Our review of outside bank account activity found bank reconciliations were prepared and reviewed by the same employee who is involved in the day-to-day operations of the bank account. Segregation of duties is important in ensuring funds are protected against improper use. The State Administrative Manual requires agencies to have an established system of controls to segregate duties appropriately to safeguard the assets of the agency. (page 6)

The Division processed and tracked confidential drug buy funds accurately, but can make improvements when documenting certain aspects of the process. Criminal cases are developed through the purchase of evidence with drug buy funds issued through an outside bank account. Specifically, documentation used to substantiate cases regarding funds was not always retained. (page 7)

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Audit Division
Legislative Counsel Bureau

Audit Highlights

Highlights of performance audit report on the Capitol Police issued on November 19, 2015. Legislative Auditor Report # LA16-08.

Background

The mission of Capitol Police is the protection of life and property by providing proactive law enforcement services, empowering employees through training and education, and enhancing the safety of the citizens of Nevada and its visitors in and around designated state land and facilities. Its vision is to create an environment where employees and visitors to state property are free from fear and are safe from harm and disruption.

The Division provides services on a 24-hour basis, 7 days per week. The Division is headquartered in Carson City, and officers are stationed at fixed posts at the Capitol Complex, Office of the Attorney General, Grant Sawyer Building, and the Governor's Mansion. Officers also actively patrol other designated state locations by vehicle, bicycle, and foot.

The Division is funded mainly through transfers from the Department of Administration, Building and Grounds Division, which is supported primarily from assessments to state agencies. Additional funding is provided for staffing at the Governor's Mansion in Carson City from the Department of Public Safety (DPS). In fiscal year 2012, financial and human resource services were consolidated within the DPS Director's Office to centralize these activities, including those of Capitol Police, to create efficiencies and reduce costs. As of October 2015, the Division had 21 legislatively approved full-time equivalent positions.

Purpose of Audit

The purpose of this audit was to determine whether financial and administrative controls related to contracted security, and travel expenditures, comply with state laws and regulations and other requirements.

Audit Recommendations

This audit report contains two recommendations to improve certain controls over contracted security payments.

Capitol Police accepted the two recommendations.

Recommendation Status

Capitol Police's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Capitol Police

Department of Public Safety

Summary

Generally, the Capitol Police (Division) processed contract and travel expenditures in compliance with applicable requirements, although certain improvements can be made to the review of contract invoices. While contract invoices were properly processed and mathematically accurate, issues were found regarding documentation of certain approvals. Furthermore, the Division can strengthen its invoice review if times and dates billed by the contractor are compared to security logs. Changes to the monitoring and processing of contract invoices will help ensure payments for the Division's largest expense, other than personnel, are appropriate and accurate.

Key Findings

The Division can make improvements when approving and processing contractor payments. For instance, review of and approval for payments should be documented by the Division Chief prior to processing. Of 18 contractor invoices reviewed, none had evidence the Chief of the Division reviewed and approved the invoices prior to payments. Division policy and procedures state all expenditures will be approved by the Chief prior to the processing of the payment voucher. Discussions with Division and DPS fiscal personnel indicated the Chief does review invoices prior to payment; however, no evidence of this review was found on any invoice we inspected. Documentation of the Chief's review will help ensure payments are accurate and appropriate. The Division paid $227,000 for contracted security during fiscal year 2015. This is the largest single expenditure for the Division other than personnel costs. (page 5)

Contract invoice review can be strengthened by a comparison to detailed logs maintained by security personnel at fixed posts covered by the contractor. Our review of available logs found 2 of 12 logs did not have significant activity noted by security personnel to verify personnel arrived and remained at the post for the times billed on invoices. Conversely, 10 date logs did show specific security activity, such as when perimeter checks are performed on buildings, that directly corresponded to dates and times billed. (page 6)

Our review of travel expenditures revealed the Division processed them in accordance with state laws and other requirements. Travel costs included expenses related to the Division's fleet of five patrol vehicles. The Division's vehicles are purchased and maintained by the State's Motor Pool and are subject to monthly rental and mileage charges. Charges for the fleet, of a little more than $60,000, accounted for the majority of travel expenditures during fiscal years 2014 and 2015. (page 7)

We reviewed travel claims for compliance with state laws and related policies and procedures. Selected invoices were mathematically accurate, properly approved, and paid at the appropriate rates. (page 7)

Brian Sandoval
Governor

James R. Wells, CPA
Director

STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE

209 E. Musser Street, Suite 200 | Carson City, NV 89701-4298
Phone: (775) 684-0222 | http://gfo.nv.gov | Fax: (775) 684-0260

MEMORANDUM

To: Rocky Cooper, Legislative Auditor
Legislative Counsel Bureau

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

Date: August 19, 2016

Subject: Legislative Audit of the Department of Public Safety, Capitol Police

On November 19, 2015, your office released an audit report on the Department of Public Safety, Capitol Police (division). The division subsequently filed a corrective action plan on March 4, 2016. 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 two recommendations contained in the report. The extent of the division's compliance with the audit recommendations is as follows:

Recommendation 1

Document review and approval of contractor invoices.

Status – Fully Implemented

Agency Actions – The division documents its review and approval of security service invoices by appending the initials of the division's Chief or Sergeant on the copy of the invoce. The division processed thirty security service invoices for the period November 2015 through June 2016. We randomly selected nine invoices or 30 percent for testing. We reviewed the supporting documentation and determined all nine paid invoices were properly approved by the Chief or the Sergeant.

Recommendation 2

Compare security service invoices to daily logs and resolve discrepancies where logs do not verify and support billed amounts.

Status – Fully Implemented

Agency Actions – The division compares security service invoices to daily logs and resolves discrepancies where logs do not verify and support billed amounts. The division receives a daily log from the vendor security guards and enters the information into its Records Management System (RMS). The hours noted on the daily log or the RMS is then compared to the billed hours. Our review for the period November 2015 through June 2016 disclosed four instances where the billed security service invoices differed from the daily logs. In each case, the division resolved the discrepancies prior to issuing payment for the security services.

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
James Wright, Director, Department of Public Safety
Steve Weinberger, CPA, Administrator, Division of Internal Audits

Infrastructure

Audit Highlights

Highlights of performance audit report on the Nevada Department of Wildlife, Information Security issued on October 18, 2016. Legislative Auditor report # LA16-17.

Background

The mission of the Nevada Department of Wildlife (Department) is to protect, preserve, manage, and restore wildlife and its habitat for the aesthetic, scientific, educational, recreational, and economic benefits to citizens of Nevada and the United States, and to promote the safety of the persons using vessels on the waters of Nevada.

The Department has eight office locations statewide with one in Elko, Ely, Fallon, Henderson, Las Vegas, Winnemucca, and two offices in Reno.

The Department has three information technology employees who provide support for these various statewide locations.

For fiscal year 2016, the Department was authorized 249 full-time employees statewide. In addition, the Department had authorized expenditures of over $61 million during 2015.

Purpose of Audit

The purpose of our audit was to determine if the Department has adequate information security controls in place to protect the confidentiality, integrity, and availability of its information and information processing systems. The audit focused on the systems and practices in place from December 2015, through June of 2016.

Audit Recommendations

This audit report contains four recommendations to improve the security of the Department's information systems.

The Department accepted the four recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Information Security

Nevada Department of Wildlife

Summary

The Department can improve its information security controls in several areas. The Department needs to improve security over laptop computers. The computers of 43 game wardens contain confidential, unencrypted information such as credit card information. In addition, all of the Department's 17 servers lacked virus protection software. Without current virus protection software, servers could become infected with malware such as computer viruses. Furthermore, a faulty antivirus software installation prevented the Department from monitoring the status of virus protection on many computers. Finally, we identified 95 Department staff who had not completed their annual security awareness training. State security standards require all employees to have security awareness training at least annually.

Key Findings

Each of the Department's 43 game wardens in the Law Enforcement Division have a laptop computer containing unencrypted confidential information. This confidential information can contain unencrypted Personal Identifying Information (PII). For example, some case files contain driver's license numbers and credit card or other payment information. State Security Standards require that all sensitive information, including PII, be encrypted. (page 6)

All of the Department's 17 servers lacked virus protection software. State security standards require all computer systems to have current virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. According to the agency, when they converted to the Enterprise Information Technology Services, Enterprise Symantec Endpoint Protection (SEP) rollout, the rollout included virus protection software licenses for desktop and laptop computers, but not for servers. Therefore, the Department's servers were without virus protection. (page 7)

The Department's Information Technology (IT) support staff could not monitor the status of virus protection of many of the computers on the network. This was caused by faulty installation of software on at least 71 desktop computers. The faulty software installation prevented these computers from communicating with the virus protection management console that is used by IT staff to monitor the virus protection status of computers on its network. The information provided by the management console allows the IT staff to intervene when the virus protection software, or the daily virus definition updates, malfunction. The Department's IT staff were not aware of the failed software installations until our audit identified two computers without virus protection that did not appear on their virus protection management console. During inquiry as to why these two computers did not show up on the management console, the larger virus protection software installation problem was identified. This faulty installation affected at least 71 of the 220 computers on the Department's network. A small number of these 71 computers were missing virus protection software. (page 8)

We identified 95 of 236 current Department staff had not completed their annual security awareness training. State security standards require all state employees to have security awareness refresher training at least annually. State employees receive annual IT security awareness training to ensure they remain aware of current security threats as well as to understand their responsibility to keep state information confidential. Without completing such training, there is a greater risk that employees will not properly protect the information and information systems to which they have access. Department staff indicated that some employees did not heed the email notification to take the training. In addition, they indicated that other employees, who typically work in field locations without internet access, have a more difficult time conducting the web-based training. The Department should consider having its seasonal employees, who frequently use state computers, also take this training. (page 10)

BRIAN SANDOVAL
Governor

STATE OF NEVADA

DEPARTMENT OF WILDLIFE

6980 Sierra Center Parkway, Suite 120
Reno, Nevada 89511
Phone (775) 688-1500 • Fax (775) 688-1495

TONY WASLEY
Director

LIZ O'BRIEN
Deputy Director

JACK ROBB
Deputy Director

December 12, 2016

Mr. Rocky Cooper, CPA, Legislative Auditor
State of Nevada Legislative Counsel Bureau
Legislative Building
401 S. Carson St.
Carson City, NV 89701

Subject: **Performance Audit-Information Security 2016**

Dear Mr. Cooper:

The Nevada Department of Wildlife (NDOW) responses to the Performance Audit-Information Security 2016 are provided below:

1. Encrypt all Department laptop computers containing sensitive information.
The Department accepts the Audit Recommendation.

   NDOW has 43 law enforcement laptops containing encrypted confidential legal case information. These legal case files can contain Personally Identifiable Information (PII). For example, some files contain driver's license numbers and/or credit card or other payment information. NDOW Information Technology staff is finalizing our migration path to Windows 10 and will use BitLocker for encryption. As of September 2, 2016, we have 23 laptops in the department deployed running Windows 10 with BitLocker. Staff is confident that this will be a good solution for encrypting the data on the law enforcement laptops.

   Staff is unable to install Windows 10 on laptops purchased before 2013 because of hardware compatibility issues with these laptops. Because of these issues with older laptops we are scheduling the BitLocker rollout when employees receive their new scheduled laptop. Staff will be replacing all of the remaining laptops in fiscal year 2017.
   As of 12/12/2016 we have eleven of the now forty four law enforcement only laptops completed with BitLocker encryption. Encrypting law enforcement laptops is our highest priority. Our goal is to update eight laptops a week until completed. It takes about a full day to encrypt a laptop with making sure everything is working after the encryption on the machine is completed. The departments' information

technology staff is trying to do two at a time when they can. It is a little difficult with the coordination of this project because game wardens are spread throughout the state. It is taking three days for wardens in the rural areas to have their laptops updated. A day to send it to us and a day to send it back with a day to work on it. As of now it looks like we should have no problem meeting our goal to have all law enforcement laptops encrypted by the end of this fiscal year.

2. Periodically check all Department servers to ensure they have current virus protection.
The Department accepts the Audit Recommendation.

NDOW has one server remaining out of the 17 servers identified to roll-out to Symantec Endpoint Protection (SEP) virus protection. This remaining server is the Las Vegas server (NDOW-LV) which is scheduled to be replaced by the end of October 2016.
NDOW IT staff is now reviewing the weekly Enterprise Technology Services Division (EITS) SEP report to insure all servers are up to date with the current virus definitions. Staff will continue to monitor all servers weekly to insure SEP is current and working properly.
As of December, 2016, all 17 NDOW servers have been completed with SEP. We are checking the SEP report weekly to insure. This audit recommendation is complete.

3. Ensure all Department computers have current virus protection software by periodically comparing the number of computers listed in the virus protection system to the number of staff currently assigned to a location and investigate any discrepancies.
The Department accepts the Audit Recommendation.

NDOW information technology (IT) staff did not have visibility on all agency computers in SEP. Most NDOW computers did have antivirus installed and were up to date. However, after the original install of SEP some of NDOW's computers were not visible in SEP. Most had antivirus software installed and current definition files. All of NDOW computers are now in SEP and staff has visibility on them.
NDOW IT staff is now reviewing the weekly Enterprise Technology Services Division (EITS) SEP report to insure all computers are up to date with the current virus definitions. Staff will continue to monitor all servers weekly to insure SEP is current and working properly.
As of December, 2016, all NDOW computers are in SEP and working properly. We are checking the SEP report weekly to insure. This audit recommendation is complete.

4. Periodically reinforce the importance of all Department employees completing their required annual IT security awareness training.
The Department accepts the Audit Recommendation.

All employees have been sent email notifications that they need to complete this training by November 1, 2016. However some have not completed the training as requested. Along with the email notifications, each new employee received a new hire orientation packet which is similar to an employee handbook. In this booklet it lists the required courses each employee needs to complete. Some employees are in seasonal positions or are in positions that require them to be out in the field without computer or internet access for weeks at a time. This prevents them to completing the course(s) in a timely manner.

The department has implemented internal procedures to monitor, track and notify employees, their direct supervisors and respective division administrators that are due to take this training. This audit recommendation is partially complete.

The Department's plans regarding the training shortfall is to have the supervisors give more direction and delegate the requirements of trainings in a more routine and consistent manner throughout the year.

If you have any questions or need further information, please contact Deputy Director Liz O'Brien at (775) 688-1982.

Sincerely,

Tony Wasley

Tony Wasley
Director

Attachment

cc: Deputy Director Liz O'Brien
Deputy Director Jack Robb
Information Technology Professional Pat Wlodarczyk

Audit Highlights

Highlights of performance audit report on the Nevada Department of Wildlife issued on January 18, 2017. Legislative Auditor report # LA18-05.

Background

The Nevada Department of Wildlife's (NDOW) mission is to protect, preserve, manage, and restore wildlife and its habitat for the aesthetic, scientific, educational, recreational, and economic benefits to citizens of Nevada and the United States, and to promote the safety of persons using vessels on the waters of Nevada.

NDOW consists of a Director's Office and the following seven divisions: Conservation Education, Fisheries, Game, Habitat, Law Enforcement, Operations, and Wildlife Diversity. The Board of Wildlife Commissioners is responsible for establishing policy, setting annual and permanent regulations, reviewing budgets, and receiving input on wildlife and boating matters from entities, such as the 17 county advisory boards.

As of June 30, 2015, NDOW had 283 filled positions located in its Elko, Ely, Fallon, Henderson, Las Vegas, Reno, and Winnemucca offices. In fiscal year 2015, NDOW was primarily funded by licenses and fees of $17.2 million and federal grants of $15.5 million. In addition, NDOW received a General Fund appropriation of about $495,000 in fiscal year 2015.

Purpose of Audit

The purpose of this audit was to evaluate the Department's strategic planning process, including the relevance and reliability of performance measures. Our audit focused on fiscal year 2014 performance data, extending to fiscal year 2015 based on the availability of performance data.

Audit Recommendations

This audit report contains four recommendations to strengthen the agency's strategic planning and performance measurement processes.

The Department accepted the four recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on April 13, 2017. In addition, the six-month report on the status of audit recommendations is due on October 13, 2017.

Nevada Department of Wildlife

Summary

NDOW can take steps to strengthen its strategic planning process. Strategic planning is a long-term, future-oriented process of assessment, goal setting, and decision making. It includes a multi-year view of objectives and strategies essential for the accomplishment of agency goals. Our review of NDOW's strategic planning process revealed opportunities for improvement. An up-to-date strategic plan organized by division, with all key strategic planning components identified, will assist the agency in effectively using the plan to achieve and communicate its mission, goals, and objectives.

Improvements are needed regarding the oversight of activities related to the proper administration of performance measures. We found reported results for measures were not always reliable. Improvements are also needed to align measures with the agency's strategic plan and key program activities. Furthermore, additional guidance and oversight can improve the reliability of the agency's measures. Performance measures facilitate accountability and provide an opportunity to evaluate success in achieving goals. Measures must also be reliable to help the Governor, Legislature, and agency officials make informed budgetary and policy decisions.

Key Findings

NDOW's strategic plan is missing certain required components. The agency's plan does not include its mission statement or performance measures, fundamental components necessary to guide the agency in its strategic planning process. (page 9)

The Department's strategic plan is not used in its daily operations. A successful strategic plan enhances decision making by improving internal communication. By not utilizing its strategic plan, the agency is losing out on the many benefits a strategic plan provides. (page 10)

NDOW's strategic plan is outdated and incomplete. Since it was created in 2009, certain outcomes, goals, and objectives are no longer relevant, and revisions are needed to reflect current operations. Our review also revealed incomplete desired outcome and objective statements, as well as unresolved comments and remarks. Management and staff indicated that they are taking steps to improve upon their strategic planning process. The agency plans to revise their strategic plan by July 2017. (page 11)

Performance measures cannot be considered reliable unless they are supported by sufficient underlying records. Our review of NDOW's fiscal year 2014 and 2015 performance measures revealed 16 of 20 measures and 3 of 19 measures were not adequately supported. (page 14)

Performance measures are reliable when the reported results are calculated using a sound and consistent methodology. Our review found 5 of 20 fiscal year 2014 measures and 2 of 19 fiscal year 2015 measures were calculated using an inappropriate methodology. Additionally, three 2015 measures were not calculated in the same manner as in previous years. (page 14)

Certain performance measures were not reliable due to mathematical errors. Our review found one 2014 and three 2015 measures to be inaccurate. The mathematical errors stemmed from manual counts of hardcopy reports and spreadsheet data. Although the mathematical errors were relatively minor, these errors went undetected because of the lack of review over performance data calculations. (page 15)

Some performance measurement descriptions did not match what was reported. Our review found three 2014 and one 2015 measurement title did not reflect reported information. (page 15)

Most performance measures are not aligned with the agency's objectives included in its strategic plan. Our review of fiscal year 2014 and 2015 performance measures revealed 19 of 20 measures and 18 of 19 measures did not relate to a corresponding agency objective. (page 16)

Department policies and procedures do not provide adequate guidance to assist staff with measuring performance. During our testing, division administrators were in the process of developing measurement procedures; however, we found 16 of 20 fiscal year 2014 measures and 14 of 19 fiscal year 2015 measures still lacked adequate procedures. (page 17)

NDOW's current practice for developing, maintaining, and monitoring performance data makes it difficult to assess performance. We found five of the agency's eight divisions do not use their performance measures to manage daily activities. Seven of the eight divisions also did not calculate their fiscal year 2015 measures until July 2016. (page 19)

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Audit Division
Legislative Counsel Bureau

Special Purpose

Audit Highlights

Highlights of performance audit report on the Office of the Military issued on October 18, 2016. Legislative Auditor report # LA16-18.

Background

The Office of the Military (Office) was established to supervise the military affairs of the State of Nevada. The Office is under the direction of the Adjutant General, who also serves as the Commander of the Nevada National Guard. The Nevada National Guard (Guard) is composed of the Army Guard, Air Guard, and state employees. State employees provide administrative, accounting, personnel, firefighting, security, operating, and maintenance services to the Nevada National Guard.

At the close of 2014, the Guard reported having 4,264 members (3,104 Soldiers and 1,160 Airmen). In addition to guard members, the 2015 legislatively approved budget authorized 134 full-time state employees. Funding for the Guard is provided primarily through federal funds and state General Fund appropriations. For fiscal year 2015, General Fund appropriations amounted to $3.4 million and federal funding totaled $15.7 million.

Purpose of Audit

The scope of our audit focused on activities from fiscal year 2013 through 2015. However, we performed work in certain areas through calendar year 2015. Our audit objectives were to determine the reliability of performance measures used in the state's budget process and to evaluate the controls in place over contracts, inventory, and the procurement account process.

Audit Recommendations

This audit report contains three recommendations to improve performance measures and seven recommendations to strengthen controls over contracts, inventory, and the procurement account process. The Office of the Military accepted the 10 recommendations.

Recommendation Status

The Office of the Military's 60-day plan for corrective action is due on January 19, 2017. In addition, the six-month report on the status of audit recommendations is due on July 19, 2017.

Office of the Military

Summary

The Office can take steps to improve the accuracy, usefulness, and reliability of its performance measures. The reported measures are not always reliable or adequately documented. In addition, the description provided for one measure is not accurate, and two performance measures may not be useful for decision makers to evaluate the programs' operations. Performance measures must be reliable because they can affect budget and policy decisions made by managers and oversight bodies. Reliability of performance measures can be improved by developing policies and procedures on how the data is collected, how each measure is calculated, and supervisory review to ensure the accuracy of reported results.

The Office can strengthen its controls over (1) contracting activities, (2) maintaining accurate inventory lists of equipment, and (3) monitoring the use of procurement accounts. First, the Office did not compare vendor invoices to contract terms and ensure the contact solicitation process complied with the established policy. Second, the Office did not have a complete inventory list or conduct a reconciliation of the inventory list to its equipment in 2015. Lastly, the Office did not ensure procurement account purchases complied with existing procedures.

Key Findings

The Office did not have adequate documentation to support the reliability of four of the six performance measures tested. The four measures lacking underlying records were maintenance of facilities, units ready for deployment, percent of authorized officer positions filled, and percent of authorized enlisted positions filled. Although the Office maintained a spreadsheet with final numbers for each measure, we could not verify the accuracy of the information since supporting documentation was not retained. Performance measures are not considered reliable unless sufficient underlying records support them. The State Administrative Manual requires agencies to retain the records used in computing performance measures for 3 fiscal years, and to develop written procedures on how the measures are computed. (page 6)

The Office can provide better information to decision makers by improving its performance measures. Three of the six measures reviewed either did not accurately describe the measure presented or could better communicate program operations. For example:

- The measurement for maintenance of facilities is described as the number of work orders completed within the customer's requested timeline. However, the data did not include all work orders, and the reported measure did not include whether the work orders were completed within the customer's requested timeline.
- The measure for tuition assistance reports the number of claims processed in a fiscal year, but additional information on program benefits is not provided. Tuition assistance has been described as providing up to 100% of the credit hour costs for summer school tuition. However, all 93 tuition reimbursement claims were paid at 74% for the 2015 summer school session.
- The measure for the Patriot Relief Account reports the number of economic hardship claims processed, but does not provide information on textbook reimbursements or life insurance premium reimbursements. The Account was created to reimburse Guard members for certain text books and life insurance premiums, as well as assist with economic hardships. (page 6)

The Office lacks controls over payments for contracted maintenance services because it does not have a process to ensure vendor invoices are compared to contract terms. As of October 2015, the Office managed 68 contracts totaling $12.4 million. The majority of the contracts (65%) were for maintenance services, including 6 of the 10 contracts we tested. Five of the six routine maintenance services contracts did not include pricing schedules or base rates. In addition, the Office does not comply with the established contract solicitation policy. Solicitation documents for all 10 contracts tested did not include evidence of review and approval of the scope of work and evaluation criteria in accordance with the established policy. (page 9)

The Office's statewide inventory listing was incomplete. As of December 17, 2015, the inventory list included 485 items totaling $4.2 million. Our testing identified nine items purchased by the Army Guard through the state accounting system between fiscal years 2013 and 2015 and not added to the inventory list. The value for the nine items totaled $281,000. (page 12)

The Office does not comply with established reconciliation procedures for procurement account purchases. The Office manages two procurement accounts for hardware stores and one for fuel. Our testing found a lack of compliance with existing procedures and the need for additional controls. (page 13)

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Audit Division
Legislative Counsel Bureau

STATE OF NEVADA OFFICE OF THE MILITARY

Office of the Adjutant General
2460 Fairview Drive
Carson City, Nevada 89701-6807

Brian Sandoval
Governor

WILLIAM R. BURKS
Brigadier General
The Adjutant General

January 19, 2017

James R. Wells
Director, Governor's Finance Office
209 E. Musser St. Room 200
Carson City, NV 89701

Dear Mr. Wells:

The Office of the Military has reviewed, analyzed, and accepted all ten of the recommendations made by the Legislative Auditor to improve controls over contracts, inventory, and the procurement account process. Attached is the corrective action plan for each recommendation.

Please contract Cheryl Tyler at ctyler@govmail.state.nv.us if you have any questions.

Sincerely,

William R. Burks, Brig Gen, USAF
The Adjutant General, NVMD

Office of the Military Corrective Action Plan 2016

Recommendation 1: Review titles, descriptions, and supporting data for each performance measure to ensure the titles and descriptions of the measures accurately reflect the supporting data.

The Office of the Military has reviewed the titles and descriptions of each performance measure to ensure the measures accurately reflect the supporting data. The agency has included Air Guard maintenance work orders in our submission of the Executive Budget for the 2017-2019 biennium.

Recommendation 2: Review performance measures to determine whether the measures provide information useful to management and other decision makers in evaluating the efficiency, effectiveness, output, outcome, and quality of the programs.

The Office of the Military has replaced the tuition assistance performance measure of reporting number of service members that received tuition assistance per fiscal year to the percentage of reimbursement paid to each service member, as suggested in the audit. This will provide management and decision makers better information.

The agency will add performance measures to reflect amounts reimbursed to service members for cost of textbooks at institutions in the Nevada Systems of Higher Education and the cost of service members group life insurance premiums in the next Executive Budget for 2019 – 2021 biennium. This should provide useful information to management and decision makers to evaluate the programs funded by the Patriot Relief Fund.

Recommendation 3: Develop policies and procedures on the methodology used to obtain each performance measure and distribute to all affected staff. The procedures should include how the supporting data is collected, calculated, reviewed, and retained.

The request has been submitted to the respective Air and Army National Guard personnel to provide the methodology and procedures in generating the performance measures data. Once the procedure is received and reviewed, the Office of the Military will compile and save the methodology used to obtain each of the performance measures and forward this information to respective personnel in future biennium. This should ensure that the data being provided in separate biennium will be consistent and accurate.

Recommendation 4: Enhance existing controls over the contracting process to ensure compliance with the Office contract policy, including documenting the review of the contract request prior to the solicitation process, retaining evidence of the review in the contract file, and monitoring the vendor for insurance coverage.

The Office of the Military will ensure that contract personnel will comply with the Office contract policy and to submit scope of work for review prior to solicitation process.

The agency will make sure there are internal controls to monitor the performance of each contract from the bidding process to award phase. This will include enforcing the utilization of the contract routing document and to retain this on file. In addition, the contract folder will

include all proper supporting documentation and updated insurance coverage as required for the term of the contract.

The agency will provide continuous contract training to respective personnel to ensure that the contract policies and procedures are being adhered to. All these are projected to be fully implemented by July 1, 2017.

Recommendation 5: Adopt procedures to require vendors to provide pricing terms during the selection process and include pricing terms in contracts.

The Office of the Military has implemented the new contract requirement for the contractor to provide pricing terms during the solicitation process. The agency will modify existing agency contract policies and procedures to reflect this change. Agency policy should be updated by July 1, 2017.

Recommendation 6: Require contractors to submit invoices with both the number of units and the contract rates for those units. Also, ensure vendor invoices are monitored for compliance with contractual pricing terms.

The Office of the Military has updated the payment process to include verification that service invoices have itemized number of units of service and the invoice price matches the awarded contractual pricing terms. The payment voucher packet will also have a copy of the contractual pricing terms attached.

The contract manager will monitor all contracts and ensure compliance with state contracting laws and requirements. This will include tracking contract budget authority and verification of contractual pricing terms and conditions. The agency will modify existing agency contract policies and procedures to reflect this change and provide training to staff. These should be fully implemented by July 1, 2017.

Recommendation 7: Establish a process to ensure state laws and procedures are followed to include a complete inventory list, inclusive of purchases by the Army and Air Guards.

The Office of the Military will modify the existing agency inventory policy to ensure state laws and procedures are being followed. The agency will establish stronger controls over inventory to include a complete inventory list and conduct annual physical inventory verification and updates. Staff members are making sure each item has an asset tag and proper disposition of the inventory if needed. This is projected to be completed by July 1, 2017.

Recommendation 8: Reconcile the annual physical count of equipment for the Army and Air Guards against the inventory list and update the list as needed.

The Office of the Military is in the process of conducting an inventory audit to ensure accuracy of the agency inventory database. A physical inventory of the items is being reviewed by doing on-site visits to confirm the location and existence of the inventory throughout the state. This is projected to be completed by July 1, 2017.

Recommendation 9: Update procedures to reflect a process to reconcile the purchase order logs and purchase orders with the monthly statements for procurement accounts, and provide additional management oversight to ensure compliance with Office purchasing procedures.

The Office of the Military will modify existing procedures to include the reconciliation of purchase order logs and the purchase orders with the monthly statements for procurement accounts. Reconciliation will be verified by management. This should be fully implemented by July 1, 2017.

Recommendation 10: Develop procedures to ensure terminated employees are removed timely as authorized buyers.

The Office of the Military has established a process to ensure terminated employees are removed timely as authorized buyers for procurement accounts. Personnel staff will notify accounting staff anytime an employee is leaving the agency so that the terminated employee will be removed as an authorized buyer of the procurement account. Additionally, a personnel checklist will be created and utilized for all terminations to ensure that procurement cards and all other items will be requested at their debrief with personnel staff. Checklist should be completed by July 1, 2017.

Audit Highlights

Highlights of performance audit report on the Silver State Health Insurance Exchange issued on May 24, 2016. Legislative Auditor report # LA16-12.

Background

The Silver State Health Insurance Exchange's (Exchange) mission is to increase the number of insured Nevadans by facilitating the purchase and sale of health insurance that provides quality health care through the creation of a transparent, simplified marketplace of qualified health plans.

During the 2011 Legislative Session, Senate Bill 440 established the Silver State Health Insurance Exchange to create and administer a state-based health insurance exchange, facilitate the purchase and sale of qualified health plans (QHP), and provide for the establishment of a program to help certain small employers in Nevada facilitate the enrollment of employees in QHPs.

The Exchange opened to the public as Nevada Health Link on October 1, 2013, and began offering insurance coverage on January 1, 2014. Starting in 2015, the Exchange operated as a Supported State Based Model utilizing the federal government's infrastructure for eligibility and enrollments through HealthCare.gov. However, it retained control over policy decisions, insurance plan certifications, consumer assistance, education and outreach, and marketing. For plan year 2015, the Exchange was self-sustaining from member fees on QHP insurance premiums.

Purpose of Audit

The purpose of this audit was to determine if certain financial and administrative controls related to contract management and revenue collection were adequate. The scope of our audit included contract management practices and revenue collection controls and activities from January through October 2015.

Audit Recommendations

This audit report contains 13 recommendations to improve controls over the contract monitoring and revenue collection processes.

The Exchange accepted the 13 recommendations.

Recommendation Status

The Silver State Health Insurance Exchange's 60-day plan for corrective action is due on August 18, 2016. In addition, the six-month report on the status of audit recommendations is due on February 20, 2017.

Silver State Health Insurance Exchange

Summary

The Exchange needs to improve its contract monitoring process to ensure efficient use of fees assessed on members' health plan premiums. Specifically, it needs to improve its processes for monitoring navigator entities' activities to ensure entities are providing the intended services. These services include outreach, education, and enrollment assistance to the uninsured and underinsured populations. Further scrutiny should be given to entities' monthly payment requests, which include outreach and event reports, timesheets, and enrollment reports. Additionally, the Exchange needs to improve monitoring of its subcontracted outreach and education entity to ensure payments are an effective and efficient use of funds. Policies also need to be developed to address the payment of unlicensed navigators and mitigate potential associated risks. Finally, improved navigator representation in Northern Nevada is needed to ensure the region's targeted populations have access to unbiased enrollment assistance and are being served by outreach activities.

Key Findings

The Exchange's review process is not sufficient to determine whether the navigator entities' outreach and event reports support the hours reportedly worked. Documentation for reported events supported only about 3,000 of the 17,900 (17%) staff hours paid from May through October 2015. While navigator entities perform various other activities, only six of the nine entities provided some explanation for those non-event activities. During the 6-month period, the nine navigator entities were paid $368,000 to provide outreach, education, and enrollment assistance to the uninsured and underinsured populations. However, monitoring procedures are not sufficient to verify whether the events or activities attended were consistent with the Exchange's expectations. Correcting inconsistencies in entities' reporting and an enhanced review of entity activities would help ensure member fees are being utilized effectively. (page 8)

The monitoring of the outreach and education subcontractor's invoices and reported activities is not sufficient. Although the Exchange relies on the marketing contractor to monitor the subcontractor, we identified concerns with the subcontractor's reported hours, activities, and amounts it was compensated. Insufficient monitoring controls could lead to inefficient use or abuse of Exchange funds. For example:

- The subcontractor was paid $90,000 to plan and develop a list of outreach events to attend which it presented to the Board. While the subcontractor attended 27 events from June through October 2015, only 9 were from the list of 64 events during that period. (page 17)
- From June through October 2015, the subcontractor reported spending about 270 hours attending events of the reported 4,725 hours worked, but invoices did not provide sufficient detail to know what specific services were performed during the remaining hours. (page 18)
- The Exchange paid a flat compensation rate of $45,000 per month regardless of the amount of work performed by the subcontractor. Invoices showed the hours worked varied from 600 to 1,800 per month but compensation remained the same. (page 19)

Policies and procedures are needed to address the payment of unlicensed navigators and address associated potential risk factors. We found 25 of the 64 individuals employed by navigator entities from March through October 2015 were paid for enrollment and outreach services prior to being licensed. These unlicensed individuals were paid for periods ranging from a couple days to as many as 86 working days. This practice is not consistent with statutory requirements and may expose the Exchange and public to unnecessary risks. (page 21)

From May to mid-October 2015, there were no navigators providing traditional navigator services in Northern Nevada. Additionally, we noted there were only 11 education and outreach events attended in Northern Nevada between May and October 2015, compared to the more than 380 outreach events reported attended by the navigator entities and the outreach and education subcontractor in Southern Nevada. Improving navigator representation in Northern Nevada would ensure consumers have access to unbiased enrollment assistance, and outreach efforts are sufficient to reach the area's targeted populations. (page 22)

Although the Exchange deposited all checks we tested, internal controls over revenues need improvement. We found the Exchange does not adequately separate revenue collection duties. In addition, the Exchange can improve controls by monitoring receivables to ensure it collects all revenues timely, reconciling receipt logs to deposit records, and protecting financial records from unauthorized users. Furthermore, the Exchange's policies and procedures over revenue collection need updating. Good revenue controls minimize the risk of revenues being lost or stolen. (page 26)

Brian Sandoval
Governor

Florence Jameson, MD
Chairwoman

Bruce Gilbert
Executive Director

Silver State Health Insurance Exchange

2310 S. Carson Street, Suite 2, Carson City, NV 89701 • T: 775-687-9939 F:775-687-9932
https://www.nevadahealthlink.com/sshix/

July 18, 2016

James R. Wells
Office of Finance
209 E. Musser, Room 200
Carson City, NV 89700

Dear Mr. Wells,

In accordance with Section 19(c) of Nevada Revised Statute (NRS) 218G.250 the Silver State Health Insurance Exchange has respectfully prepared the enclosed plan for corrective action as it relates to the recommendations from the Legislative Counsel Bureau's audit report dated May 24, 2016.

Should you have any questions please contact Heather Korbulic, Chief Operations Officer, (775) 687-9938 or by email hkorbulic@exchange.nv.gov

Sincerely,

Bruce Gilbert
Executive Director
Silver State Health Insurance Exchange

CC: Rocky Cooper, Legislative Auditor, Legislative Counsel Bureau

Brian Sandoval
Governor

Florence Jameson, MD
Chairwoman

Bruce Gilbert
Executive Director

Silver State Health Insurance Exchange
2310 S. Carson Street, Suite 2, Carson City, NV 89701 • T: 775-687-9939 F:775-687-9932
https://www.nevadahealthlink.com/sshix/

Silver State Health Insurance Exchange Plan for Corrective Action

The Silver State Health Insurance Exchange (Exchange) has identified each recommendation made by the Legislative Counsel Bureau (LCB) audit report and developed a plan of correction by which the Exchange will take in order to comply with the respective recommendation.

1) **Require more detailed accounting of time by specific activity type, events, enrollments, and other activities from navigator entities to provide a better understanding of services rendered to support payment requests.**

   The Exchange will develop and implement a policy which will require each Navigator or In Person Assister (IPA) organization to provide specific information when submitting Request for Funds (RFF). Each RFF will be required to include timesheets for individual Exchange Enrollment Facilitators (EEF) identifying specific hours worked, activities conducted, events attended and supportive documentation to demonstrate that the activity/event took place.

2) **Develop policies and procedures to perform thorough reviews of navigator entity funding requests to ensure information reported is reliable and payments are appropriate under contract terms.**

   The Exchange will develop and implement a policy and procedure to review RFFs prior to payment to ensure information reported is accurate and payments are appropriate under contract terms. This review is to be performed by the Navigator Program Manager and Finance Department and will include a detailed analysis of information and documentation submitted by Navigator and IPA organizations ensuring their validity.

3) **Require the marketing contractor to provide monthly reports on the services performed by the outreach and education subcontractor including an accounting of time by specific activity to support billing amounts.**

   The Exchange will develop and implement a policy that requires contractors and subcontractors to provide adequate supporting documentation detailing work performed in their monthly invoices. Invoice documentation will include employee names, hours, and activity types. Additionally, the Exchange will require event reports with details including event name, number of people in attendance, demographic targeted, number of Qualified Health Plan (QHP) eligible individuals, and follow-up with those individuals.

4) **Develop policies and procedures to evaluate services performed by the outreach and education subcontractor to ensure funds are paid for actual services rendered on behalf of the Exchange.**

The Exchange will develop and implement a policy and procedure to review contractor and subcontractor invoices which will verify that documentation is sufficient to ensure funds are paid for services rendered.

5) **Establish clearly defined performance measures for navigator entities' outreach activities and enrollments, and monitor monthly progress toward those measures.**

The Exchange will develop and implement policies and procedures to establish Navigator and IPA performance measures which will include regular progress monitoring.

6) **Establish clearly defined standards for navigator entities for deliverables including timesheets, and supporting documentation for reported outreach and enrollment numbers.**

As stated in Recommendation 1), the Exchange will develop and implement a policy which will require each Navigator or IPA organization to provide specific information when submitting RFF. Each RFF will be required to include timesheets for individual EEF identifying specific hours worked, activities conducted, events attended and supportive documentation to demonstrate that the activity/event took place.

This policy will include specific standards to define supporting documentation for reported outreach and enrollment.

7) **Formalize a written policy regarding the payment of unlicensed navigators working for navigator entities.**

The Exchange will develop and implement a policy for payment of Navigators and/or IPA entities who are pending EEF certification.

8) **Establish requirements for navigator entities to mitigate the risks associated with unlicensed navigators handling sensitive information while representing the Exchange.**

The policy that will be developed and implemented related to the payment of EEFs pending licensure, stated in response to recommendation 7) will include a list of items that EEFs pending certification can do in order to mitigate the potential risk to consumer sensitive information.

9) **Enhance existing strategy to improve navigator representation in Northern Nevada.**

The Exchange will ensure that Requests for Applications (RFAs) are distributed to an appropriate geographic and demographic mix of organizations in order to provide coverage throughout the state.

10) **Revise policies and procedures related to the revenue collection process to ensure adequate separation of duties.**

The Exchange will revise policies and procedures as they relate to revenue collection to ensure an adequate separation of duties.

11) **Implement controls to ensure all receipts are recorded in the check log, and the check log is reconciled to deposits by someone independent of the revenue recording and deposit functions.**

The Exchange will develop and implement controls that ensure all receipts are recorded into the check log, and that the check log is reconciled to deposits by someone independent of the revenue recording and deposit functions.

12) **Update policies and procedures to ensure the Exchange has an adequate system of internal control over revenue collection and accounts receivable.**

The Exchange will update and implement policies and procedures to ensure that the Exchange has an adequate system of internal control over revenue collection and accounts receivable.

13) **Ensure access to spreadsheets used to record revenue and accounts receivable are limited to the staff needing access to them to complete their job duties.**

During the audit the Exchange limited access to the record revenue and accounts receivable documents to only those staff who require access to complete their job duties.

Other

Audit Highlights

Highlights of performance audit report on the Nevada State Board of Dental Examiners issued on May 24, 2016. Legislative Auditor report # LA16-14.

Background

Assembly Bill 6 of the 1951 Session, known as the Nevada Dental Practice Act established the current system of regulation related to dentistry. The Board consists of 11 members appointed by the Governor who are to 1) develop and maintain programs to ensure only qualified professionals are licensed to practice dentistry and dental hygiene and 2) ensure violators of the laws regulating dental practitioners are sanctioned. The Board's register showed 1,809 and 1,393 actively licensed dentists and hygienists as of April 1, 2016.

The Board's office is located in Las Vegas and staffed with six people including the Executive Director. For fiscal year 2015, the Board had revenues of $1.3 million and expenses of $1.1 million.

The Board receives complaints from the public and licensed practitioners regarding services provided. The Board received 374 complaints from July 1, 2013, to December 31, 2015. About 64% of complaints were remanded, 32% resulted in some form of additional Board action, and 4% were not yet resolved.

Purpose of Audit

The purpose of this audit was to determine whether the Board has assessed reasonable costs to licensees for investigating and resolving complaints and disciplinary matters.

The scope of our audit focused on a review of the Board's disciplinary process and costs assessed for investigations resulting from approved Board actions during calendar years 2014 and 2015. Certain information included data from prior years to provide additional context or complete our analysis.

Audit Recommendations

This audit report contains 14 recommendations to improve the cost assessment and investigation processes. These recommendations address cost tracking, developing Board approved policies regarding cost assessment, a review of DSO investigations, and ensuring records are sufficient, accurate, and retained.

The Board accepted 11 recommendations and rejected 3 recommendations.

Recommendation Status

The Board's 60-day plan for corrective action is due on August 18, 2016. In addition, the six-month report on the status of audit recommendations is due on February 20, 2017.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Nevada State Board of Dental Examiners

Summary

The Board did not always assess reasonable costs to licensees for investigating and resolving complaints and disciplinary matters. Due to the Board's inadequate tracking of costs, many licensees were overcharged for the cost of investigations. Although the amounts overcharged were not significant to the Board overall, some amounts that individual licensees were overcharged were substantial. In addition, four licensees made charitable contributions totaling over $140,000 as required by stipulation agreements; however, charitable contributions are not allowed under NRS 631.350. Board management has started making changes to correct problems found during the audit.

The Board's reporting and monitoring of legal expenses was not adequate. First, the manner in which legal expenses are reported reflects a lower amount than is actually spent. Second, the Board can reduce its legal expenses by hiring its own General Counsel. Since the Board is funded by fees, it is responsible for monitoring expenses to ensure resources are spent efficiently to minimize the burden on licensees.

The Board needs to provide greater oversight of complaint investigations performed by Disciplinary Screening Officers (DSOs). Investigation results are not reviewed and sufficient guidance has not been developed to provide additional assurance that DSO conclusions and recommendations are based on sufficient evidence. Without a review process, variations in DSO decisions are more likely to occur. In addition, we found the Board's investigation files were incomplete.

Key Findings

The Board overcharged licensees for investigative costs in almost half of the investigations in the last 2 years, including several over $1,000. Overcharges were likely due to the Board lacking an effective process for accurately determining the amount of investigative costs for individuals. At the same time the Board overcharged some licensees, other licensees were charged less than actual investigation costs after negotiations between the parties. (page 8)

As part of the provisions imposed in Board approved stipulation agreements, four licensees agreed to donate over $140,000 to organizations that provide health-related services. However, charitable contributions are not allowable under NRS 631.350. Furthermore, these amounts were not recorded in accounting records since the checks were made payable to the charitable organizations. (page 11)

The Board paid about $200,000 more, on average, in legal expenses in fiscal years 2014 and 2015 than shown in its financial statements. Actual legal expenses were almost three times the reported amounts and exceeded the annual contract maximum for one firm. This occurred because the actual amount paid for legal expenses was reduced by the cost recoveries and assessments related to disciplinary matters. Recording expenses in this manner reduces transparency and, therefore, may impact decisions made by policy makers and others. (page 13)

The practice of reducing actual legal expenses also affected the Board's contract with outside counsel. Specifically, the contract approved in October 2013 stated payments will not exceed $175,000 per year. However, payments exceeded $300,000 in both calendar years 2014 and 2015, the first two full years under the new contract terms. Additionally, the overall contract maximum of $700,000 has almost been reached with over a year left in the 4-year contract. (page 14)

The Board could save approximately $100,000 per year by hiring a General Counsel while still utilizing the services of outside counsel when necessary. This estimate assumes the Board would still use outside counsel about 20% of the time. Boards have a fiduciary duty to be an effective steward of public resources, which in this case is fees collected from licensees. (page 15)

Investigation results and conclusions of DSOs are not reviewed by supervisory personnel or an independent review committee. A review process would help verify conclusions and recommendations are based on clear and sufficient evidence. Without a review process, there is an increased risk that investigations could result in licensees being treated too harshly or lightly. Although disciplinary actions are approved at Board meetings, Board members are not reviewing documentation specifically related to investigations and negotiations. Other state's dental boards and Nevada medical boards we contacted have review processes in place for investigations, including review committees. (page 16)

The Board's office does not have critical documentation related to the disciplinary process. In addition, when documentation was located it was often not in the disciplinary file as anticipated. The Board does not have certain documentation related to disciplinary proceedings because it is generated by, or submitted directly to, the Board's outside counsel. Furthermore, the Board does not have an organized filing method with checklists to ensure standard documentation related to disciplinary actions is onsite and retained. Without adequate documentation, the Board cannot fully support disciplinary actions or ensure compliance with statutes. (page 19)

Audit Division
Legislative Counsel Bureau

Nevada State Board of Dental Examiners

6010 S. Rainbow Boulevard, Building A, Suite 1 • Las Vegas, Nevada 89118 • (702) 486-7044 • (800) DDS-EXAM • Fax (702) 486-7046

July 26, 2016

Department of Administration
State of Nevada
515 East Musser Street, Third Floor
Carson City, Nevada 89701-4298

Re: Corrective Action Plan

Dear Sir/Madam:

On or about May 24, 2016, the Legislative Audit for the Nevada State Board of Dental Examiners was considered by the Legislative Commission. The Audit outlined fourteen (14) recommendations in which the Board accepted twelve (12). Currently, two (2) rejected recommendations are being assigned to the Budget & Finance Committee to address and provide recommendations to the Board. The Budget & Finance Committee Meeting is scheduled for Thursday August 18, 2016.

Enclosed is the corrective action plan created by the Board for the twelve (12) accepted recommendations to remedy the deficiencies contained in audit report. For the two (2) rejected recommendations the Board provides a status update.

Further, the Board is aware a status report shall be filed no later than January 6, 2017. Should you or your staff have additional questions, please do not hesitate to contact me at (702) 486-7048.

Sincerely,

Debra Shaffer-Kugel, Executive Director
Nevada State Board of Dental Examiners

Cc: Legislative Auditors
Division of Internal Audits
Timothy Pinther, DDS, Board President

Corrective Action Plan

Recommendations Accepted

Nevada State Board of Dental Examiners

Recommendation #1

Develop and document a process for tracking actual costs by complainant and licensee for investigation and monitoring activities.

Corrective Action Plan-Fully Implemented

The Board has assigned Class Numbers (license number) to licensees and Subclass Number to complainant and the Class and Subclass numbers are noted on the complaint file and in QuickBooks (QB). The Board can query the Class and Subclass numbers in QB and see all costs incurred by the Board to date.

Recommendation #2

Ensure Disciplinary Screening Officers (DSO) include sufficient detail to track and assess costs accurately. Invoices should detail the licensee, complainant, activity performed, and other fees or costs incurred.

Corrective Action Plan-Fully Implemented-Exhibit A

The Board has modified the Disciplinary Screening Officer (DSO) Expense Summary Form to include and capture the recommended detailed information identified in Recommendation #2. The Board has attached a copy of the revised expense summary form.

Recommendation #4

Develop policies regarding fees to be assessed to licensees throughout the disciplinary process, including whether costs for remanded complaints discussed at Informal Hearing proceedings should be included in total amounts assessed to licensees. Seek Board approval of policies regarding fees assessed.

Corrective Action Plan–Partially Implemented

On July 15, 2016, at a properly noticed meeting of the Board listed as Agenda Item 4(c)(i), the Board considered Recommendation #4 regarding policy as it relates to remanded cases noticed and discussed at Informal Hearings and whether to assess the licensee the incurred costs for the remanded case. The Board assigned this recommendation to the Budget & Finance Committee to discuss and make recommendations to the Board. The meeting of the Budget & Finance Committee is scheduled for August 18, 2016.

Recommendation #5

Determine, document, and adhere to appropriate travel costs limits

Corrective Action Plan–Partially Implemented

On July 15, 2016, at a properly noticed meeting of the Board listed as Agenda Item 4(c)(ii), the Board considered Recommendation #5 regarding policy as it relates to travel costs limits. The Board assigned this recommendation to the Budget & Finance Committee to discuss and make recommendations to the Board. The meeting of the Budget & Finance Committee is scheduled for August 18, 2016.

Recommendation #6

Discontinue the use of charitable contributions as a condition within stipulation agreements

Corrective Action Plan–Fully Implemented

As of May 24, 2016, the Board agrees to no longer negotiate charitable contributions as part of stipulation agreements pertaining to the illegal practice of dentistry or dental hygiene.

Recommendation #7

Record recoveries collected from licensees for disciplinary actions and monitoring activities as revenue instead of reduction to expenses

Corrective Action Plan–Fully Implemented

The Board has contacted our accounting firm who conducts our annual audits and advised them of this corrective action. The recoveries collected will be reported as revenue.

Recommendation #8

Prepare contracts that accurately reflect the maximum amount expected to be paid to contractor.

Corrective Action Plan-Partially Implemented

On July 15, 2016, at a properly notice meeting the Board approved the amended the contract of Morris, Polich & Purdy, LLP regarding the maximum amount of the contract which expires June 30, 2017. The contract has been forwarded onto the Board of Examiners for approval/rejection.

Recommendation #9

Review, at a public Board meeting, the merits of contracting with outside counsel versus hiring General Counsel to meet the majority of the Board's legal needs

Corrective Action Plan-Partially Implemented

On July 15, 2016, at a properly noticed meeting of the Board listed as Agenda Item 4(c)(iii), the Board considered Recommendation #9 regarding the merits of contracting with outside counsel versus hiring General Counsel to meet the majority of the Board's legal needs. The Board assigned this recommendation to the Budget & Finance Committee to discuss and make recommendations to the Board. The meeting of the Budget & Finance Committee is scheduled for August 18, 2016.

Recommendation #11

Develop and document guidance for investigations including procedure checklist and expected documentation

Corrective Action Plan- Fully Implemented-Exhibit B

The Board developed a Disciplinary Screening Officer (DSO) checklist outlining the tasks and documents which is maintained in the investigators work file

Recommendation #12

Develop a standardized filing organization method

Corrective Action Plan- Fully Implemented-Exhibit C & D

The Board has created individual files for each licensee/complainant and is maintained in chronological order (current date on top). A complaint file checklist is maintained in each file. The information generally contained in the licensee/complainant file is, notice of complaint, complaint filed by patient, verification of complaint form, authorization for records release, response from licensee, dental records of patient, subsequent treating dentist records, supplemental information and remand letters. The file is assigned a Class Number/Subclass Number.

If the complaint is noticed for an Informal Hearing an informal hearing file is created with a different subclass number. An informal hearing checklist is maintained in each file. The information generally contained in the informal hearing file is, notice of informal hearing, subpoena duces tecum, preliminary findings, proposed or executed stipulation agreements, letter of approval/rejection of stipulation agreement by the Board and monitoring of the terms and conditions of the stipulation agreements.

Recommendation #13

Prepare a file checklist that details all routine documentation related to the disciplinary process needed to substantiate the Board's action and compliance.

Corrective Action Plan- Fully Implemented-Exhibit C

The Board has developed a complaint file checklist form. (See Exhibit C)

Recommendation #14

Ensure all records are obtained and retained by the Board to support disciplinary activities

Corrective Action Plan-Fully Implemented

The Board maintains all documents to include transcripts

Corrective Action Plan

Recommendations Rejected

Nevada State Board of Dental Examiners

Recommendation #3-Rejected

Refund licensees amounts that were overcharged

Corrective Action Plan-Partially Implemented

The Board has requested the Budget & Finance Committee review the audit report to include, Appendix A and Appendix B and make recommendations to the Board regarding refunds to licensees. The meeting of the Budget & Finance Committee is scheduled for August 18, 2016.

Recommendation #10-Rejected

Institute an independent review process regarding complaint investigation and resolution

Corrective Action Plan-No Action

The Board is not opposed to an independent review process but believes to avoid violating the due process rights of the licensee and to avoid potential litigation this would require a statute change to incorporate the independent review process into the investigative process