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Carson City, Nevada

We have completed an audit of the Investigation Division of the Department of Public Safety. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Investigation Division for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

October 10, 2007  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF PUBLIC SAFETY  
INVESTIGATION DIVISION

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **DEPARTMENT OF PUBLIC SAFETY INVESTIGATION DIVISION**

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### **Background**

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The Investigation Division is required by law to conduct controlled substance investigations and provide criminal investigative services to state, county, and local law enforcement agencies upon request. The Division collects, analyzes, and disseminates information concerning organized crime, controlled substance violators, missing persons, unidentified bodies, and domestic violence.

During fiscal year 2006, the Division had 71 authorized positions. The Division is funded primarily by General Fund and Highway Fund appropriations. Expenditures for fiscal year 2006 totaled \$7.8 million, with personnel costs accounting for almost \$6 million of this total.

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### **Purpose**

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The purpose of this audit was to evaluate the Investigation Division's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. Our audit focused on the Division's financial and administrative activities during fiscal year 2006, and included certain activities through February 2007.

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### **Results in Brief**

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The Investigation Division substantially complied with state laws, regulations, and policies significant to its financial and administrative activities. However, it did not maintain accurate inventory records for property and equipment and did not conduct annual physical inventory counts, as required. Also, the Division's bank accounts, used during

## EXECUTIVE SUMMARY

### DEPARTMENT OF PUBLIC SAFETY INVESTIGATION DIVISION

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narcotics investigations, were not always established with correct account titles. Another bank account, which contained money belonging to a local government, was incorrectly established as a state account. Finally, the Division did not always comply with personnel laws and regulations regarding employee agreements for compensatory time and work performance standards. During our audit, management was responsive in taking steps to address these identified weaknesses.

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## Principal Findings

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- The Division did not always maintain accurate inventory records showing the correct locations, amounts, and custody of property and equipment. For example, 3 of 25 assets we tested were not accurately recorded or properly identified. During our audit, management initiated steps to better identify where property was located. The Division changed the inventory codes, used to identify where assets are located, for over \$550,000 in personal property and added over \$200,000 in Division assets previously recorded at the Department level. However, until a physical inventory count is done, the accuracy of these locations is not confirmed. (page 7)
- The Division has established bank accounts throughout the State to help carry out its investigation activities. However, changes are needed to the legal name, taxpayer identification number, and authorization for some accounts. Of 17 bank accounts used to obtain evidence during narcotics investigations, 3 were not in the name of the State of Nevada. Another bank account, which contained about \$120,000 belonging to a local government, was incorrectly established as a state account. Proper establishment of bank accounts includes using account titles and tax identification numbers that clearly identify the organization responsible for

## EXECUTIVE SUMMARY

### DEPARTMENT OF PUBLIC SAFETY INVESTIGATION DIVISION

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ownership and control of the bank account assets.  
(page 8)

- Written agreements were not always in place for employees who accrued compensatory time in lieu of cash payment for overtime worked. Of the 20 employees who accrued the highest amounts of compensatory time during fiscal year 2006, 11 had not entered into written agreements with the Division. NAC 284.250 requires a written agreement between an agency and employee when the employee receives compensatory time for overtime worked.  
(page 9)
- The Division did not adequately communicate work performance standards to 4 of 19 classified employees tested. Specifically, work performance standards for three positions were not signed by the employee and supervisor to document that they were reviewed with the employee. Also, one employee did not have work performance standards. NAC 284.468 requires that work performance standards be developed for all classified positions, reviewed annually, and amended when appropriate. (page 10)

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## Recommendations

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This audit report contains five recommendations to improve the Division's financial and administrative practices. Specifically, the Division should conduct annual physical inventory counts. Also, the Division should ensure that bank accounts are in the name of the State of Nevada and transfer complete responsibility for the bank account holding local government money to the local government. Finally, it should implement controls to ensure employees have compensatory time agreements and ensure work performance standards are effectively communicated.  
(page 17)

**EXECUTIVE SUMMARY**

**DEPARTMENT OF PUBLIC SAFETY  
INVESTIGATION DIVISION**

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**Agency Response**

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The Department, in response to our audit report, accepted the five recommendations. (page 15)

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# Introduction

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## Background

The Investigation Division, of the Department of Public Safety, is required by law to conduct controlled substance investigations and provide criminal investigative services to state, county, and local law enforcement agencies upon request. The Division collects, analyzes, and disseminates information concerning organized crime, controlled substance violators, missing persons, unidentified bodies, and domestic violence. The following is a brief history of the Investigation Division:

- 1969 - At the request of Governor Paul Laxalt, the Legislature formed a state narcotics bureau to curb the drug problem in Nevada. The Division of Narcotics and Dangerous Drugs was created within the Department of Parole and Probation.
- 1971 - The Division of Narcotics and Dangerous Drugs was transferred to the newly created Department of Law Enforcement Assistance and renamed the Division of Investigation and Narcotics. The Division was charged with assisting, upon request, any sheriff, chief of police, district attorney, or attorney general in the State.
- 1981 - The Department of Law Enforcement Assistance was eliminated. The Division of Investigation and Narcotics was renamed the Division of Investigation and assigned to the Department of Motor Vehicles and Public Safety. This move helped consolidate the major state law enforcement agencies, including the Highway Patrol, into one department.
- 2001 - The Legislature passed a bill that split the Department into two separate departments; the Department of Motor Vehicles and the Department of Public Safety. The Investigation Division was assigned to the Department of Public Safety.

During fiscal year 2006, the Division had 71 authorized positions located throughout the State. The Division is funded primarily from General Fund and Highway Fund appropriations. The Division's financial operations are recorded in two General Fund budget accounts—Investigations and Narcotics Control. Exhibit 1 summarizes the expenditures for the Division during fiscal year 2006.

**Investigation Division  
Expenditures  
Fiscal Year 2006**

<b>Category</b>	<b>Investigations</b>	<b>Narcotics Control</b>	<b>Total</b>
Personnel Services	\$4,475,658	\$1,474,706	\$5,950,364
Operating	463,937	125,390	589,327
Information Services	296,854	31,414	328,268
Equipment	210,313	0	210,313
Cost Allocations	158,717	82,988	241,705
Contract Lab Services	142,540	0	142,540
Grant Expenditures (non-payroll)	135,290	61,829	197,119
Travel	29,623	26,705	56,328
Purchase Drug/Information	17,740	20,399	38,139
Other	73,890	14,585	88,475
<b>Total</b>	<b>\$6,004,562</b>	<b>\$1,838,016</b>	<b>\$7,842,578</b>

Source: State's accounting system.

**Scope and Objective**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on the Division's financial and administrative activities during fiscal year 2006, and included certain activities through February 2007. The objective of our audit was to evaluate the Division's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, and policies.



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## **Findings and Recommendations**

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The Investigation Division substantially complied with state laws, regulations, and policies significant to its financial and administrative activities. However, it did not maintain accurate inventory records for property and equipment and did not conduct annual physical inventory counts, as required. Also, the Division's bank accounts, used during narcotics investigations, were not always established with correct account titles. Another bank account, which contained money belonging to a local government, was incorrectly established as a state account. Finally, the Division did not always comply with personnel laws and regulations regarding employee agreements for compensatory time and work performance standards. During our audit, management was responsive in taking steps to address these identified weaknesses.

### **Controls Over Property and Equipment Need Improvement**

The Division did not always maintain accurate inventory records showing the correct locations, amounts, and custody of property and equipment. For example, 3 of 25 assets we tested were not accurately recorded or properly identified.

- A vehicle listed in the inventory records as being in Carson City was located in Las Vegas.
- One laptop computer was recorded twice in the inventory records.
- The Division did not maintain proper identification of a digital camera listed in the inventory. Although staff provided a camera that matched the make and model we selected, both the state identification tag and serial number were missing from the camera.

During our audit, management initiated steps to better identify where Division property was located. From November 2006 through February 2007, the Division changed the inventory location codes for over \$550,000 in personal property and added over \$200,000 in Division assets previously recorded at the Department level. Location codes identify where the assets should be located. However, until a physical inventory count is done, the accuracy of these locations is not confirmed.

Although the Division maintained detailed records of weapons and vehicles and monitored them on a regular basis, it did not conduct comprehensive annual physical inventory counts. State laws require agencies to maintain complete and accurate records of the property in their custody. Accordingly, NRS 333.220 requires agencies to conduct an annual physical inventory count and reconcile the results of the count to the inventory records maintained by the Purchasing Division. Without accurate records, assets are not adequately safeguarded and time spent taking inventory may not be effective and efficient.

### **Recommendation**

1. Conduct an annual physical inventory count and reconcile the count to the Purchasing Division's inventory records.

### **Changes to Some Bank Accounts Are Needed**

The Division has established bank accounts throughout the State to help carry out its investigation activities. However, changes are needed to the legal name, taxpayer identification number, and authorization for some accounts. Of 17 bank accounts used to obtain evidence during narcotics investigations, 3 were not in the name of the State of Nevada. Another bank account, which contained about \$120,000 belonging to a local government, was incorrectly established as a state account. Proper establishment of bank accounts includes using account titles and tax identification numbers that clearly identify the organization responsible for ownership and control of the bank account assets.

Over time, the Division has established 17 bank accounts for use by the State and by joint state and local task forces. These accounts, which totaled over \$277,000 at the end of fiscal year 2006, are used to purchase controlled substances, dangerous drugs, and information in the course of investigations into related offenses. Our tests showed that these bank accounts were authorized by statute and that banking transactions were properly documented and approved. However, three bank accounts were not in the name of the State of Nevada as required by NRS 356.011. These accounts were opened solely in the names of the joint task forces that use them, although the State was responsible for the assets. State policy allows an agency or

program name to be added to an account title, but the title must first be in the State's name.

Another bank account, which contained money belonging to a local government, was incorrectly established as a state account. The account was used to deposit money seized by a joint task force pending forfeiture proceedings by the local government's district attorney. This account, established around 1999, had an average bank balance of about \$120,000 for June 2007. Although the money belonged to the local government, the bank account was established using the state's tax identification number and the Division assumed administrative responsibilities over the account. For example, the Division approved authorized check signers, which included a Division employee, and helped account for the funds. Despite this involvement, key controls were left to the local government. These included monitoring and approving bank transactions, and reconciling the bank account. Since this account was not approved by the State Board of Finance and is not needed for the Division to perform its statutory responsibilities, it should be closed and the money transferred to the local government.

### **Recommendations**

2. Ensure that Division bank accounts are in the name of the State of Nevada.
3. Transfer complete responsibility for the bank account holding local government money to the local government.

### **Personnel Requirements Not Always Followed**

The Division did not always comply with laws and regulations regarding personnel administration. First, it did not enter into written agreements with some employees who accrued compensatory time in lieu of cash payment for overtime worked. Second, the Division did not adequately communicate work performance standards to all classified employees.

#### **Written Agreements Are Needed for Overtime**

Written agreements were not always in place for employees who accrued compensatory time in lieu of cash payment for overtime worked. Of the 20 employees who accrued the highest amounts of compensatory time during fiscal year 2006, 11 had

not entered into written agreements with the Division. NAC 284.250 requires a written agreement between an agency and employee when the employee receives compensatory time for overtime worked.

A written agreement is required to clearly communicate and document the employees' and employer's rights and choices relative to overtime compensation. Furthermore, once agreements are signed, the Division is not obligated to pay cash to employees for overtime worked. Instead it can compensate the employees by allowing them to take time off. This is particularly important for an agency that incurs substantial amounts of overtime. In fiscal year 2006, Division employees earned overtime compensation totaling about \$265,000.

During our audit, in March and April 2007, the Division entered into written agreements with its classified employees who elected to receive compensatory time in lieu of cash payments. However, the requirement for written agreements is not reflected in the agency's policies and procedures. Therefore, procedures are needed to help ensure that future employees also enter into agreements prior to working overtime.

#### **Work Performance Standards Were Not Always Communicated**

The Division did not adequately communicate work performance standards to 4 of 19 classified employees tested. Specifically, work performance standards for three positions were not signed by the employee and supervisor to document that they were reviewed with the employee. Also, one employee did not have work performance standards.

Work performance standards enable supervisors to effectively and efficiently evaluate employees. The standards help ensure that employees are aware of what is expected of them and what level of task performance is needed to obtain a satisfactory job performance rating. NAC 284.468 requires that written work performance standards be developed for all classified positions and that employees have an opportunity to comment on the standards. It also requires that the work performance standards be reviewed annually and amended when appropriate.

## **Recommendations**

4. Develop written procedures to ensure employees who accrue compensatory time enter into a written agreement with the agency prior to working overtime.
5. Ensure work performance standards for classified employees are completed, communicated, and amended when appropriate.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Investigation Division, we interviewed agency staff and reviewed state laws, regulations, policies, and procedures significant to the Division's operations. We also reviewed the agency's financial reports, budgets, minutes of various legislative committees, and other information describing the activities of the Division. We documented and assessed the Division's internal controls over outside bank accounts, property and equipment, revenue, expenditures, and personnel administration.

To determine if outside bank accounts were properly controlled, we traced each account to its authorizing legislation and verified that the State Controller received proper reconciliations as of June 30, 2006. We confirmed account balances with the bank and verified that authorized check signers were current employees entitled to such authorization. We verified the check sequence and inspected voided checks. Also, we judgmentally selected 22 disbursements of at least \$1,000 and reviewed supporting documents to verify proper approval and use of funds.

To determine if property and equipment was adequately safeguarded, we judgmentally selected 20 assets from the February 12, 2007, inventory report, being sure to include weapons, vehicles, and equipment that was particularly susceptible to loss or theft. We traced the listed items to the physical assets. In addition, we selected five physical assets and traced them to the inventory report. We verified the accuracy of the Division's internal vehicle tracking system. From state asset reports, we identified assets that were added to and transferred among various locations for the period beginning November 3, 2006, through February 12, 2007. We also reviewed the agency's property disposition file for fiscal year 2006 for evidence that removals were processed according to purchasing regulations.

To determine if grant revenue was properly approved and administered, we reviewed the agency's largest federal grant. We reviewed 7 of 24 reimbursement and

drawdown requests for proper documentation and accounting, including correct fiscal year.

To determine if non-payroll expenditures were properly administered, we tested a random sample of 25 expenditures for proper approvals, supporting documentation, correct coding and compliance with applicable laws, regulations, and policies. Also, we selected 12 expenditures from transition periods surrounding the beginning and end of fiscal year 2006. We reviewed documentation to verify that the transactions were recorded in the correct fiscal years. We also selected the five largest credit expenditure transactions from each of the Division's two budget accounts and verified they were correct and proper. Finally, we selected 10 large contract expenditures from several agency contracts. We verified that the contracts were properly authorized and the transactions properly documented and paid.

To determine if payroll expenditures were appropriate, we randomly selected four pay periods for testing. We selected a total of 30 timesheets from those pay periods. We tested the timesheets for compliance with applicable laws, regulations, policies, and procedures. We reviewed the timesheets for accuracy in recording hours including overtime, shift differential, and callback pay.

We selected 20 classified employees at random to test for compliance with applicable personnel laws and regulations. Of these, 19 required work performance standards to be prepared. We determined whether work performance standards were established and the employees received performance evaluations. In addition, we evaluated if changes in employment status and wage rates were properly approved and reported promptly. Finally, we determined if management, supervisory personnel, and sworn peace officers received mandatory training. We then selected 20 employees who accrued the highest levels of compensatory time for fiscal year 2006. We determined if the Division complied with laws, regulations, and policies regarding accrued compensatory time, including whether there were written agreements for employees to receive compensatory time in lieu of paid overtime.

Our audit work was conducted from September 2006 through July 2007 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Chief of the Investigation Division. On September 26, 2007, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 15.

Contributors to this report included:

Gary J. Kulikowski, CPA  
Deputy Internal Auditor

Rocky Cooper, CPA  
Audit Supervisor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor



**Appendix B**  
**Response From the Investigation Division**

**Jim Gibbons**  
*Governor*



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**Phillip A. Galeoto**  
*Director*

**John H. Douglas**  
*Chief*

October 2, 2007

Paul V. Townsend, CPA, CIA  
Legislative Counsel Bureau  
Legislative Building  
401 South Carson Street  
Carson City NV 89701-4747

Re: Response to Audit 2006/2007

Mr. Townsend,

Upon review of the audit conducted by your agency between October 2006 and February 2007, this Division accepts the following Audit Recommendations and offers the following explanations and corrective action:

1. Conduct an annual physical inventory count and reconcile the count to the Purchasing Division's inventory records.

Commencing in July 2007, the Division conducted both a physical inventory by staff person as well as an office location inventory. The Division has also purchased a software program referred to as Asset Win which is an inventory system designed to assist managing our assets. Additionally, the Division is in the process of reconciling our inventory with State Purchasing with a projected completion date of November 1, 2007. Lastly, the Division is moving to a Division Inspection Project which will encompass inventory tracking and verification.

2. Ensure that Division bank accounts are in the name of the State of Nevada.

Upon notification by Gary Kulikowski the accounts were in the incorrect title, the Division began remedying the title change effective March 22, 2007. The Division notes four of the task forces names were listed following the State of Nevada on the accounts; however, since that time the title has been changed to remain consistent on all accounts.

Capitol Police • Criminal Justice Assistance • Division of Emergency Management • Emergency Response Commission  
State Fire Marshal • Investigation Division • Nevada Highway Patrol • Office of Traffic Safety  
Parole and Probation • State Board of Parole Commissioners • Training Division

3. Transfer complete responsibility for the bank account holding local government money to the local government.

Upon notification by Gary Kulikowski the account was to be changed to the local government, the Division initiated proceedings to transfer that account to Mike Smith, Chief of Police of Elko City Police Department. This transfer was initiated on May 1, 2007 and accomplished on July 18, 2007.

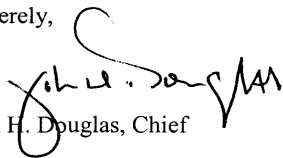
4. Develop written procedures to ensure employees who accrue compensatory time enter into a written agreement with the agency prior to working overtime.

The Department of Public Safety currently has a policy in effect entitled: Overtime and Compensatory Time, policy number 04.2.003. The Investigation Division conforms to the Department policy. The Division has re-issued to all employees a written agreement with regard to overtime and compensatory time. Originals of these documents are kept in the Department's Personnel section.

5. Ensure work performance standards for classified employees are completed, communicated, and amended when appropriate.

Of the nineteen (19) employees tested for current work performance standards, four (4) had listed exceptions noted from DPS Personnel files. The Division working file indicates all nineteen (19) are in compliance: signed and dated, with exception to Chief Douglas, who has a notation there are no Work Performance Standards for him as a Lieutenant or Captain. As Chief Douglas has since been promoted to an unclassified Division Administrator, it would be inappropriate to retroactively date Work Performance Standards. Since late 2006, this Division has been in the process of updating all Work Performance Standards for sworn staff. DPS Officer II and Criminal Investigator III Work Performance Standards are in the final draft stages and will be re-issued in the near future. Since this time, DPS Sergeant, Lieutenant and Captain/Deputy Chief Work Performance Standards have been revised and signed by the appropriate staff.

Sincerely,



John H. Douglas, Chief

cc: Kathalie Koche, DPS Deputy Chief of Staff  
Jay Giovacchini, DPS Internal Auditor

## Investigation Division Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Conduct an annual physical inventory count and reconcile the count to the Purchasing Division's inventory records.....	<u>  X  </u>	<u>      </u>
2	Ensure that Division bank accounts are in the name of the State of Nevada.....	<u>  X  </u>	<u>      </u>
3	Transfer complete responsibility for the bank account holding local government money to the local government .....	<u>  X  </u>	<u>      </u>
4	Develop written procedures to ensure employees who accrue compensatory time enter into a written agreement with the agency prior to working overtime .	<u>  X  </u>	<u>      </u>
5	Ensure work performance standards for classified employees are completed, communicated, and amended when appropriate .....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    5    </u>	<u>    0    </u>