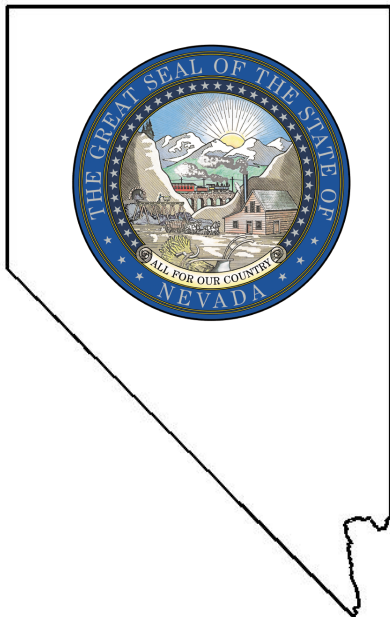


STATE OF NEVADA

Legislative Counsel Bureau Audit Division Audit Report Summaries



Seventy Seventh
Nevada Legislature

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800
MO DENIS, *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
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825


MEMORANDUM

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

FROM: Paul V. Townsend, Legislative Auditor

DATE: February 5, 2013

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 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 \$93 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

		Executive Budget	
	Page	Section	Page
<u>ELECTED OFFICIALS</u>			
<u>Office of the Governor</u>			
Office of Energy (Released 02/02/12)	1	ELECTED	20
<u>FINANCE AND ADMINISTRATION</u>			
<u>Department of Administration</u>			
Division of Enterprise Information Technology Services (Released 02/02/12)	9	ADMIN	43
Public Works Division Buildings and Grounds Section (Released 02/02/12)	16	ADMIN	185
<u>COMMERCE AND INDUSTRY</u>			
<u>Gaming Control Board</u>			
Gaming Control Board (Released 03/08/11)	23	GAMING CONTROL BOARD	1
<u>Department of Business and Industry</u>			
Division of Insurance (Released 09/19/12)	27	B & I	17
Division of Industrial Relations (Released 09/19/12)	33	B & I	63
Housing Division (Released 04/17/12)	40	B & I	103
Office of Labor Commissioner (Released 04/12/11)	43	B & I	205

STATE OF NEVADA
AUDIT REPORT SUMMARIES

Table of Contents
(continued)

		Executive Budget	
	Page	Section	Page
<u>HUMAN SERVICES</u>			
<u>Department of Health and Human Services</u>			
Aging and Disability Services Division (Released 10/17/11)	51	DHHS ADSD	1
Division of Welfare and Supportive Services (Released 09/19/12)	54	DHHS DWSS	1
Oversight of Child Care Facilities (Released 10/17/11)	58	DHHS PUBLIC HEALTH	142
Substance Abuse Prevention and Treatment Agency (Released 04/17/12)	63	DHHS BEHAVIORAL HEALTH	59
Division of Child and Family Services (Released 10/17/11)	71	DHHS DCFS	1
Review of Governmental and Private Facilities for Children – October 2011 (Released 10/17/11)	75	DHHS DCFS	54, 56, 65 94, 108, 118
Review of Governmental and Private Facilities for Children – April 2012 (Released 04/17/12)	76	DHHS DCFS	54, 56, 65 94, 108, 118
Review of Governmental and Private Facilities for Children – December 2012 (Released 12/13/12)	77	DHHS DCFS	54, 56, 65 94, 108, 118
<u>Department of Employment, Training & Rehabilitation</u>			
Employment Security Division (Released 12/13/12)	78	DETR	57

STATE OF NEVADA
AUDIT REPORT SUMMARIES

Table of Contents
(continued)

		<u>Executive Budget</u>	
	<u>Page</u>	<u>Section</u>	<u>Page</u>
<u>PUBLIC SAFETY</u>			
<u>Department of Motor Vehicles</u>			
Department of Motor Vehicles (Released 02/02/12)	79	DMV	1
<u>INFRASTRUCTURE</u>			
<u>Department of Conservation and Natural Resources</u>			
Division of State Lands (Released 09/19/12)	87	DCNR	116
Division of Environmental Protection (Released 10/17/11)	90	DCNR	140
<u>SPECIAL PURPOSE AGENCIES</u>			
<u>Public Employees' Benefits Program</u>			
Public Employees' Benefits Program (Released 12/13/12)	97	PEBP	1
<u>Veterans' Services</u>			
Office of Veterans' Services (Released 10/17/11)	98	VETERANS	1

Audit Highlights



Highlights of Legislative Auditor report on the Office of Energy issued on February 2, 2012. Report # LA12-13.

Background

The Office of Energy (Office) is responsible for implementing the Governor's energy policy and serving as the State's point of contact with the U.S. Department of Energy (DOE). The Office administers grants and contracts that encourage conservation and energy efficiency, the development and utilization of Nevada's renewable energy resources, and the promotion of economic development. It facilitates cooperation between key stakeholders and leads initiatives to attract energy related businesses to Nevada. The Office is also involved in several activities including developing energy plans, energy policy development and implementation, technical assistance, education, and public information. The agency is part of the Office of the Governor, and is located in Carson City.

Purpose of Audit

The purpose of this audit was to: (1) determine if the Office complied with State Energy Program (SEP) Formula and SEP ARRA grant requirements, (2) evaluate the Office's energy reduction planning and project selection processes, and (3) evaluate performance measures including the reliability of reported results. Our audit focused on grant compliance and energy reduction planning and project selection from July 2009 through December 2010, and included follow-up work on project selection and grant expenditures through August 2011. The audit also focused on performance measures and reported results for fiscal year 2010 and projections for 2011.

Audit Recommendations

This audit report contains five recommendations to improve grant oversight including subrecipient reporting and on-site monitoring. In addition, five recommendations address energy reduction planning and project selection. Finally, four recommendations were made to improve the reliability and effectiveness of performance measures.

The Office accepted 12 recommendations and rejected 2 recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Office of Energy

Office of the Governor

Summary

The Office can improve its oversight of energy grants. Periodic reports from subrecipients were infrequent and unsupported. When reports were provided, information was not always complete or reliable. In addition, the Office has not developed a site monitoring schedule to ensure projects comply with grant requirements. Furthermore, grant payments to subrecipients were not always managed according to federal regulations and guidance.

The Office's energy reduction planning and project selection processes can be improved. A plan to reduce grid-based energy consumption in Executive Branch agencies has not been prepared as required by statute. As a result, the State may have missed opportunities to further reduce energy costs in state buildings over the past 6 years. In addition, an energy plan would have been a useful tool when allocating ARRA funding. Finally, the Office needs to ensure that planned solar projects at state agency sites adequately protect State interests and result in lower energy costs.

The Office can take steps to improve the reliability and effectiveness of its performance measures. Current practices for developing and monitoring performance measures make it difficult to assess performance. Additionally, the Office has changed its measures in each of the last three Executive Budgets, making it difficult to assess performance over time. Finally, we could not verify the reliability of measures because documentation supporting reported results was not maintained.

Key Findings

Grant subrecipients did not always provide the Office with required quarterly reports. We found only 10 of 78 required quarterly reports were submitted to the Office from June 2010 through March 2011. When subrecipients did provide information, it was not always adequately supported. As a result, information generated by the Office and reported to the federal government was not always reliable.

The Office has not developed a site monitoring schedule for ARRA funded projects to define when monitoring visits should take place. Office staff visited 15 of 119 projects that were subject to inspection during our audit period. Aside from one series of site visits, conducted jointly with DOE staff, on-site monitoring was typically informal and not well documented.

The Office complied with other grant requirements reviewed. In addition, the Office was timely at committing funds to qualified projects and promoting projects that leveraged grant funds.

The Office has not prepared a plan requiring Executive Branch agencies to reduce grid-based energy purchases for state-owned buildings by 20% by 2015, as required by state law. Additionally, required biannual reports on the general progress toward energy reduction in state buildings have not been provided to the Legislative Commission. During our audit, the Office began taking some steps to develop a plan.

The State recently contracted with a vendor to allow state agencies to enter into agreements to build vendor owned solar energy systems. The vendor will pay costs to construct, operate, and maintain solar energy systems, and sell energy generated from the solar panels to state agencies. Savings or losses will not be known for many years because the contracts to purchase power from the vendor may last 20 years or more. Therefore, careful review is needed before entering into agreements with the vendor.

The Office can take steps to improve the process for evaluating Request For Proposals. We found a wide range in scores among evaluators when scoring the same proposal. Additionally, evaluators did not always score all evaluation criteria areas. As a result, weaknesses in the evaluation process could impact applicants selected.

The Office's practices for developing and maintaining performance measures make it difficult to assess performance. Most goals lack corresponding performance measures to assess progress towards achieving goals. In addition, some measures are not worded clearly enough to understand what is being measured. Finally, the Office has frequently changed its measures, making it difficult to assess performance over time.

The reported results for most performance measures were not reliable for two reasons. First, documentation supporting reported results was not always retained. Second, when the Office retained supporting documentation, results were not always reported accurately.



**OFFICE OF THE GOVERNOR
NEVADA STATE OFFICE OF ENERGY**

October 25, 2012

Mr. Paul Townsend, CPA
Legislative Counsel Bureau
Legislative Building
401 S. Carson Street
Carson City, NV 89701

RE: Six-Month Report on the Status of Recommendations

Dear Mr. Townsend,

This correspondence addresses the six-month status of recommendations from the audit and from subsequent correspondence that addressed corrective action related to the recommendations of the audit.

1. Ensure grant recipients provide required reports timely, including supporting documentation.

Status: During the past six months, NSOE staff has been diligent about requiring our grant recipients to report in a timely manner. Additionally, quarterly reports (SF 425) have been prepared and submitted on time. These reports are submitted electronically and encapsulate the work performed by each grantee and sub-grantee on a quarterly basis. Each quarterly report has been reviewed and approved by the Department of Energy through the end of the grant period. (Refer to Attachments A and B.)

Going forward, the NSOE has updated its Internal Controls and Policies and Procedures to further reinforce our efforts to ensure that grant recipient reports comply with grant requirements and the sub-award agreement. The NSOE Fiscal Manager, in coordination with Administrative Services Division budget staff, monitors reporting due dates and notifies program managers of upcoming reporting requirements.

2. *Implement controls to help ensure program information is reliable, including appropriate documentation, accurate and timely recording of transactions and events, and supervisory review.*

Status: The NSOE has updated its Internal Controls and Policies and Procedures to ensure that sub-recipients comply with all federal regulations and requirements and that all program information is reliable, accurate, and well documented. Procedures include the use of monthly fiscal monitoring and quarterly project monitoring to ensure that sub-recipients are submitting timely invoices and expenses that comply with grant requirements and conditions, progress reports and/or status updates are provided with invoices, and all expenses are adequately logged and tracked to ensure that recipients are on target for spending the money and that all expenses are balanced to DAWN. All internal monitoring forms will receive supervisory review and signature.

Furthermore, performance measures have been revised to achieve the agency's primary activity. The performance measures are supported by appropriate documentation and are obtained from credible sources. A considerable amount of staff time has been devoted to ensuring the accuracy of the data upon which the performance measures are based. The data have been reviewed internally as well as with agencies and entities that supplied information (e.g., PUCN, Public Works Division, NV Energy) to ensure that their data was correctly interpreted and utilized. (Refer to additional discussion on performance measures under Recommendations #11 through #14.)

Due to variances in state reporting methodologies, the Department of Energy decided that states no longer needed to report on hours worked, renewable energy generated, energy savings, or per capita energy consumption. States were measuring and reporting this information differently, which was causing inconsistencies in the reports received by DOE. DOE removed these sections from the quarterly reports where this data was reported so it could no longer be input into the PAGE system. As a result, all prior data reported in these sections was lost and is no longer tracked.

3. *Develop and implement a monitoring schedule for grant funded projects to help ensure compliance with grant requirements.*

Status: As mentioned previously under the response to Recommendation #1, during the past six months, NSOE staff has been diligent about adhering to our grant monitoring schedules and requiring our grant recipients to report in a timely manner. Additionally, quarterly reports (i.e., SF 425) have been prepared and submitted in a timely manner. These reports were submitted electronically and have been reviewed and approved by DOE through the end of the grant reporting period. (Refer to Attachments A and B.)

Going forward, the NSOE Fiscal Manager will complete a monthly Fiscal Monitoring Report (Refer to Attachment C.) for all grant-funded projects to ensure compliance with grant requirements, as indicated in Recommendation #2. The Fiscal Manager will maintain a monitoring schedule to ensure that fiscal and project reviews are conducted in conjunction with monitoring visits, when applicable, for grant funded projects.

4. *Ensure monitoring visits to project sites are adequately documented.*

Status: Please refer to the responses for Recommendations #1, #2 and #3. Additionally, the Grant Project Monitoring Report is to be completed quarterly by the NSOE Program Manager for all sub-recipients that require monitoring visits to ensure compliance with grant requirements and to maintain accurate documentation, as noted in Recommendation #2. (Refer to Attachment D.)

5. *Follow federal regulations and guidance for grant payments, including advances, reimbursements, and remittance of interest.*

Status: Federal guidelines continue to be followed for grant payments. DOE has approved our financial documents, closed out the grant, and commended NSOE for its work. The NSOE updated its Internal Controls and Policies and Procedures to include an advancement of funds policy that must be signed by sub-recipients prior to the release of funds. The policy requires sub-recipients to provide the NSOE a copy of their procedures to minimize the time between the transfer of funds and their disbursement. The policy also provides a schedule with timelines in which the sub-recipient is required to provide details to the NSOE regarding the disbursements.

6. *Develop a long-term plan requiring Executive Branch agencies to reduce energy consumption in state-owned buildings.*

7. *Provide biannual reports to the Legislative Commission as required by statute.*

Status of Recommendations #6 and #7: Progress is being made towards achieving this goal. The following activities have been completed over the past few months.

- The Energy Benchmarking Report for Nevada State Buildings, prepared by CLEAResult, was completed on April 30, 2012. This report benchmarked the energy performance of the state buildings that implemented energy-related improvements with SEP ARRA funds. For most buildings, the report looked at an eight-year period from January 2004 through February 2012. The report is available on the NSOE website at [http://energy.nv.gov/Programs/Completed Projects/](http://energy.nv.gov/Programs/Completed%20Projects/). Please see the project titled "State Building Energy Upgrades". No funding is available to continue this contract.

- The LPB contract was also completed on April 30, 2012. (Both the LPB and CLEARResult contracts were paid for by SEP ARRA funds, and those funds ended in April.) The primary purpose of this contract was to identify savings to the state resulting from errors discovered in utility bills. Additionally, a large and useful database of energy usage in state-owned buildings was created by LPB and is available for the state's use. Data collection ended in April 2012 because SEP ARRA funding also ended. No funding is available to continue this contract.
- For the first time, information on energy consumption in state-owned buildings was presented in the 2011-2012 Status Report, which was submitted to the Governor and the Director of the LCB on July 1, 2012. The Status Report is available on the NSOE website at <http://energy.nv.gov/uploadedFiles/energynvgov/content/Documents/StatusofEnergyReport.pdf>. The primary sources for this data were NV Energy and the Public Works Division. NV Energy serves 95 percent of the buildings owned by the state. The remaining 5 percent are served by various municipal utilities, co-ops, and general improvement districts. Staff from the NSOE is working with these service providers to develop a procedure to start tracking the remaining 5 percent of the state's buildings. While the data in the Status Report shows a 6.3% reduction in energy use, current information indicates that by the end of 2011 the state had achieved an 8.3% energy reduction since the 2005 benchmark year.
- As part of the effort associated with the creation of Performance Measures for the NSOE, various strategies are under consideration by our Office and the Public Works Division to achieve additional reductions in energy consumption in state-owned buildings by 2015. These strategies are currently in development; however, when more specifics have been developed, these strategies, together with a general discussion on the progress to date, will form the basis of the biannual report (NRS 701.215(3)(c)).

8. *Develop a comprehensive solar project checklist including but not limited to the following items: preparing a financial analysis, completing energy conservation measures, verifying solar panel location will not be needed for other purposes during project life, and ensuring net metering credits will be used.*

Status: A comprehensive checklist was developed by the NSOE based on a solar assessment form created by the National Renewable Energy Laboratory (NREL). (Refer to Attachment E.) The checklist was developed by NREL to assess the feasibility of installing solar facilities on federally-owned properties. Based on this model, the NSOE has created a two-page checklist that can be utilized to assess the feasibility of installing solar facilities on state-owned sites. The checklist is intended to be utilized as a tool to pre-screen sites for development and refers to utilizing a Solar Decision Tree developed jointly by EPA and NREL to analyze sites that may present a higher degree of complexity such as environmental or contamination issues.

9. Track and record cost savings from solar energy projects by comparing solar costs to grid-based costs.

Status: The Audit Report recommends that “. . . the NSOE track energy usage and costs incurred by state agencies from purchasing solar energy and compare them with grid-based costs.” Depending on the financing mechanism used to procure the solar energy system, a variety of cost comparisons can be utilized to determine the value of these projects for the state. Comparisons of solar costs to grid-based costs for a Power Purchase Agreement (“PPA”) financing structure can be presented for the Nevada National Guard; however, since this is the only agency with a PPA, it is the only agency for which such a comparison is applicable. In the future, as other agencies enter into a PPA, or other financial structure for solar energy projects, information on those agencies can be added to the comparison of costs. The utility can provide much of this information; however, they would not track Operations and Maintenance costs of the solar systems. The results will be presented in the Status Report, which is submitted to the Governor and the Director of the LCB on July 1st of every year. (The 2012 Status Report will be prepared by July 1, 2013.)

10. Develop policies, procedures, and instructions to ensure RFP evaluation committee members have clear guidance on the proposal evaluation process.

Status: As matter of NSOE policy, the attached RFP Evaluation Guidelines, or something similar, will be provided to every evaluation committee member along with the attached score sheet and instructions. (Refer to Attachment F.) RFP evaluation committee members will be provided with the opportunity to ask questions about scoring and the evaluation process prior to completing their evaluations.

As an example, in May 2012 NSOE solicited proposals to assist the New Energy Industry Task Force with the Economic Analysis of the Renewable Energy Industry in Nevada. The RFP was prepared and posted to state standards, and an evaluation committee was given proper instructions and followed established protocols in the selection process. (Refer to Attachment F.)

11. Develop performance measures for each goal.

12. Ensure that all performance measures include a descriptive title that clearly indicates what is being measured.

13. Develop and maintain performance measures that can be used to assess performance over time and retain supporting documentation for reported results for at least three fiscal years.

Status of Recommendations #11 through #13: As part of the Governor's Priorities and Performance Based Budget (PPBB) and our biennial budget process, NSOE has developed one primary activity and three performance measures. (Refer to Attachment G.) Our primary activity is to promote energy efficiency, conservation, and clean energy development. The success of this activity is measured by three performance measures -- an increase in renewable energy generated in Nevada, a reduction in per capita energy consumption, and a decrease in energy consumption in state-owned buildings.

As shown in the attachments, the sources and methodology used to develop each performance measure are documented; the measures have descriptive titles that clearly indicate what is being measured; and annual goals for 2012, 2013, 2014, and 2015 are identified for each measure. All supporting documentation has been retained, which will make it easier to monitor the progress on an annual basis. We anticipate utilizing these performance measures for several years, which will address the issue of frequent changes to our performance measures and the inherent difficulty in monitoring progress when this situation occurs. We plan to retain the supporting documentation for three fiscal years or longer. From a practical standpoint, retaining good supporting documentation allows us to annually duplicate our methodology and utilize the same resources; thereby, making it easier to monitor progress.

14. *Revise policies and procedures for performance measures to ensure staff receives adequate guidance and state requirements are followed.*

Status: NSOE Internal Controls, Policies and Procedures have been modified to comply with this recommendation and the standards of the state.

- The Director or Deputy Director provides a copy of the performance measures to the Budget Division of the Department of Administration as part of their biennial budget request.
- The Director and Deputy Director ensure the performance measures are a reliable measurement of the agency's primary activity.
- Documentation is maintained by the Deputy Director describing how the performance measures were developed (e.g., sources, formulas).
- The performance measures are monitored annually and progress towards achieving the goals is presented in the Status of Energy Report, which is submitted to the Governor and the Director of the Legislative Counsel Bureau on or before July 1st of each year. It should be noted that the data on one of the performance measures, Per Capita Energy Consumption, is available nearly one year later (e.g., Calendar Year 2011 data is anticipated to be available in November 2012.)
- The Status of Energy Report, which includes an update on the performance measures, is presented to staff in July of every year at a regularly-scheduled staff meeting.

It is important to note that, unlike previous goals and performance measures, the three performance measures mentioned previously are quantifiable, which makes it much easier to measure progress.

Please contact me if you have any questions about the information presented.

Respectfully submitted,

A handwritten signature in black ink that reads "Stacey Crowley". The signature is written in a cursive, flowing style.

Stacey Crowley
Director

cc: Governor Brian Sandoval
Evan Dale, Dept. of Administration

Attachments

Audit Highlights



Highlights of Legislative Auditor report on the Division of Enterprise Information Technology Services Information Technology Security issued on February 2, 2012.
Report # LA12-12.

Background

With legislation in 2011, the Department of Information Technology was changed to the Division of Enterprise Information Technology Services and was transferred to the Department of Administration. The mission of the Division of Enterprise Information Technology Services is to provide services to coordinate efficient, effective, and secure use of information systems and personnel. The Division consists of the following units: Administrative Services, Information Security, and Technical Operations. The Administrative Services unit supports the Division's budgeting, personnel, service rate billing, and purchasing functions. The Information Security Unit, known as the Office of Information Security, provides statewide information security services. The Technical Operations unit provides programming, web services, mainframe and server services, telecommunication services, and numerous other information technology services. For fiscal year 2011, the Division employed 130 full-time employees statewide and had authorized expenditures of over \$28 million.

Purpose of Audit

This audit included a review of information technology controls at the Division of Enterprise Information Technology Services during fiscal year 2011. The objective of our audit was to determine if the Division's information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems.

Audit Recommendations

This audit report contains 15 recommendations to improve the confidentiality, integrity, and availability of state information systems.

The Division accepted the 15 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Division of Enterprise Information Technology Services

Department of Administration

Summary

The Division needs to strengthen information system controls to ensure adequate protection over systems and data. The availability of key state information systems can be better ensured by updating and testing the state's primary computing facility's emergency plans. Also, the security of confidential personal information could be improved with better security oversight of occupational licensing agencies or boards. In addition, web server content should be better monitored to prevent accidental release of confidential information. Furthermore, a systematic process to identify statewide information security risks could improve use of security resources. Former employees had current network access and better controls are needed over the computing facility access cards. Computer virus protection and critical security updates need to be better monitored. In addition, stronger security can be achieved by encrypting data in newly developed software applications, alerting state agencies more timely about newly identified risks, and enforcing state password standards.

Key Findings

The State's primary computing facility did not have a written disaster recovery plan. In addition, the facility's disaster recovery capability has not been tested since 2006. Such testing reduces the time needed to restore critical IT services such as those that may impact public health and safety. In addition, the contingency plan we were provided by the Division had not been updated in over 10 years despite numerous changes in the state's information technology infrastructure and changes in employees responsible for enacting parts of the plan. Without periodic updating and testing of these plans, there is greater risk that mission critical IT resources will not be restored in an efficient and timely manner when a disaster or other major system failure occurs.

Most state occupational licensing boards that collect confidential personal information of licensees do not currently receive security oversight from the state's Office of Information Security. The Division indicates that state boards and commissions have avoided any assistance or oversight by them. These boards normally collect applicant social security numbers used in determining if the applicants have any unpaid child support payments. Given the confidential nature of the data collected, the Division's security oversight could help prevent unintended disclosure of the information.

We found Division hosted state websites were not monitored for the release of sensitive confidential information as recommended in our prior audit. As a result, we found confidential personal information was again posted on a state website that was viewable to anyone on the Internet. While the primary responsibility for monitoring website content is the agency owning the website, a backup monitoring process is needed to detect any confidential personal information that is unintentionally posted on the websites.

We identified nine computer user accounts of former employees whose network access had not been disabled. These accounts could have been identified and disabled if the Division was conducting quarterly reviews of user lists as required by state information security standards.

We identified 18 Personal Identity Verification (PIV) cards that needed to be deactivated. These PIV cards are used by Division employees to gain access to restricted office or computing locations. The PIV cards needing deactivation could have been identified and deactivated if the Division was conducting the quarterly audits of the PIV card system as required by the Division's own policies.

Four of the 32 Division computers we sampled did not have current virus protection as required by state security standards. Without current virus protection, there is increased risk that employees with infected computers will lose productive time while their computers are purged of the infected files. In addition, we identified 7 of 32 computers that did not have critical software security patches installed as required by state security standards.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Division of Enterprise Information Technology Services

On February 2, 2012 your office released an audit report on the Department of Administration, Division of Enterprise Information Technology Services (Division). The Division subsequently filed a corrective action plan on April 24, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 15 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Update the state's primary computing facility's contingency plan and ensure the plan includes a prioritized disaster recovery component.

Status – Partially Implemented

Agency Actions – The Division is working with the Division of Emergency Management to update the Continuity of Operations and Disaster Recovery Plan. The update includes conducting testing and exercises to identify and prioritize hardware or software requirements to recover information in a contingency.

Recommendation 2

Develop a plan to periodically test the state's primary computing facility's IT emergency plans to ensure critical IT resources can be restored in an orderly and timely manner.

Status – Partially Implemented

Agency Actions – The Division is continuing to compile documentation from a test to confirm the State has necessary platforms available to restore critical IT resources in an orderly and timely manner. The Division reportedly successfully tested the State's ability to deliver employee payroll information to the State Controller's Office from the southern area location after simulated system outage in the northern location.

Recommendation 3

Conduct an initial high-level statewide risk assessment to identify and prioritize information security risks, establishing a baseline that can be built upon in subsequent years.

Status – Partially Implemented

Agency Actions – The Division's Office of Information Security re-enabled the Critical Business Technology Assessment Planning program previously maintained by the disbanded Planning Division of the Department of Information Technology. The program provides a centralized portal for state agencies to declare and prioritize critical technology assets. Once state agencies have provided information, the Division will be able to prioritize applications and data for security assessments and to establish the high-level statewide risk assessment.

Recommendation 4

Review the security of occupational licensing board servers storing confidential licensee data.

Status – Fully Implemented

Agency Actions – The Division began reviewing the security of occupational licensing board servers storing confidential licensee data in September 2012. The first review was of the Board of Veterinary Medicine. The review is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues. The Division

has set a goal of performing at least 2 reviews per month as the new procedures are implemented.

Recommendation 5

Offer information security services to occupational licensing boards and ensure they are aware of the state's information security standards.

Status – Fully Implemented

Agency Actions – The Division offers information security services to occupational licensing boards and ensures they are aware of the state's information security standards as part of the Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues. As licensing boards and commissions are reviewed, they will designate staff members to receive updates from the Division about the state's information security standards.

Recommendation 6

Implement a process to periodically review state web servers for confidential information that may be accidentally posted on them.

Status – Fully Implemented

Agency Actions – The Division's Office of Information Security periodically reviews state web servers for accidentally posted confidential information. The Division provided a copy of a log file from a recent scan evidencing its short term solution using two manual tools for scanning. A permanent solution will be acquired through the Homeland Security Grant Program.

Recommendation 7

Conduct quarterly reviews of user lists as indicated in state information security standards.

Status – Partially Implemented

Agency Actions – The Division's Office of Information Security is working to conduct quarterly reviews of user lists as indicated in state information security standards. The Division is in the process of automating the review process and integrating directory services. Once all users and servers are integrated into a common directory, the Division will be able to run a report in order to conduct

recommended quarterly reviews. The Division expects to establish the ability to conduct recommended reviews by Jan 2013.

Recommendation 8

Conduct quarterly audits of PIV card accounts as required by existing policy to ensure cards are only issued to current employees or contractors.

Status – Fully Implemented

Agency Actions – The Division's Office of Information Security conducts quarterly audits of PIV card accounts as required by existing policy to ensure cards are only issued to current employees or contractors. The Division provided copies of the Nevada Card Access System (NCAS) Audit Procedures and results of the first audit conducted in April 2012 as evidence the recommendation has been implemented. The Division reports the next audits are scheduled for November 2012.

Recommendation 9

Develop a procedure to identify computers without current virus protection.

Status – Fully Implemented

Agency Actions – The Division developed a procedure to identify computers without current virus protection. A newly acquired software solution generates weekly reports which identify computers without current virus protection.

Recommendation 10

Develop a procedure to periodically check software update installations to detect failed or missing updates.

Status – Fully Implemented

Agency Actions – The Division developed a procedure to periodically check software update installations to detect failed or missing updates. The check is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues.

Recommendation 11

Encrypt sensitive data in all newly developed applications.

Status – Fully Implemented

Agency Actions – The Division revised the state data sensitivity standard and will encrypt sensitive data in all newly developed applications. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 12

Encrypt sensitive data in existing applications as is practical or as applications are upgraded.

Status – Fully Implemented

Agency Actions – The Division revised the state data sensitivity standard and will encrypt sensitive data in existing applications as is practical or as applications are upgraded. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 13

Amend state information security standard to include a provision that confidential personal data be encrypted whenever possible.

Status – Fully Implemented

Agency Actions – The Division amended the state information security standard to include a provision that confidential personal data be encrypted whenever possible. The Division administrator (Chief Information Officer) approved the policy and standards, and encryption language was added to the Data Sensitivity regulation in October 2012.

Recommendation 14

Implement a process to communicate interim risk awareness and recommended risk mitigation measures to all state entities while a formal policy is being developed to address a state security risk.

Status – Fully Implemented

Agency Actions – The Division implemented a process to communicate interim risk awareness and recommended risk mitigation measures to all state entities through the Division's listserv. The Division is developing a formal policy to address a state security risk and plans to use an application previously developed by the State (Critical Business Technology Assessment Program) to systematically identify, prioritize, and document critical applications. The Division notes this is the first step in the disaster recovery process.

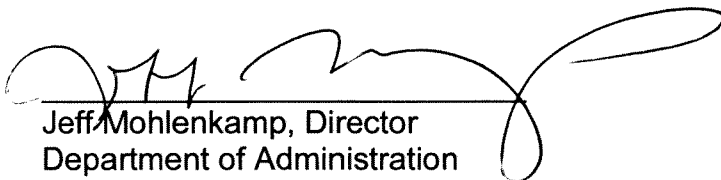
Recommendation 15

Enforce state information security policies for all user passwords, including those of staff with administrator level access.

Status – Fully Implemented

Agency Actions – The Division enforces state information security policies for all user passwords, including those of staff with administrator level access. The enforcement is part of the Division's Office of Information Security's new procedures implementing a systematic engagement plan and checklist to review security issues.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
David Gustafson, Administrator, Division of Enterprise Information
Technology Services
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Buildings and Grounds Section issued on February 2, 2012. Report # LA12-10.

Background

The Buildings and Grounds Section (B&G) was established to protect state assets. Its mission is to proactively manage state facilities; provide efficient office space within budget; and reliable water delivery.

Among other duties, B&G provides physical building and grounds maintenance, housekeeping, and security for most state-owned buildings in Carson City, Reno, and Las Vegas. This area also provides, locates, and negotiates leases for office space for state agencies when state-owned buildings are not available.

Senate Bill 427 of the 2011 Legislative Session reclassified Buildings and Grounds from its own division to a section within the State Public Works Division organized under the Department of Administration. The bill also converted mail services to an internal service fund administered by the State Library and Archives Division of the Department of Administration.

Since 1993, B&G has been required to establish a comprehensive energy tracking program for buildings occupied by state agencies. In the 2011 Legislative Session, Senate Bill 426 transferred the responsibility of the program to the Office of Energy. However, B&G is still required to participate in carrying out the provisions of the statute.

Purpose of Audit

The purpose of our audit was to determine if adequate controls and processes were in place to ensure the efficient, effective, and proper administration of certain program and administrative activities including performance measures, leasing, purchase card procurements, and energy tracking.

Audit Recommendations

This audit report contains 10 recommendations to improve controls and enhance B&G activities. These recommendations take the necessary steps to improve the reliability of performance measurements, enhance the transparency of lease procurement activities, and strengthen controls over purchase card transactions.

B&G accepted the 10 recommendations.

Recommendation Status

B&G's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Buildings and Grounds Section

Department of Administration

Summary

Buildings and Grounds can improve its oversight of activities related to the proper administration of performance measures, leasing, and procurement card activities. We found reported results for performance measures were not always reliable because errors were made regarding calculations and classifications. In addition, a weighted average methodology provides a more accurate reflection of B&G's activities. Due to calculation and methodology errors, the measures reported by B&G were significantly different than those determined after corrections were made. Since measures are used by the Legislature and other stakeholders to determine B&G's performance, accuracy and reliability are critical to assessing performance and ensuring public trust.

Administration and documentation over certain leasing activities can be improved. B&G did not always analyze or document certain facets of lease negotiations. As a result, we could not always determine whether leases were advantageous to the State. Additionally, errors and inaccuracies were noted regarding the number and amount of renegotiated leases and related savings published by B&G. Leasing activities are a significant function for B&G and better procedures will help ensure the State receives the best lease rates available.

Purchase card transactions were not always in compliance with B&G or statewide policies and procedures. Our testing revealed transactions exceeded established limits, improper transaction approvals, incomplete agreements, and other minor errors. Furthermore, B&G has a significant number of cardholders and monthly financial exposure from issued purchase cards. While we did not find instances of fraud or abuse, items purchased can be easily converted to personal use making proper and effective controls necessary.

Key Findings

Key performance measures were not reliable due to mathematical and clerical errors, the inclusion of inaccurate and unsupported costs, and the misclassification of certain properties. We examined four measures that evaluated leasing activities and found them to be unreliable.

Three of the four performance measures tested had methodological flaws in their calculations. B&G used a simple averaging methodology to calculate performance measures for each urban area and the overall state rate. Using a weighted average provides more accurate results regarding B&G's performance. A simple average gives equal weight to all leases, ignoring the size of the leased premises, while a weighted average takes into account the proportional relevance of each component.

When corrected for mathematical, clerical, and methodology errors, higher state and market rates were determined. We found corrected performance measures for state leasing rates went from \$1.52 per square foot as calculated by B&G to \$1.61. In addition, market rates went from \$1.74 as calculated by B&G to \$1.85. Finally, a nearly \$1 million reduction to the overall savings achieved from leasing activities resulted from changes to per square foot leasing rates.

B&G did not document lease negotiation activities for many of the leases we reviewed. As a result, we could not always determine whether negotiated lease rates were advantageous to the State. Better analysis and documentation will ensure rates obtained are appropriate.

Renegotiated lease savings were overstated. Savings for 6 of the 20 leases reviewed were not the result of renegotiations, but were renewals of expired leases. Errors resulted in about half of the savings reported being improper.

Payment errors were made in 5 of 29 renewed and renegotiated leases tested for about \$145,000 in overpayments. While B&G negotiates and executes lease agreements, agencies make quarterly payments. The majority of the overpayment, related to one lease agreement, has been recovered.

Purchase card transactions exceeded established limits in 6 of 26 purchases reviewed. Limits were exceeded because transactions were split and limits were electronically adjusted temporarily by B&G personnel. We also found certain purchase card agreements, also required by statewide policies were not always fully executed prior to card issuance.

B&G has significant exposure to potential loss because it has issued procurement cards to most employees and monthly limits are high for certain cards. Also, some employees used cards infrequently indicating cards may not be a necessity.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Department of Administration, Buildings and Grounds Section

On February 2, 2012, your office released an audit report on the Department of Administration, Buildings and Grounds Section (Section). The Section subsequently filed a corrective action plan on April 27, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 10 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

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 – Partially Implemented

Agency Actions – The Section is currently in the process of developing written policies and procedures for performance measures to ensure reported results for data gathering and processing, computations, supervisory review of calculations, methodology and retention of supporting documentation are reliable. The

Section anticipates full implementation of this recommendation by December 31, 2012.

Recommendation 2

Periodically determine actual ancillary cost rates to be used in performance measure calculations and lease negotiations.

Status – Fully Implemented

Agency Actions – The Section used actual ancillary utility costs of State-owned buildings obtained from the utility data compiled by LPB Energy Management in performance measure calculations for the 2014/2015 budgets. Janitorial costs used in the calculations were obtained from B&G's janitorial contracts in effect as of March 2012. At the start of each year, the Section will review all janitorial contracts to update its ancillary cost calculations.

Recommendation 3

Use information technology solutions to create efficiencies and assist staff in calculating performance measures.

Status – Partially Implemented

Agency Actions – The Section is working on using information technology solutions to create efficiencies and assist staff in calculating performance measures by developing a new leasing Access database. The Section hired an additional staff to help input leasing data into the database. Additionally, the Section is still in the process of testing and augmenting the reporting capabilities of the database. The Section anticipates full implementation by June 30, 2013.

Recommendation 4

Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms.

Status – Partially Implemented

Agency Actions – The Section updated its policies and procedures to periodically review appropriate market data analyses regarding rates and terms that are beneficial to the state. The Section included in its 2014/2015 budget request funds for a third party market data subscription. The information provided through the subscription service will help in the analysis of market rates and trends. The Section anticipates full implementation by September 30, 2013.

Recommendation 5

Establish a process and document the analysis of lease negotiation activities including evaluating the cost of lessor funded tenant improvements and the cost/benefit of moving agencies to premises with more advantageous lease rates.

Status – Fully Implemented

Agency Actions – The Section established a process for the analysis of lease negotiation activities. This process includes evaluation of the costs of lessor funded tenant improvements and the cost/benefits of moving agencies to premises with more favorable lease rates. All leasing activities including reasons for moving an agency and any lessor funded improvements are now being documented and maintained.

Recommendation 6

Develop procedures to ensure management reviews and approves information published and submitted to the Legislature.

Status – Partially Implemented

Agency Action – The Section is currently developing policies and procedures to ensure management reviews and approves information published and submitted to the Legislature. The Section anticipates full implementation by December 31, 2012.

Recommendation 7

Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement.

Status – Partially Implemented

Agency Action – The Section is currently developing procedures to assist agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement. The Section anticipates full implementation by December 31, 2012.

Recommendation 8

Strengthen policies, procedures, and controls over procurement card issuance including limits, approvals, and agreement.

Status – Fully Implemented

Agency Actions – The Section revised its policies and procedures to strengthen controls over procurement card issuance. Some of the procedures included cancelling cards previously given to employees whose job duties no longer require use of procurement cards and ensuring that each over limit transaction is approved by the cardholder's supervisor. In addition, daily transaction logs with the invoices/receipts attached must be approved by the cardholder's supervisor on a daily basis and turned into the Procurement Card Administrator within one day of the supervisor's approval.

Recommendation 9

Periodically review procurement card activity to ensure compliance with policies and procedures.

Status – Fully Implemented

Agency Actions – The Section developed policies and procedures to ensure that a periodic review of procurement card activity is performed. A daily transaction log which documents procurement card transactions is reviewed and authorized by the cardholder's supervisor. The log is then turned into the Procurement Card Administrator for review and input into an excel spreadsheet. The Procurement Card Administrator reconciles the daily charges on the excel spreadsheet to the monthly bank statement for each cardholder.

Recommendation 10

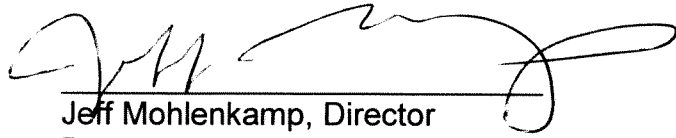
Develop procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary.

Status – Fully Implemented

Agency Actions – The Section developed procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary. A daily transaction log is approved by the cardholder's supervisor and reviewed and reconciled by B&G's front office staff. Each month, the Procurement Card Administrator reconciles and verifies the daily transaction logs to the monthly statements from the procurement card issuer. All cardholder changes such as changing limits must have prior approval from the Division of Public Works Administrator or designee.

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

Paul Townsend, Legislative Auditor
October 29, 2012
Page 5

A handwritten signature in black ink, appearing to read 'J. Mohlenkamp', written over a horizontal line.

Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Gustavo Nunez, Administrator, State Public Works Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Gaming Control Board issued on March 8, 2011. Report # LA12-01.

Background

Nevada's gaming industry is regulated through a two tiered system comprised of the Gaming Control Board (Board) and the Nevada Gaming Commission (Commission). The Board is a three-member body appointed by the Governor serving in a full-time capacity.

Recommendations of the Board in licensing matters are considered and acted upon by the five-member Commission who are appointed by the Governor. An eleven-member Gaming Policy Committee also serves as an advisory group to the Board and Commission. The mission of the Board is to govern Nevada's gaming industry through strict regulation of all persons, locations, practices, associations, and related activities. The Board protects the integrity and stability of the industry and ensures the collection of gaming taxes and fees. In fiscal year 2010, the Board collected over \$829 million in gaming taxes and fees.

The Board is comprised of seven divisions: Administration, Audit, Corporate Securities, Enforcement, Investigations, Tax and License, and Technology. In fiscal year 2010, the Board had \$42 million in expenditures and 434 filled positions as of June 2010.

Purpose of Audit

The purpose of this audit was to determine if the control and related practices prescribed by NRS 463.157 to 463.1592 have been efficiently, effectively, and equitably administered, and if collection and administrative controls over certain assets were adequate. This audit included a review of the Board's audit and certain administrative activities during fiscal year 2010, and the preceding fiscal year for some areas.

Audit Recommendations

This audit report contains five recommendations to improve administrative controls. These recommendations take necessary steps to properly secure assets and administer outside bank accounts. Furthermore, the Board should develop accounts receivable procedures to ensure accurate and consistent reporting.

The Board accepted the five recommendations.

Recommendation Status

The Board's 60-day plan for corrective action is due on June 1, 2011. In addition, the six-month report on the status of audit recommendations is due on December 1, 2011.

Gaming Control Board

Summary

The Gaming Control Board's activities and processes were effective in ensuring licensee audits were performed and gaming taxes collected, but some improvements to certain administrative controls can be made. The Board's Audit Division sufficiently regulated licensees compliance with gaming laws and regulations by effective report monitoring and efficient audits. In addition, the Board's Tax and License Division demonstrated an effective process for collecting gaming taxes and fees, which resulted in 99% of gaming taxes being collected during fiscal year 2010. Strong regulatory oversight is necessary to protect the integrity and the stability of Nevada's gaming industry and to ensure the accurate collection of gaming taxes and fees, which are an essential source of state revenue.

Enhancements to certain administrative controls will help ensure assets are safeguarded and transactions and reports are proper. Investigation payments received in the Board's Carson City office should be stored more securely prior to deposit. Further, improvements are needed over outside bank accounts to ensure deposits are made timely, accounts are properly administered, and inactive accounts are closed. Finally, accounts receivable reporting can be more consistent.

Key Findings

The Audit Division has efficiently, effectively, and equitably administered state laws concerning the financial practices of licensees. The Board has adopted regulations and monitored compliance with regulations to strengthen licensees internal control systems. We tested 20 Group I licensees and found the Division has ensured required reports were submitted timely and appropriate action for late filers was taken.

Our review of performance information found the Division maintains valid and reliable information to manage its activities. Furthermore, the Audit Division has maintained its effectiveness in conducting licensee audits, demonstrated by a high percentage of audits with no significant regulatory violations.

The Board has an effective process for the collection of gaming taxes and fees. Our testing of 80 payments, totaling \$44.1 million, found the Board's controls provide reasonable assurance that gaming taxes and fees are collected and processed accordingly. The Board has maintained a collection rate of more than 99% due to effective processes and the ability to revoke or suspend licensees who are more than 30 days delinquent.

Improvements can be made to the safeguarding of investigation payments received at the Board's Carson City office. Payments received during our audit were stored in an unlocked filing drawer in the office's reception area. Although the office is secure from the general public, all employees can access the drawer where checks are stored. The office receives checks worth thousands of dollars regularly, so adequate safeguarding of these items is important.

The Board's Administration Division did not always deposit reimbursements timely into its investigative travel account. NRS 353.250 requires agencies to make deposits by Thursday of each week for all money received during the previous week. We reviewed ten deposits totaling \$177,000 made into the Board's various bank accounts and found six deposits containing \$33,000 in checks that were deposited between 1 and 6 days late.

The Board has established an outside bank account to help carry out its activities. The processes used for this account were not the same as those provided for in statute. Even though the Board's current process provides adequate control over the account, actual processes and those specified in statute should be the same.

The Board has an outside bank account that is no longer necessary and has not been used for several years. The Board operated this account for certain investigative activities that are now performed by the federal government. The account has a \$40,000 balance, even though no activity has occurred since April 2007.

The Board's Tax and License Division did not consistently report accounts receivable. As of June 30, 2010, the Division reported \$97,000 in receivables to the State Controller and \$1,892,000 to the Legislative Counsel Bureau. Submitting consistent receivable reports will provide users of this information an accurate accounting of debts owed to the State.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

Division of Internal Audits

209 East Musser Street, Suite 302 / Carson City, NV 89701
Phone: (775) 687-0120 / Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: December 1, 2011

Subject: Legislative Audit of the Gaming Control Board

In March 2011, your office released an audit report on the Gaming Control Board (Board). The Board subsequently filed a corrective action plan on May 20, 2011. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Board to comply with audit findings.

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

Recommendation 1

Secure investigation payments prior to deposit.

Status – Fully Implemented

Agency Actions – The Board secures investigation payments prior to deposit. The Board's policies require investigate payments to be locked in a secure area when staff are not present or when they will not be deposited until the next day. Board staff represent they developed the policies since the audit.

Recommendation 2

Deposit reimbursements into the investigative travel account in a timely manner.

Status – Partially Implemented

Agency Actions – The Board adheres to its interpretation of NRS 353.250(2) for reimbursement deposits into the investigative travel account. The NRS allows State agencies to deposit funds on or before Thursday of each week for receipts received during the “previous week”. Its interpretation of “previous week” is the full week, Monday through Friday, preceding the deposit. For example, if funds are received on Wednesday of the first week, the interpretation allows State agencies to deposit those funds Thursday of the second week. A sample of deposits disclosed the Board is following its interpretation.

The Board represents it has trained staff on manual deposit in accordance with its interpretation. It is also using electronic fund transfers for some reimbursement deposits which expedites the deposit process.

Auditor’s Comment – The Board has taken steps to improve the timeliness of its deposits. However, Legislative Counsel Bureau uses a different interpretation of the NRS. This interpretation requires agencies to deposit funds on the first Thursday following receipt. Because the Board and Legislative Counsel Bureau’s positions differ, this recommendation is partially implemented.

Recommendation 3

Align Board policies and procedures with state law for the administration of the revolving bank account.

Status – Fully Implemented

Agency Actions – The Board aligned policies and procedures with state law for the administration of the revolving bank account. NRS 463.330(4) previously required Gaming to submit replacement claims to the Board of Examiners. Senate Bill 218 of the 2011 legislative session repealed Subsection 4.

Recommendation 4

Take necessary actions to close the inactive bank account.

Status – Fully Implemented

Agency Actions – The Board took the necessary action to close the inactive bank account. NRS 463.332 previously required the Board to establish an account for investigative activities. Senate Bill 218 of the 2011 legislative session repealed NRS 463.332. The Board records indicate the account was closed May 17, 2011.

Recommendation 5

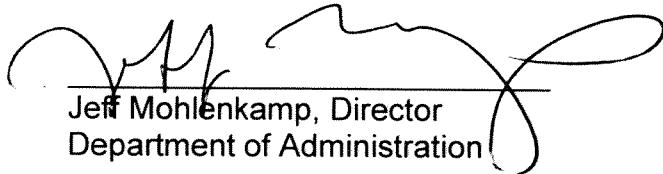
Develop accounts receivable procedures, including the definition of a Board receivable, to ensure accurate and consistent reporting to other state agencies.

Status – Fully Implemented

Agency Actions – The Board developed accounts receivable procedures, including the definition of a Board receivable, to ensure accurate and consistent reporting to other state agencies. The Board's new policies and procedures for accounts receivable address reporting debts no longer due to the Board, debts submitted to Controller for collection, and defines what is a debt.

Auditor's Comment – We reviewed a 2011 report to the Controller's Office¹ and the Legislative Counsel Bureau² and noted the debts were reported consistently.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Mark A. Lipparelli, Chairman of the Gaming Control Board
Mike Colburn, Chief, Division of Internal Audits

¹ Dated September 30, 2011

² Dated October 27, 2011

Audit Highlights



Highlights of Legislative Auditor report on the Division of Insurance issued on September 19, 2012. Report # LA12-20.

Background

The Division has the responsibility to ensure that insurance companies doing business in Nevada are financially solvent and that Nevada policyholders are treated fairly. To carry out this mission, DOI is responsible for financial and market regulation of the state's \$12 billion insurance industry. Financial regulation seeks to protect the policyholders from insurers who are unable to meet their financial obligations. Market regulation attempts to ensure that insurers are able to provide products to the consumer in a fair and reasonable marketplace and prevent abusive practices that could harm the consumer.

The Division consists of the Commissioner's Office and the following operating sections: Corporate & Financial Affairs, Legal & Enforcement, Life & Health, Property & Casualty, Producer Licensing, Self-Insured Workers' Compensation, and Consumer Services.

DOI has eight operating budget accounts and also administers four non-operating budget accounts. Seven of the operating accounts are funded by assessments and various user fees, and one account is funded by an appropriation. Actual expenditures for fiscal year 2011 were about \$16 million, which includes approximately \$2 million in intra-agency transfers. For fiscal year 2012, the Division had a total of 85 authorized positions.

Purpose of Audit

The purpose of this audit was to determine if the Division effectively monitors: (1) revenues and accounts receivable, and (2) required industry reports and examinations. Our audit focused on the Division's activities for the period from July 1, 2010 through March 31, 2012.

Audit Recommendations

This audit report contains 10 recommendations to improve the monitoring of accounts receivable, required industry reports, and examinations.

The Division accepted the 10 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of Insurance

Department of Business and Industry

Summary

The Division of Insurance (DOI) needs to improve its oversight of accounts receivable. We found DOI did not adequately monitor its accounts receivable for certain fees and taxes. For example, collection efforts were often not timely for annual fees and examination fees. Further, accounts were not turned over to the State Controller's Office in a timely manner and some captive insurers did not pay past due premium tax. Improvements to these processes would help ensure prompt payment from active companies, and reduce the risk that delinquent accounts from inactive companies are not paid.

Better monitoring of required industry reports is needed to help ensure adequate financial and market regulation. We found DOI did not always take appropriate action to ensure required industry reports were submitted and reviewed timely. Timely submittal and review of financial and other important reports facilitates timely detection of problems, which helps protect consumers. Further, enforcement efforts were not consistent and timely when entities did not comply with reporting requirements.

Examinations of title companies and self-insured workers' compensation companies were not performed as required. Examinations can identify deficiencies that require corrective action. Timely detection and correction of financial concerns help ensure consumers are adequately protected.

Key Findings

Our review of past due annual fees found: (1) untimely collection efforts, (2) accounts for inactive companies were not sent to collections timely, (3) invoices improperly issued were not voided timely, and (4) payments were not entered in the accounting system timely. All 36 invoices tested had problems. For example, two active companies owe annual fees that were due March 2011. There was no evidence of collection efforts prior to our inquiries in May 2012. NRS 680A.180 requires each insurance company authorized to transact insurance in Nevada to pay an annual continuation fee. If the continuation fee is not paid timely, an insurer's certificate of authority expires at midnight on May 31.

The Corporate & Financial Affairs Section did not always perform timely review of reports significant to monitoring financial solvency for domestic companies. For 12 of 20 companies, the audited financial statements and actuarial opinions were either not reviewed or not reviewed timely. As a result, there is an increased risk companies with financial concerns might not be identified prior to problems occurring.

Controls need to be improved for required industry reports monitored by the Producer Licensing and Workers' Compensation Sections. We found follow-up was not timely when companies did not submit certain reports and reports were not always reviewed timely. For example, 15 of 20 Producer Licensing reports and 17 of 20 Workers' Compensation reports were not reviewed timely.

DOI did not take timely enforcement action when certain reporting requirements were not met. For example, we tested 25 workers' compensation companies and found enforcement was not timely for all 25 companies. It took from 74 to 335 days after the report was due until a Consent to Fine (CTF) was issued. This included 16 instances of no action for 150 days or more. It is inequitable when some companies do not comply with laws and regulations, and enforcement is not timely. In addition, when action was taken to issue a CTF many were issued in error. A CTF involves a matter that has not gone to hearing. For instance, a CTF should be sent when a party has failed to file a required report. It is an offer made to the party to settle for a fine amount that is usually less than the maximum allowed in statute.

DOI did not always ensure title companies and workers' compensation companies had timely examinations. According to DOI records, 33 of 53 title companies did not have an examination in 2011. We selected 20 of these companies and found no evidence of an examination. NRS 692A.100 requires annual examinations of title companies, title agents, and escrow companies. The purpose of these examinations is to determine the company's financial condition, fulfillment of contractual obligation, and compliance with law. We also found exceptions for 14 of 30 workers' compensation companies tested. The purpose of these examinations is to determine the adequacy of the company's security deposit; sufficiency of reserves; and the reporting, handling and processing of claims.



DEPARTMENT OF BUSINESS AND INDUSTRY
DIVISION OF INSURANCE

1818 East College Pkwy., Suite 103
Carson City, Nevada 89706
(775) 687-0700 • Fax (775) 687-0787
Website: doi.nv.gov
E-mail: insinfo@doi.nv.gov

December 13, 2012

Jeff Mohlenkamp,
Director, Department of Administration
209 E. Musser Street
Room 200
Carson City, NV 89701

sent via: US Postal mail & electronic mail

Dear Mr. Mohlenkamp:

The Department of Business and Industry, Division of Insurance (NVDOI) is in receipt of the audit recommendations developed by the Legislative Counsel Bureau (LCB). As agreed to at the Legislative Commission's Audit Subcommittee on September 19, 2012, the NVDOI agrees with all of the recommendations.

The NVDOI has drafted a corrective action plan relative to the ten recommendations that were brought forth in the audit report.

The recommendations will assist the NVDOI in completing our mission as the primary consumer protection state agency for insurance issues as well as ensuring a vibrant and competitive insurance marketplace. Below is the NVDOI's corrective action plan in conjunction with the 2012 LCB Audit:

Recommendation 1:

Implement a monitoring process to help ensure timely collection of all accounts receivable for annual fees. This should include timeframes for performing internal collection efforts.

The NVDOI has approved an Annual Renewal – Collection policy (please see attached – Policy #301) that identifies procedures for NVDOI staff to utilize SIRCON, a robust insurance industry focused relational database software system, to monitor all accounts receivable. The policy details how the Corporate and Financial Affairs Section as well as the Administrative Section staff will utilize SIRCON to ensure that after the March 1 deadline of each year, second invoices are sent, and that in a timely manner companies are fined and referred to legal for collection and other appropriate action. Also attached is the Aging Report for Annual Fees, the current outstanding balance is \$2,675.

STATUS: Completed / Fully Implemented

Recommendation 2:

Develop a monitoring process to help ensure timely collection of all examination fees. This should include timeframes for performing internal collection efforts; scheduling hearings; and performing necessary legal actions for inactive companies so accounts can be turned over to the State Controller's Office.

All NVDOI accounts receivable functions for examination fees are now fully automated within the SIRCON system. We have approved a Monitoring of Examination Fees policy (please see attached – Policy #302) that identifies the new procedure for the Corporate and Financial Affairs Accounting Assistant II to follow when monitoring and tracking the scheduling and billing of examinations. Examination fees and examiner invoices are reviewed bi-weekly. Past due examination fees automatically generate a notification to Division staff and management.

Furthermore, as of December 10, 2012, the aging report for traditional company examinations is \$98,339. Of this amount, \$78,246 is related to current accounts (less than 60 days). The outstanding balance for captive examinations is \$119,605; of this amount, \$49,585 is related to current accounts (less than 60 days). The aging reports are attached. The NVDOI is working on addressing all of these non-current past due accounts. One particular insolvent company is in formal receivership. The NVDOI is legally estopped from taking action relative to outstanding accounts receivable issues for this company until the court has approved the process. Once the order from the court has been issued, the NVDOI can then begin the collection of fees that are owed to the Division.

STATUS: Partially Implemented / Significant progress has been made, outstanding balances over one year should be addressed by March 31, 2013.

Recommendation 3:

Develop policies and procedures for collection of past due premium tax.

The NVDOI only collects premium taxes from domestic captive insurance companies. Traditional insurance companies' premium taxes are collected by the Department of Taxation. We have approved a Collection of Past Due Premium Tax policy (please see attached – Policy 303) for addressing past due premium taxes of captive insurers. During the first ten business days after the March 1 filing deadline, the Captive Section's Administrative Assistant and Analyst will use the Premium Taxes and Payment spreadsheet to monitor the timely payment of captive insurance premium tax and initiate collection of unpaid captive insurance premium tax.

If a captive insurer's premium taxes or any other receivable are past due, that company is referred to the NVDOI Legal Section for appropriate action against the captive insurer's certificate of authority, as well as timely referral to the Controller's Office for collection.

STATUS: Completed / Fully Implemented

Recommendation 4:

Develop policies and procedures for companies in the process of dissolution to help ensure all past due taxes and fees are collected.

The NVDOI has approved a Collections From Companies in Dissolution policy (attached – Policy #304) that requires the assigned Corporate and Financial Affairs Administrative Assistant and Analyst to monitor compliance and initiate collection of the past due receivables of companies in the process of dissolution. If a company is unable to pay past due taxes or fees, that company is referred to the NVDOI Legal Section for action and any past due receivables are referred to the Controller's Office for collection.

STATUS: Completed / Fully Implemented

Recommendation 5:

Revise policies and procedures to help ensure key required industry reports for domestic companies are reviewed timely.

The NVDOI has approved a Deadline Tracking of Required Documents by Filing Dates for Domestic Insurers policy (attached – Policy #305). This policy has created a monitoring process for Analysts and Administrative Assistants assigned to the company. This policy also that requires the Chief Insurance Examiner, Assistant Chief Insurance Examiner, and the Corporate and Financial Affairs Section Analyst and Administrative Assistant to have bi-weekly meetings to appraise the monitoring process of documents and their review.

Additionally, the review of such reports for all multi-state insurers are all currently being completed within the required timeframes of NVDOI policies and procedures as well as in accordance to the National Association of Insurance Commissioner (NAIC) accreditation standards.

STATUS: Completed / Fully Implemented

Recommendation 6:

Develop policies and procedures to help ensure key required industry reports for pure captives are submitted and reviewed timely.

As referenced in Recommendation 5, the NVDOI has approved a Deadline Tracking of Required Documents by Filing Dates for Domestic Insurers policy. This policy has created a monitoring process for Analysts and Administrative Assistants assigned to the company. This policy also that requires the Chief Insurance Examiner, Assistant Chief Insurance Examiner, and the Corporate and Financial Affairs Section Analyst and Administrative Assistant to have bi-weekly meetings to appraise the monitoring process of documents and their review.

Additionally, the review of such reports for all multi-state insurers are all currently being completed within the required timeframes of NVDOI policies and procedures as well as in accordance to the National Association of Insurance Commissioner (NAIC) accreditation standards.

STATUS: Completed / Fully Implemented

Recommendation 7:

Revise policies and procedures to help ensure reports for Third Party Administrators, and other key reports monitored by the Producer Licensing Section, are submitted and reviewed timely.

The NVDOI has approved the Third Party Administrator Annual Report policy (attached – Policy #801), which identifies procedures to ensure that the Third Party Administrator (TPA) reports and other Producer Licensing Section reports are reviewed in a timely manner. If any reports are not submitted timely by the regulated entity, the Producer Licensing Section will issue consent to fines on September 1st of each year, then refer entities that have not complied therewith to the Legal Section for appropriate action against the TPA, including but not limited to revocation of the TPA's certificate of authority. Additionally, there was a concerted effort from May 2012 through August 2012 to address the backlog of TPA reports and, as of the date of this communication, the Producer Licensing section is current regarding the review of the TPA annual reports as well as the TPA receipts and distribution reports.

STATUS: Completed / Fully Implemented

Recommendation 8:

Develop policies and procedures to help ensure key required reports for self-insured workers' compensation companies are submitted and reviewed timely.

The NVDOI has approved the policy Self Insured Group Review of Audited Financials policy (attached – Policy #702). This policy details the procedure for the assigned analyst to follow when tracking and reviewing required reports. If reports are not filed on time, the company will be referred to the Legal section for action. The policy requires the Analyst to track and review each financial statement within 60 days of receipt.

STATUS: Completed / Fully Implemented

Recommendation 9:

Develop a monitoring process to help ensure appropriate, consistent, and timely enforcement action when companies do not comply with reporting requirements.

The majority of Nevada's domestic insurers are captive insurers. The 2011 Legislature granted authority to the NVDOI to fine a captive insurer for failing to file required reports. This has significantly improved the timeliness of required filings from the insurers. Additionally, the NVDOI has approved the Enforcement Procedure for Domestic Insurer Required Document Filings policy (attached – Policy #306). This policy ensures that the Corporate and Financial Affairs Analyst assigned to a company now monitors the "Deadline Tracking Report Tool" no less than bi-weekly for late filing of documents. The analyst will send a 10-day demand letter 10 business days subsequent to the filing due date of a document. If the matter is not resolved 10 business days following the mailing of the demand letter, the company will be referred to Legal for suspension. If the company has not resolved the matter after 60 days of suspension, the company will be referred to the Legal Section for dissolution.

STATUS: Completed / Fully Implemented

Recommendation 10:

Develop a monitoring process to help ensure examinations of title companies and self-insured workers' compensation companies are performed timely.

The NVDOI has approved a new Domestic Entity Examination Tracking policy (attached – Policy #307) that will ensure that the Corporate and Financial Affairs Section initiates and performs examinations in compliance with the timeframes and scope of authority set forth in the Nevada Revised Statutes and the Nevada Administrative Code. It is now the Assistant Chief Examiner's (newly created position) responsibility to monitor and ensure the timely initiation of all examinations.


The NVDOI has also initiated audits of self-insured workers compensation groups. The NVDOI utilized an existing contract with a third party examiner to ensure that all of these required audits are done in a timely manner and are performed by an independent professional financial examiner. These audits are required by statute to be completed once every three years. The NVDOI is scheduled to complete the required 20 audits by the end of the current fiscal year.

STATUS: Completed / Fully Implemented

Again, I would like to take this opportunity to express my appreciation to the LCB Audit staff for their cooperation and professionalism during the field work of the audit. The Division of Insurance is committed making the appropriate operational changes to ensure that we are meeting the requirements set forth by the Nevada Legislature.

If there are any additional questions or concerns you may have, please let me know.

Yours very sincerely,

A handwritten signature in black ink, appearing to read "Scott J. Kipper", with a long horizontal flourish extending to the right.

Scott J. Kipper
Nevada Insurance Commissioner

c: Bruce H. Breslow, Director of the Department of Business & Industry
Paul Townsend, Legislative Counsel Bureau
Steve Weinberger, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of Industrial Relations issued on September 19, 2012. Report # LA12-17.

Background

The mission of the Division of Industrial Relations is to promote the health and safety of Nevada employees and ensure injured employees receive all benefits to which they are entitled. The Division includes the following sections: Workers' Compensation, Occupational Safety and Health Administration (OSHA), Mine Safety and Training, and Safety Consultation and Training.

The Division maintains offices in Carson City, Henderson, and Reno, with additional offices for the Mine Safety and Training Section in Elko, Tonopah, and Winnemucca. For fiscal year 2012, the Division had a total of 214 positions. During fiscal year 2011, the Division had total revenues and expenditures of nearly \$18.2 million.

Purpose of Audit

The purpose of the audit was to determine whether internal controls at the Division ensure assessments are accurate and timely and state laws governing collections are followed. In addition, to determine whether controls provide reasonable assurance that information systems facilitate timely inspections of mechanical objects (boilers, elevators, and other equipment), ensure the timely processing of workers' compensation claims, and protect personally identifiable information. This audit included a review of the Division's activities related to the Occupational Safety and Health Administration, Workers' Compensation Section, and VERSA information system occurring during fiscal year 2011, and assessments occurring during fiscal year 2010.

Audit Recommendations

This audit report contains three recommendations to help improve the Division's compliance with state law over the collection of fines and penalties. In addition, three recommendations were made to help ensure that personally identifiable information is safeguarded. Finally, two recommendations were made to help improve the Division's monitoring of information systems.

The Division accepted the eight recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of Industrial Relations

Department of Business and Industry

Summary

While assessments are accurate and timely, the Division can improve its revenue collection process through improvements to internal controls and accounts receivable lists. For example, internal controls were not adequate to ensure collection efforts were timely and in compliance with state law. In addition, past due debts from fines and penalties were not transferred to the State Controller's Office during the required timeframe. Furthermore, accounts receivable reports are not reliable. Finally, policies and procedures over collection efforts are not adequate.

The Division does not adequately protect claimants' personally identifiable information, such as social security numbers. Although we did not identify indications of a security breach, personally identifiable information was stored unencrypted on several of the Division's databases. In addition, the Division sends and receives unencrypted emails containing social security numbers and other sensitive information. In the event of a security breach, Nevada citizens could be at risk of having their personal information used in a fraudulent manner.

Oversight of the VERSA information system needs improvement. The VERSA system is used to monitor the OSHA Mechanical Unit inspections (boilers, elevators, and other equipment) and Workers' Compensation cases. We found past and current efforts to manage the contract and vendor have resulted in a system with dual entry of data into other programs and a lack of reporting capabilities. In addition, better prioritization in resolving problems should be implemented. Key decisions in the procurement and development phases could have prevented some of the problems associated with the system.

Key Findings

The Division did not turn over past due fines and penalties in accordance with time limits specified in statute. We identified over \$180,000 in past due fines and penalties that should have been turned over to the Controller's Office for collection. Our review of 42 Workers' Compensation cases with outstanding debt identified 35 cases that should have been turned over to the Controller's Office that were either late or not sent at all. For example, 11 cases that were turned over were an average of 6 months past due at the time. In addition, for 24 cases not turned over, the investigation had been completed 2½ years prior to our testing. Further, the Division had not sent demand letters requiring payment for 19 of the cases which were an average of 16 months overdue.

Our testing of 25 OSHA cases with outstanding balances identified 12 that should have been turned over to the Controller's Office for collection, but had not been. These cases were between 9 and 619 days past the Controller's 60-day requirement at the time of testing. By not turning the debt over to the Controller's Office, the Division was unable to participate in the state's Debt Offset Program, which helps ensure collection of money owed to the State. Under this program, a vendor can be put in a hold status which would cause any payment made to the vendor to be rejected. The amount of the payment is then applied to the outstanding debt due to the State.

The Workers' Compensation and OSHA Sections did not maintain complete or accurate aged accounts receivable reports. For example, the receivable report used by the Workers' Compensation Section for reporting outstanding debt to the State Controller's Office did not include all cases. We identified 189 cases in the section's active account files that were not on the aged accounts receivable reports.

The Division does not adequately protect claimants' personally identifiable information, such as social security numbers. We identified unencrypted social security numbers on several of the Division's application databases. In addition, the Division sends and receives unencrypted emails containing claimants' social security numbers.

The Division did not provide adequate oversight during implementation of the VERSA information system used for OSHA Mechanical Unit inspections and Workers' Compensation cases. The system lacks sufficient reporting capabilities resulting in staff using other programs to create reports. In addition, updating information for Mechanical Unit inspections can be a time consuming process. Also, the Division did not have a prioritized approach for ensuring the system's most critical shortcomings are corrected. Finally, the Division did not enforce contract terms during the implementation process such as comprehensive end user testing and holding back final payments until corrections had been made.

BRIAN SANDOVAL
Governor

STATE OF NEVADA



BRUCE BRESLOW
Director, B&I

DONALD E. JAYNE, CPCU
Administrator

**DEPARTMENT OF BUSINESS AND INDUSTRY
DIVISION OF INDUSTRIAL RELATIONS
OFFICE OF THE ADMINISTRATOR**

December 18, 2012

Jeff Mohlenkamp, Director
Department of Administration
Blasdel Building, Room 200
209 East Musser St.
Carson City, NV 89701

Dear Mr. Mohlenkamp:

Please accept this correspondence as the 60-day plan for corrective action regarding the Legislative Counsel Bureau audit on the Division of Industrial Relations (DIR) issued on September 19, 2012.

This plan requires significant coordination with the Business & Industry Director's office (B&I) as a result of legislatively approved centralization effective on October 1, 2011, which transferred fiscal staff and Information Technology (IT) staff of our Administrative Services Unit (ASU) to the Business & Industry Director's office. Fiscal staff from ASU, now housed in B&I, continues to play a role in the Division's accounts receivable and debt collect functions that are the focus of recommendations one through three. Former Division IT employees that are now part of B&I will play a key role in resolving recommendations four through eight.

The following is the current status and 60-day plan provided by the Division for the eight audit recommendations.

Recommendation 1: Establish controls to ensure the accuracy of accounts receivable information.

Status of Corrective Action: Partially implemented

Approach to Correct:

A review of existing accounts receivable procedures in the Workers' Compensation Section (WCS) (last revised on November 1, 2006) and Nevada OSHA (contained in Chapter 6 of the Nevada Operations Manual last revised in 2010) has been completed with revised policies and procedures drafted for approval. Additionally, we are awaiting word from the State Controller's Office regarding exemptions to the established timeframes to allow for additional collection efforts at the Business and Industry Director's Office. Policies and Procedures are being developed to clarify the role of the Business and Industry Director's Office, which may need to

be updated once the State Controller's Office has reached a decision concerning the requested exemptions.

Policies and procedures incorporate best practices to assure accuracy of accounts receivable information. Such revisions, upon completion and implementation, will allow for accurate handling of accounts receivable. Additionally, after the revised procedures are finalized, DIR will hold training classes on accounts receivable reporting for applicable staff.

Target Completion Date:

- Implement– 5/15/2013

Recommendation 2: Develop comprehensive aged accounts receivable lists for each of the Division's sections.

Status of Corrective Action: Partially implemented

Approach to Correct:

The Division will develop a solution for consistent and comprehensive reporting of aged accounts receivable lists as part of the accounts receivable policies and procedures. This will ensure accuracy and timeliness in these reports.

Information technology and accounting systems utilized by the DIR will be evaluated and modified to the degree possible. For the Workers' Compensation Section (WCS), this will require implementing Versa 2.4 version and utilizing the Data Mart report writing solution. For Nevada OSHA, we are exploring the capability of the federal OSHA NCR management information system as well as other possible reporting solutions.

Target Completion Date:

- Implement– 6/14/2013

Recommendation 3: Establish controls to ensure debt is turned over to the State Controller's Office for collection in a timely manner.

Status of Corrective Action: Partially implemented

Approach to Correct:

Applicable statutes and regulations have been reviewed to adjust policies and procedures to ensure debt is turned over to the State Controller's Office for collection in a timely manner. Additionally, we are awaiting word from the State Controller's Office regarding exemptions to the established timeframes to allow for additional collection efforts at the Business and Industry Director's Office. Policies and Procedures are being developed to clarify the role of the Business and Industry Director's Office, which may need to be updated once the State Controller's Office has reached a decision concerning the requested exemptions.

Target Completion Date:

- Implement– 5/15/2013

Recommendation #4: Ensure social security numbers and other sensitive information is adequately safeguarded.

Status of Corrective Action: Partially implemented

Approach to Correct:

The Division, in coordination with the Information Technology (IT) staff at the Business & Industry Director's office, will implement additional measures to protect social security numbers (SSNs) and other sensitive information.

Iron Data (Versa) Database System

This is an off-the-shelf software system. There are two types of records that contained SSNs – licensee records and worker comp cases. The Division has already delete SSNs from the licensee records (there were approximately 600 records).

For the worker comp cases the Division will utilize encryption features that are available in the Iron Data software to encrypt SSN fields. The Division will need to upgrade to the next version of the software (Versa 2.4 version) in order to implement the encryption features.

Email Communication with Insurance Providers

The Workers Comp Unit receives emails from insurance providers, which in some cases contain sensitive information. The corrective action involves establishing a method to encrypt the emails when sensitive information is being sent (both inbound and outbound). The agency will first work with the Department of Administration, Enterprise IT Services Division to determine if the state can provide this type of solution at a minimal cost. If the state cannot provide the appropriate solution, then the agency will look at other solutions, including 3rd party software. The solution needs to be compatible with the state and the insurance providers.

Target Completion Date:

- Iron Data System
 - Delete SSNs for licensee records – Compete
 - Encrypt database fields that contain sensitive data (contingent on successful upgrade of software – 3/15/2013
- Implement email encryption – 4/26/2013

Recommendation #5: Ensure the removal of unnecessary fields and databases containing social security numbers from the Division's servers. In addition, continue to work with the software vendor to remove social security numbers from its database.

Status of Corrective Action: Fully implemented

Approach to Correct:

This recommendation is addressed in #4 above. The Iron Data System maintains two types of records that contained SSNs – licensee records and worker comp cases. The Division no longer has a need for SSN data to support the licensing process so they have deleted SSNs from the licensee records (there were approximately 600 records).

For the worker comp cases the Division will utilize encryption features that are available in the Iron Data software to encrypt SSN fields. The Division will need to upgrade to the next version of the software in order to implement the encryption features.

Target Completion Date:

- Iron Data System
 - Delete SSNs for licensee records – Complete

Recommendation #6: Encrypt emails containing personally identifiable information.

Status of Corrective Action: Partially implemented

Approach to Correct:

This recommendation is addressed in #4 above.

The Workers Comp Unit receives emails from insurance providers, which in some cases contain sensitive information. The corrective action involves establishing a method to encrypt the emails when sensitive information is being sent (both inbound and outbound). The agency will first work with the Department of Administration, Enterprise IT Services Division to determine if the state can provide this type of solution at a minimal cost. If the state cannot provide the appropriate solution, then the agency will look at other solutions, including 3rd party software. The solution needs to be compatible with the state and the insurance providers.

Target Completion Date:

- Implement email encryption – 4/26/2013

Recommendation #7: Develop strategies to improve management of current and future information systems.

Status of Corrective Action: Partially implemented

Approach to Correct:

The Department of Business & Industry will establish standards for procuring, implementing and operating information systems. These standards will provide a framework for all information system projects; however, it will remain need to remain flexible so it can be tailored to the requirements of each project.

The standards will address the following:

- **Review and approval by stakeholders** – Key checkpoints will be identified where the stakeholders will be required to review and approve project deliverables before moving to subsequent phases in the project. This includes program management, system users and technical staff. In addition, vendor deliverable & payment schedules and holdback provisions will be addressed.
- **Structured Systems Methodology** – This will define key tasks and deliverables for each phase of the system lifecycle.
 - System Requirements
 - Alternative Solution Analysis and Feasibility Assessment
 - Budgeting
 - Procurement & Contracting
 - Implementation & Testing
 - Operation & Maintenance
- **Project Management and Control** – Standards for project management tasks, roles and responsibilities will and quality control methods will be defined.

Target Completion Date:

- Develop Department Standards for current and future information systems – 4/30/2013

Recommendation #8: Prioritize open support ticket items.

Status of Corrective Action: Partially implemented

Approach to Correct:

The Division, in coordination with the Information Technology (IT) staff at the Business & Industry Director's office, has implemented short-term changes for tracking and prioritizing support ticket items. Additional information is tracked, including:

- Status of DIR testing of each item

- Environment that a fix or enhancement has been deployed to (e.g. test or production)
- DIR business unit a fix or enhancement applies to (so they understand who is responsible for testing)
- Cross-reference support ticket items to the master list of system issues

The Department of Business & Industry will develop department level procedures for managing support tickets. These standards will be part of the overall standards for current and future information systems which are addressed in #7 above.

Target Completion Date:

- Develop Department level procedures for prioritizing support tickets (as part of Department Standards for current and future information systems) – 4/30/2013

We appreciate the opportunity to respond to the recommendations of your audit report. If you have any further information needs, please feel free to contact me.

Sincerely,



Donald E. Jayne, CPGU
Administrator, DIR

Enclosure

cc: Bruce Breslow, Director Department of Business and Industry
Paul V. Townsend, Legislative Auditor
Steve Weinberger, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Housing Division issued on April 17, 2012. Report # LA12-14.

Background

One of the Division's responsibilities is to administer the Low-Income Weatherization Assistance Program. The weatherization assistance program uses state and federal funding to provide weatherization measures to low-income households. The objective of the program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. The process of making the dwellings energy-efficient includes installing energy measures such as insulation, energy efficient windows, and solar screens. To carry out this program, the Division selects subrecipients that determine applicants' eligibility and hire contractors to install the weatherization measures. The American Recovery and Reinvestment Act (ARRA) of 2009 provided a significant increase to weatherization funding. Weatherization program funding increased from approximately \$5.7 million in fiscal year 2009 to approximately \$26.9 million in fiscal year 2011.

Purpose of Audit

The purpose of this audit was to determine if the Division has established adequate controls to ensure compliance with ARRA weatherization program requirements and accurate reporting of performance information. This audit included a review of the Division's ARRA funded weatherization project activities and reported performance information during fiscal years 2010 and 2011.

Audit Recommendations

This audit report contains two recommendations to help improve subrecipients' verification of applicant eligibility, and documentation of contractor inspections. In addition, one recommendation was made to help improve the accuracy of some reported performance information.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on July 12, 2012. In addition, the six-month report on the status of audit recommendations is due on January 14, 2013.

Housing Division

Department of Business and Industry

Summary

The Division's oversight of ARRA weatherization funding was effective and helped ensure funding was spent timely and appropriately. As of December 2011, about \$35.7 million was expended to install weatherization measures in low-income homes and typically included attic and floor insulation, energy efficient windows, or solar screens. Controls to monitor subrecipients and contractors' activities were established by the Division and contributed to the program's success. However, the Division can strengthen a few processes related to subrecipients' documentation of inspections and verification of applicants' program eligibility.

The Division has established an effective method to collect reliable performance information for the weatherization program. Specifically, it developed a database that tracks subrecipient weatherization activities, and staff performs procedures to validate the information reported in the database. Reliable information is important so the Division can monitor subrecipients' activities and report program results. Although we found the reported information to be reliable, the Division can improve the accuracy of data in a few areas.

Key Findings

The Division established an effective process to ensure ARRA weatherization funding was spent timely and directed at cost-effective weatherization measures. This funding was allocated throughout the State to help low-income families. Our review of 100 files, totaling about \$1 million in project costs, identified that funds were spent on priority measures that were billed according to pre-approved contractor prices.

The Division has established controls to monitor subrecipients. Our review of 100 project files found subrecipients were timely when: (1) approving applications, (2) performing energy assessments, (3) completing projects, and (4) performing final project inspections. The Division's controls help provide reasonable assurance that subrecipients' activities comply with program requirements and that weatherization funds are used appropriately.

The Division has established controls to ensure effective monitoring of contractors' work. Effective monitoring of contractors helped ensure approved weatherization measures were installed and the workmanship was of good quality. Our inspection of 40 homes identified only a few instances where measures paid for were not installed. These uninstalled measures totaled \$1,092 of approximately \$405,000 in project costs, less than 1% of the amount inspected. Although monitoring was effective, we identified a few instances where inspection forms, used by the subrecipients to review contractor work, were not properly completed.

The process to determine applicant eligibility for the weatherization program can be strengthened. Although subrecipients documented applicants' reported income and household size, additional documentation and procedures would help verify all household income is correctly reported. For 19 of 100 weatherization files tested, better documentation was needed to support the applicants' incomes. In addition, 28 files contained conflicting documentation pertaining to the household size. When adequate steps are not taken to verify applicants' incomes, limited weatherization funding may not be available for those applicants that need it the most.

The Division has reliable performance information related to its weatherization activities. Our testing found only a 4% error rate when reviewing weatherization information used by the Division to report performance. Reliable performance information is important so the Division can monitor subrecipients' weatherization activities. Furthermore, governing officials and citizens can use this information to evaluate the results of the Division's program.

The weatherization data reported by the Division is reliable; however, additional training and monitoring can improve data accuracy in a few areas. Although our testing identified an overall error rate of only 4%, the errors identified occurred more frequently in certain areas. For example, for 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Providing additional training and monitoring to subrecipients will help improve data reliability in areas where errors were more frequent.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 14, 2013

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

On April 17, 2012, your office released an audit report on the Department of Business & Industry, Housing Division (Division). The Division subsequently filed a corrective action plan on July 3, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 3 recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Provide additional training to subrecipients regarding the inspection of weatherized units.

Status – Fully Implemented

Agency Actions – The Division has provided additional training to subrecipients regarding the inspection of weatherized units. We reviewed the Division's field training matrix indicating the subrecipients trained and the date of the training. The Division represents that the training events were one-to-one reviews highlighting areas for improvement.

Recommendation 2

Develop additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants' household size and total income.

Status – Fully Implemented

Agency Actions – The Division has developed additional procedures for subrecipients that include gathering and documenting more information to substantiate applicants' household size and total income. We reviewed the pre-audit and post-audit Administrative Manual on Client Assistance.

Our review identified additional guidance for financial eligibility and countable income. We also identified changes in recertification guidelines, non-exclusive list of excluded income, and income conversion methods.

Recommendation 3

Provide additional training and monitoring of subrecipients' weatherization data entered into the Building Weatherization Report.

Status – Fully Implemented

Agency Actions – The Division has provided additional training and monitoring of subrecipients' weatherization data entered into the Building Weatherization Report. We reviewed the Division's database matrix and training logs.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business & Industry
Charles Horsey, Administrator, Housing Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Office of Labor Commissioner issued on April 12, 2011. Report # LA12-02.

Background

The Office is responsible for enforcement of all labor laws not specifically vested in any other officer, board, or commission. The Office does not enforce statutes related to unemployment, workers compensation, workplace safety, employment discrimination, and public employees. Major responsibilities of the Office are: (1) to investigate complaints (referred to as claims) received from employees claiming their employer did not pay them the correct amount of wages, and (2) to establish and monitor the prevailing wage rates on public works projects.

The agency has an office in Las Vegas and in Carson City. As of September 2010, it had 18 employees. The Office is funded entirely by a General Fund appropriation. Expenditures were about \$1.42 million in fiscal year 2010. The Office also has a bank account under its custody. The account is used to deposit money received from employers and to write checks to claimants. Total deposits into the account in 2010 were a little over \$1.9 million.

Purpose of Audit

The purpose of this audit was to determine if the Office of Labor Commissioner has: (1) effective controls to safeguard the receipt and disbursement of claim monies, (2) sufficient controls in place to ensure the timely resolution of wage claims, and (3) sufficient and reliable information for management and external parties. Our audit focused on wage claims in fiscal year 2010, but included prior fiscal years for procedures concerning contractors with multiple substantiated claims.

Audit Recommendations

This audit report contains five recommendations to improve safeguarding of cash received from employers on behalf of claimants. In addition, the report has three recommendations to help ensure wage and hour claims are resolved timely. Finally, there are four recommendations to improve the information available to supervisors that monitor claim investigations and to external parties.

The Office accepted the 12 recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on July 7, 2011. In addition, the six-month report on the status of audit recommendations is due on January 9, 2012.

Office of Labor Commissioner

Department of Business and Industry

Summary

By modifying its longstanding practices, the Office can get money to claimants faster, eliminate many time-consuming tasks performed by staff, and reduce the risk of money being lost or stolen. The current process for remitting money to claimants is inefficient and delays the delivery of money to claimants by 2 to 3 weeks. Most of the inefficiencies are a result of the Office's practice of depositing money received from employers into its outside bank account and then writing checks to disburse the money to claimants. Significant improvements can be achieved by sending checks received from employers directly to claimants, as is done in other states.

Although the Office resolved many claims timely, it can improve the effectiveness of its claim investigations by monitoring timeliness better, assessing penalties more consistently, and reporting amounts unpaid by employers to the State Controller to pursue collection. Finally, sufficient and reliable management information is needed to oversee investigations and to report important information to external parties, including the Governor, Legislature, and State Contractors' Board.

Key Findings

The information system used to record the collection and disbursement of cash held in an outside bank account is not adequately secured. Weaknesses included inadequate passwords, a lack of edit logs to track which employee creates or modifies a record, and the ability to modify system information at any time. These weaknesses increase the risk fraud could occur and go undetected. This account had disbursements of \$1.9 million in fiscal year 2010.

The Office's process for remitting money to claimants is inefficient and delays the delivery of money to claimants by 2 to 3 weeks. Most inefficiencies are a result of the longstanding practice of depositing money received from employers and then writing checks to claimants. Other inefficiencies come from the information system itself. Other states remit checks directly to claimants, which eliminates many tasks required by the Office's current process.

For most of the wage and hour claims filed, the employer did not object and therefore remitted money to the Office, which then forwarded the money to the claimant. However, when the employer filed an objection to the claim, the Las Vegas office often did not take timely action to resolve the claim. Some claims remained open for several months or even years without any action. Delays can cause financial hardship to workers and their families.

Penalties were not always assessed correctly or consistently. In 7 of 24 claims, the penalty was not calculated using the correct number of days as outlined in statute. In 12 of 24 claims, the penalties were not consistent with the Office's informal policy. The differences included some claims where the employer paid less than the required penalty, but the Office accepted the lesser payment without documenting why it was accepted or supervisory approval.

In fiscal year 2010, the Office did not report to the State Controller over \$1.7 million in debts owed by employers to the Office on behalf of claimants. When debts are not reported, the Controller is not able to pursue actions to collect monies owed to claimants.

The Office's information system does not provide sufficient and reliable information necessary to track and monitor wage and hour claim investigations. Specifically, the system can only be queried to show basic information such as the number of claims. Also, the Office had to review each of the almost 2,800 claims opened during the year to compile information for a performance measure, since the system could not provide the information.

NRS 607.165 requires the Office to notify the State Contractors' Board when three substantiated claims have been made against a contractor in a 2-year period. The Office has not notified the Board in part because the Office's information system is not capable of easily identifying such contractors. Based on multiple queries of the system data and review of files, we identified 13 contractors with 3 or more claims in a 2-year period.

The Office has not prepared a report of its activities for external parties, including information on claims it investigated. NRS 607.080 requires the Commissioner to prepare a biennial report for the Governor and Legislature that includes statistical information relating to the Office's statutory objectives. Without such data, decision-makers might not have the information they need to make informed decisions regarding labor related trends.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

A handwritten signature in black ink, appearing to read "JM", followed by a large, stylized flourish.

Date: January 9, 2012

Subject: Legislative Audit of the Office of Labor Commissioner

On April 12, 2011, your office released an audit report on the Office of the Labor Commissioner (Office). The Office subsequently filed a corrective action plan on July 7, 2011. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 12 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Discontinue use of the outside bank account and instead remit checks received from employers directly to claimants.

Status - Partially Implemented

Agency Actions – The Office no longer deposits funds or issues checks with the outside bank account; but still uses it to service outstanding checks. The Office plans to close the account by November 1, 2012 so that outstanding checks can clear and the unclaimed checks submitted as Unclaimed Properties pursuant to NRS120A.500. In addition, the Office's policies and procedures encourage employers to make checks out to the claimant.

Auditor's Comment – Observations disclosed checks from employers are made out in the claimants' names and forwarded directly to the claimant.

Recommendation 2

Utilize the state's accounting system to process and record the receipt and disbursement of monies for unpaid wage claims when checks cannot be directly passed to claimants.

Status - Fully Implemented

Agency Actions – The Office now uses the state's accounting system to process and record the receipt and disbursement of monies for unpaid wage claims when checks cannot be directly passed to claimants.

Auditor's Comment – We traced a sample of receipts and disbursements into the state's accounting records.

Recommendation 3

Ensure all money received is deposited timely and periodically reconcile the outside bank account to the Office's records of amounts owed to claimants, until the account is closed.

Status - Partially Implemented

Agency Actions - The Office developed policies and procedures which require depositing money received daily no later than 3 p.m. daily and reconciling the account monthly.

Auditor's Comment – We reviewed the outside bank account reconciliation for November 2011, which indicates the Office has begun monthly reconciliations. However, we noted several checks that were not deposited by the following Thursday as required per NRS 353.250. The agency represented they will now deposit funds by the following Thursday.

Recommendation 4

Develop controls to ensure restrictive endorsement stamps include the proper wording and endorsements are done timely.

Status - Fully Implemented

Agency Actions – The Office purchased a restrictive endorsement stamp with the proper wording and developed policies and procedures to stamp checks upon receipt.

Auditor's Comment – We examined checks stored in the agency's Carson City office safe and noted they were restrictively stamped. The Las Vegas office provided evidence it is using a restrictive endorsement stamp too.

Recommendation 5

Develop policies and procedures to track the aging of account funds and establish when funds should be transferred to Unclaimed Property.

Status - Fully Implemented

Agency Actions – The Office developed policies and procedures to track the aging of account funds and to transfer unclaimed property by November 1st of each year. The Office transferred a number of unclaimed property accounts on November 1, 2011.

Recommendation 6

Develop policies and procedures setting forth the guidelines for resolving wage claims, including timeframes for completing various tasks and supervisory responsibilities to ensure the timeframes are met.

Status – Fully Implemented

Agency Actions – The Office issued a memorandum July 5, 2011 set guidelines for resolving wage claims, including timeframes for completing various tasks and supervisory responsibilities to ensure timeframes are met. A memorandum issued January 3, 2012 established supervisory responsibilities for ensuring timeframes are met in the Las Vegas office by the Deputy Commissioner.

Recommendation 7

Develop policies and procedures on the assessment of penalties, including supervisory approvals needed when the amount assessed is different than policy guidelines.

Status – Fully Implemented

Agency Actions – The Office published a memorandum July 1, 2011 establishing policies and procedures to standardize the assessment of penalties. A subsequent memorandum on December 20, 2011 established criteria for supervisory approval when the amount assessed is different than policy guidelines.

Recommendation 8

Report to the State Controller's Office debts owed by employers to the State on behalf of claimants.

Status - Fully Implemented

Agency Actions – The Office developed policies and procedures to transfer debts owed by employers 45 days after a summary judgment has been obtained. The Office provided evidence it transferred debts owed by employers to the State Controller's Office on December 15, 2011.

Recommendation 9

Identify and track information, using existing software, for use by supervisors to help ensure the timely resolution of wage and hour claims.

Status – Fully Implemented

Agency Actions – The Office published a memorandum on December 6, 2011 establishing guidelines for identifying and tracking information used by supervisors to ensure the timely resolution of wage and hour claims. The guidelines require investigators to generate monthly reports utilizing the existing case management system to show the status and aging of their investigations. The Office provided copies of new monthly reports for July through November 2011 as evidence of the information used by supervisors to help ensure the timely resolution of wage and hour claims.

Recommendation 10

Notify the State Contractors' Board when contractors have three or more substantiated claims in a 2-year period, as required by law.

Status – Partially Implemented

Agency Comments – The Office published a memorandum December 6, 2011 establishing guidelines for notifying the State Contractors' Board when contractors have three or more substantiated claims in a 2-year period, as required by law. When there is a claim against contractor staff will access the claims system and determine if the contractor has had three or more substantiated claims within a two year timeframe. The policy requires staff to notify Labor Commissioner when contractors meet or exceed the threshold above.

Auditor's Comments – Since establishing guidelines to notify the State Contractor's Board, as required by law, no contractor has received three or more substantiated claims. Consequently, the Office has not yet notified the State Contractor's Board of such claims. The Office concurs that the recommendation will be fully implemented when the first qualifying contractor is reported to the State Contractors' Board as evidence the guidelines are working.

Recommendation 11

Establish written guidelines for deciding when administrative fines should be levied against employers who violate labor-related laws.

Status – Fully Implemented

Agency Actions – The Office published a memorandum December 6, 2011 establishing written guidelines for deciding when administrative fines should be levied against employers who violate labor-related laws. The guidelines establish criteria for imposing an administrative fine and the method for calculating the amount of the penalty.

Recommendation 12

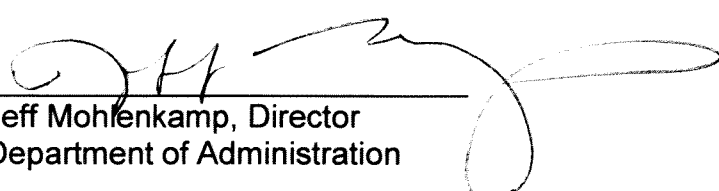
Periodically provide data, at least biennially, to the Governor and Legislature that relates to the Office's statutory objectives, and make it available to the public on its website.

Status – Partially Implemented

Agency Comments – The Office identified a report format for providing data, at least biennially, to the Governor and Legislature that relates to the Office's statutory objectives, and plans to make it available to the public on its website.

Auditor's Comments – The Office plans to make its first report by May 1, 2012. The Office concurs that the recommendation will be fully implemented when the report is made and available to the public on its website.

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



Jeff Mohlenkamp, Director
Department of Administration

Paul Townsend, Legislative Auditor

January 9, 2012

Page 6

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Terry Johnson, Director, Department of Business and Industry
Thoran Towler, State Labor Commissioner
Mike Colburn, Chief, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Aging and Disability Services Division issued on October 17, 2011. Report # LA12-04.

Background

The Division for Aging Services was created in 1971. In 2009, the Office of Disability Services, Senior and Disability Rx Programs, Traumatic Brain Injury Programs, and other related responsibilities were merged with the Aging Services Division. The agency was renamed the Aging and Disability Services Division (Division).

The Division's mission is to develop, coordinate, and deliver a comprehensive support system of essential services that will allow Nevada's elders and those with disabilities to lead independent, meaningful, and dignified lives. In the 2011-2013 Executive Budget, the Division reported on 44 performance measures.

The Division's funding totaled \$57 million in fiscal year 2010. The largest funding sources were General Fund appropriations and grants. Program costs made up 74% of the Division's expenditures. The Division was authorized 206 full-time positions for fiscal year 2010.

Purpose of Audit

The purpose of this audit was to evaluate the Division's performance measures, including the reliability of reported results. The audit focused on the Division's performance measures reported for fiscal year 2010.

Audit Recommendations

This audit report contains three recommendations to improve administrative controls over performance measures. These recommendations include taking necessary steps to improve the reliability and validity of performance measures by defining terms, identifying assumptions, reviewing formulas used in the calculations, and using existing knowledge and abilities to ensure the data reported is complete, valid, and reliable.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Aging and Disability Services Division

Department of Health and Human Services

Summary

The Aging and Disability Services Division reported some performance measures that did not accurately describe the performance of the programs. Of the five performance measures reviewed, two were significantly misleading and inaccurate, and the other three had minor errors. Management did not adequately review the calculations and descriptions of two measures to ensure the titles reflect the information reported. In addition, the Division's controls over the collection of information used to calculate the measures can be improved. These performance measures may be used by the Legislature, Governor, and Department and Division management to make critical decisions.

Two performance measures were reported as cost savings to the State for home versus institutional care, but actually reflected the estimated cost of institutional care for clients. Since the calculations did not deduct program costs and included other errors, we estimate the reported results were overstated by \$5.0 million and \$1.7 million for fiscal year 2010.

Key Findings

Descriptions for two performance measures for personal assistance services for adults with disabilities and persons with traumatic brain injuries did not accurately describe the information presented. The Division reported the two programs saved the State \$8.8 million and \$1.8 million in fiscal year 2010 by diverting adults with disabilities and persons with traumatic brain injuries from institutional care. The formulas used to calculate these amounts do not represent the programs' savings of state dollars because they did not include the costs of operating these two programs. In addition, the Division did not include potential reimbursement from the federal government for Medicaid costs incurred by the State for institutionalization. We estimate the two programs saved the State \$3.8 million and \$123,000 during fiscal year 2010.

The Division used information to calculate performance measures that was not always correct. Management did not implement sufficient controls to ensure the information used to calculate performance measures is accurate and reliable. The Division's calculations for the Traumatic Brain Injury (TBI) and Personal Assistance Services programs' performance measures contained the wrong Medicaid rate and number of days in a year.

Reports used to calculate performance measures are not always accurate. The Division contracts with a provider to assist persons who qualify to receive benefits from the TBI program. The Division relies on worksheets from the provider to calculate performance measures. These worksheets contain significant errors that, in turn, distort the performance measures. For example, the provider's calculation for the average days of service did not include the number of days for 4 of 10 discharged clients for 2 months. These were unintentional errors. However, it is the Division's responsibility to implement a system to review supporting data to ensure accuracy.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services –
Aging and Disability Services Division

In October 2011, your office released an audit report on the Aging and Disability Services Division (Division). The Division subsequently filed a corrective action plan on June 21, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Board to comply with audit findings.

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

Recommendation 1

Clearly define terms and identify assumptions needed to perform the calculation as described in the performance measure's title.

Status – Partially Implemented

Agency Action – The Division clearly defined the elements and identified the assumptions of the Personal Assistance Services and Traumatic Brain Injury program measures discussed in the audit, however, they are in the process of developing new performance measures to provide benchmarks to be used to better determine the value of their programs.

Recommendation 2

Review the formulas used to calculate performance measures

Status – Fully Implemented

Agency Action – The Division has developed procedures requiring Program Chiefs and the Deputy Administrator (or designee) to review performance measure calculations.

Auditor's Comment – We reviewed the calculations and supporting documentation for the Personal Assistance Services and Traumatic Brain Injury programs and noted no exceptions.

Recommendation 3

Use the Division's existing knowledge, skills, and abilities to strengthen controls over information used to calculate performance measures.

Status – Partially Implemented

Agency Action – The Division is working with the provider of the Social Assistance Data Management System to move to their next generation data base system which contains error checks, logic checks, and other controls to help ensure the data used to calculate performance measures is accurate.

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


Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Wilden, Director, Department of Health and Human Services
Mary Liveratti, Administrator, Aging and Disability Services Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Department of Health and Human Services, Division of Welfare and Supportive Services issued on September 19, 2012. Report # LA12-19.

Background

The Welfare Division was created in 1937 and was renamed the Division of Welfare and Supportive Services in 2005. The Division is part of the Department of Health and Human Services. The Division's mission is to provide quality, timely, and temporary services enabling Nevada families, the disabled, and elderly to achieve their highest levels of self-sufficiency.

The Division had 1,335 legislatively approved full-time equivalent positions as of July 1, 2010, and expenditures totaling over \$496 million during fiscal year 2011. The Division's main source of funding is the federal government. The Division's administrative office is in Carson City. In addition, the Division has 13 District Offices: one each in Carson City, Elko, Ely, Fallon, Hawthorne, Reno, Pahrump, Yerington, and Henderson, and four in Las Vegas.

Purpose of Audit

The purpose of this audit was to: 1) determine if the Division's controls over benefits issued through Electronic Benefits Transfer (EBT) cards were sufficient to reduce the risks of benefits being paid to deceased clients and of unauthorized persons using those benefits, and 2) determine if payments made to the vendor for EBT account services were accurate.

Audit Recommendations

This audit report contains five recommendations to improve administrative controls over EBT cards and the EBT account services vendor. These recommendations include developing policies and procedures to help ensure benefits are not issued to deceased clients, accounts are modified to prevent the use of EBT cards after clients' deaths, and to improve controls related to the Division's monitoring of the information received from and the amount paid to the EBT vendor to help ensure reports and payments are accurate.

The Division accepted the five recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of Welfare and Supportive Services

Department of Health and Human Services

Summary

The Division could improve its controls over benefits issued through the Electronic Benefits Transfer (EBT) card system to help ensure benefits are not paid to deceased clients. In some instances, the Division continued to pay benefits into EBT accounts for clients who had been deceased for months. In addition, some EBT cards continued to be used for cash or purchases for months after the clients' deaths. Problems were also noted in some EBT accounts where the Division had recorded clients' dates of death, such as accounts remaining in active status.

The Division can improve its oversight of the EBT vendor to help ensure the services and information provided are in accordance with the contract and the vendor's billings are appropriate. The vendor's reports do not always contain complete, accurate, and timely information. In addition, the vendor continued to bill for point-of-sale devices at a rate from a prior contract for 12 months after a new contract reduced the agreed-upon fee by \$10 per device.

Key Findings

The Division should consider using additional sources of information to identify when clients have died. The Division relies on the Social Security Administration, medical facilities, and family members to report when clients have died. However, other methods of obtaining information are available. For example, another state researches samples of client files. The Division could also verify the status of samples of clients selected randomly or selected based on certain criteria, like age or address changes. We matched information in the Division's Nevada Operations of Multi-Automated Data Systems (NOMADS) for about a third of the head of household clients for the Supplemental Nutrition Assistance Program (SNAP) and all head of household clients for the Temporary Assistance for Needy Families (TANF) program with a list of all persons reported to the Health Division's Office of Vital Statistics as having died in Nevada between July 1, 2007, and December 31, 2011. We found 189 persons listed on NOMADS as living who were reported to the Office of Vital Statistics as deceased on or before December 31, 2009. To analyze post-death account activity, we tested the EBT accounts for 50 of these 189 clients and found the Division paid more than \$11,500 in benefits to 27 of the 50 clients after their dates of death. The Division made deposits into these accounts up to 10 months after the clients died. Of these benefits, the EBT vendor later removed \$7,225 of unused benefits from the accounts.

The Division's controls for preventing unauthorized persons from using benefits after the death of a client can be improved. The Division relies on the EBT vendor to remove unspent SNAP benefits from accounts after 12 months. Of the 50 deceased clients' accounts we tested, 13, or 26%, had purchases or automatic teller machine transactions after the clients' dates of death. These transactions totaled \$6,502 and took place from 13 to 247 days after the clients' dates of death. Since the EBT cards were still being used, the EBT vendor did not promptly remove the benefits remaining in the accounts at the time of death.

We matched client information in the Division's NOMADS with information on deaths in Nevada maintained by the Office of Vital Statistics and found 178 clients with dates of death that were different in the two databases. We tested five of these clients' accounts and found all were listed by the vendor as having active accounts even though the clients' records in NOMADS showed the clients were deceased.

The EBT services vendor's reports did not always contain complete, accurate, and timely information. We tested client information reports for 65 client files whose unused benefits were removed by the vendor or whose accounts had no activity for more than 1 year. All 65 clients' accounts were listed as active accounts on the EBT vendor's system. The Division's contract with the EBT vendor defines an active account as one where there is client-initiated activity within 360 days for SNAP accounts and 180 days for TANF accounts. The contract makes the vendor responsible for changing the card and account status from active to inactive. However, the statuses for these 65 accounts were not changed. Leaving an account status as active after a client has died increases the risk that an unauthorized person may use the benefits.

The Division did not adequately review the invoices from the EBT vendor before paying. The Division paid invoices where the vendor used a monthly rate for point-of-sale devices from a prior contract. We estimate the Division overpaid the vendor by \$77,000. According to Division management, all monies from the overpayment were recouped from the vendor.



BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF HEALTH & HUMAN SERVICES
DIVISION OF WELFARE & SUPPORTIVE SERVICES

1470 College Parkway
Carson City, NV 89706
(775) 684-0500

MICHAEL J. WILLDEN
Director

MICHAEL J. McMAHON
Administrator

December 13, 2012

Mr. Jeff Mohlenkamp, Director
Department of Administration
Blasdel Building
209 E Musser St., Room 200
Carson City, NV 89701

Dear Mr. Mohlenkamp:

Pursuant to the letter of September 21, 2012 from the Division of Internal Audits the Division of Welfare and Supportive Services (DWSS) must submit a plan for corrective action to address the audit findings which were accepted on August 10, 2012.

The purpose of the audit was to: 1) Determine if the Divisions' controls over benefits issued through Electronic Benefits Transfer (EBT) cards were sufficient to reduce the risk of benefits being paid to deceased clients and of unauthorized persons using those benefits, and 2) Determine if payments made to the vendor for EBT account services were accurate.

The audit conclusion contained 5 recommendations to improve administrative controls over EBT cards and the EBT account services vendor. Below are the recommendations and the corresponding corrective action plan.

Recommendation 1:

Develop policies and procedures for using additional sources of information to identify when clients have died.

Corrective Action Plan:

The Division has historically relied on the Social Security Administration, medical facilities, and family members to report when clients have died. The three sources do not provide a comprehensive or reliable mechanism to become aware of deaths which might occur in the TANF/SNAP population. Obviously, death is not limited only to Social Security recipients. As a result of the audit the Division has contacted the Department of Vital Statistics and is receiving an Excel report listing all deaths registered in Nevada for each report period. This is a data dump/manual process. A work order has been established to evaluate the cost effectiveness of developing an electronic data interface to automate some of the process. The NV Vital Statistics report/information will capture information for individuals whose death occurs in Nevada. The agency will continue to scout for other reliable sources of death information; however the NV registry should capture the bulk of them. Policy will be updated as noted in the 2nd recommendation.

Recommendation 2:

Develop policies and procedures to more timely stop the payment of benefits to deceased clients.

Corrective Action Plan:

The policy and underlying regulation, for the SNAP program requires the agency to act on changes it becomes aware of, within 10 days to affect the next available benefit month. In the case of death, the requirement to notify the applicant of the action to close or reduce their benefits 13 days prior to the effective date is not required.

The policy and underlying regulation for the TANF program is similar; changes must be reported by the 5th of the month following the month in which the change occurred, and the Division must affect the case the 2nd month following the month in which the change occurred, or as soon as administratively possible. Again, the 13 day advance notification can be waived.

Policy will be updated to include information about the availability of the death match and the requirement to act to reduce or terminate benefits as soon as administratively possible.

Recommendation 3:

Develop policies and procedures to prevent the use of EBT cards by unauthorized persons after clients' deaths.

Corrective Action Plan:

Policy will be updated to require the case manager to not only close the eligibility case, as a result of the death of the only eligible member, but also to inactivate the card associated with the JP Morgan account where the benefits are held. The policy has been drafted, is in the clearance process, and will be published in January 2013.

Recommendation 4:

Work with the EBT vendor to ensure reports relating to the EBT cards are complete, accurate, timely, and easily accessible.

Corrective Action Plan:

A review of the individual reports available from the vendor, the purpose of the report, and the data elements necessary for the report to be an effective tool will be conducted prior to the follow-up date. Updates will be negotiated with the vendor and local IT resources for any reports which need to be updated.

Recommendation 5:

Implement controls to ensure vendor invoices agree with contracted amounts and rates prior to payment.

Corrective Action Plan:

The Division will set up controls with the contract monitoring unit to identify anticipated changes throughout the contract which would affect the billing rate to ensure only correct payments at the applicable rate are authorized.

The Division would like to extend our thanks for the thorough audit and the resulting opportunity to put forward a corrective action plan to better safeguard the program integrity, and public confidence.

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

Sincerely,



Michael J. McMahon
Administrator

cc: Michael Willden, Director, Department of Health and Human Services
Paul V. Townsend, Legislative Auditor
Steve Weinberger, CPA Administrator Division of Internal Audits
Sue Smith, Deputy Administrator, DWSS Administrative Services
Steve H. Fisher, Deputy Administrator, DWSS Program and Field Operations
Jeanne Gregg, DWSS Internal Auditor

Audit Highlights



Highlights of Legislative Auditor report on the Oversight of Child Care Facilities issued on October 17, 2011. Report # LA12-06.

Background

The Bureau of Services for Child Care (Bureau) licenses, inspects, and investigates complaints of child care facilities in Nevada. During our audit scope, the Bureau was within the Division of Child and Family Services. With legislation in 2011, the Bureau was transferred to the Health Division on July 1, 2011.

The purpose of the Bureau is to ensure the health, safety, and well-being of children in child care facilities. It is responsible for all facilities in Nevada, with the exception of most facilities in Washoe County.

The Bureau is primarily funded by a federal grant. In fiscal year 2011, the Bureau received approximately \$1 million under this grant. The Bureau has offices in Carson City, Elko, and Las Vegas. In fiscal year 2011, the Bureau had 19 employees.

As of June 30, 2011, 558 facilities were licensed by the Bureau. The Bureau experienced a significant increase to its caseload recently. In May 2009, the city of Las Vegas relinquished its child care responsibilities to the State. This resulted in an increase of 197 facilities to the Bureau's caseload. In September 2010, Clark County relinquished its responsibilities, increasing the Bureau's caseload by 174 facilities.

Purpose of Audit

The purpose of this audit was to determine if the Bureau ensures child care facilities meet health and safety requirements. Our audit focused on the Bureau's activities from July 1, 2009 through March 31, 2011.

Audit Recommendations

This audit report contains 4 recommendations to improve the timeliness of inspections and ensure follow-up so that problems noted during inspections are corrected timely. In addition, there are 2 recommendations to improve the monitoring of employees at child care facilities to ensure they meet requirements in state laws and regulations.

The Division accepted the 6 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Oversight of Child Care Facilities

Department of Health and Human Services

Summary

The Bureau did not always perform timely inspections of child care facilities or take timely action to help ensure fire and health inspections were performed by state and local fire and health authorities. Although a majority of inspections were timely, it is important for the Bureau to ensure inspection requirements are always met. In addition, better monitoring of facility employees is needed to ensure compliance with key health and safety requirements. It is critical that requirements such as child abuse and neglect checks and tuberculosis tests for facility employees are always met because they protect the health and safety of children at child care facilities.

Key Findings

We tested inspections of child care facilities performed by the Bureau from July 1, 2009 through March 31, 2011. Our audit found 7 of 50 child care facilities had untimely inspections. The untimely inspections ranged from 2 to 8 months late, with an average of 3.5 months late. Inspections are the primary method for the Bureau to verify child care facilities are in compliance with key health and safety requirements designed to keep children safe. NAC 432A.190 requires inspections to be made at least two times during the 12-month licensing period or once every 6 months.

We also found the Bureau did not always follow up when facilities were not in compliance with health and safety requirements. For 2 of the 50 facilities tested, there was no evidence that corrective action was taken on issues noted during inspections. One facility had eight non-compliant issues. This included findings that the facility admitted children without current immunizations and did not have an emergency plan for responding to a fire or natural disaster.

Most child care facilities we tested had timely fire and health inspections conducted by state and local fire and health authorities. However, 3 of 50 facilities did not have timely fire inspections. For two facilities, we found no evidence the Bureau contacted state or local fire authorities to request an inspection, including one that was 5 months overdue at the time of our testing. In the other instance, the request was not sent timely. In addition, 4 of 50 facilities did not have timely health inspections. One facility had not been inspected for 17 months. The other three facilities had not been inspected for at least 14 months at the time of our testing. In all three instances, the Bureau had not contacted state or local health authorities to request an inspection for these facilities. It is the Bureau's standard practice to request these inspections.

The Bureau's inspection process did not always ensure employees at child care facilities had child abuse and neglect checks required by state law. We tested inspections for 50 facilities and found 3 inspections did not have evidence the Bureau performed a child abuse and neglect check for any of the 18 employees at these facilities. In addition, we found that checks were not performed timely for 19 of 20 employees selected. NRS 432A.170 requires the Bureau to perform the check within 3 days of the person being hired. On average, the check was performed 24 days after the person was hired. Most of the delay was because the facilities did not inform the Bureau timely when employees were hired.

We found instances when problems at facilities were not detected during inspections. We tested inspections for 50 facilities and found some new employees did not have timely tuberculosis (TB) tests and some existing employees had expired TB tests. Specifically, for 10 of 29 facilities with new employees since the prior inspection, there were 22 new employees with untimely TB tests. For these new employees, the tests were performed on average 40 days after the employee was hired. In addition, 3 facilities had instances when existing employees or volunteers did not have a TB test or it was expired.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services,
Oversight of Child Care Facilities

On October 17, 2011, your office released an audit report on the Department of Health and Human Services. The Department's Health Division subsequently filed a corrective action plan on January 20, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 6 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 help ensure Bureau inspections are performed timely and child care facilities take corrective action when necessary.

Status – Fully Implemented

Agency Actions – In December 2011 the Division developed two separate policies to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made two additions to the policy and procedure manual: a policy titled Ensuring Timely Inspections; and a policy titled Corrective Action Plans – Child Care Facilities.

- The Ensuring Timely Inspections policy describes procedures for conducting facility surveys, timelines for the surveys and responsibilities of both the surveyor and provider during the inspections.

- The Corrective Action Plans – Child Care Facilities policy describes procedures for implementing a plan to assist and provide the licensee with a listing of corrections and a time line for completing the corrections to comply with state law.

Recommendation 2

Revise management reports to include information that helps ensure timely Bureau inspections and follow-up issues requiring corrective action.

Status –Fully Implemented

Agency Actions – In December 2011 the Division developed a policy to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made an addition to the policy and procedure manual, a policy titled Notice of Violation Policy. The policy describes the Notice of Violation process and how the Division ensures facilities are coming into compliance with regulations. Additionally, the Division provided examples of the monthly supervisors' case tracking form that includes information used to help ensure inspections are timely and issues requiring corrective action are followed up by managers.

Recommendation 3

Develop policies and procedures for monitoring child care facilities to help ensure fire and health inspections are performed timely.

Status – Fully Implemented

Agency Actions – In March 2012 the Division developed two separate policies to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made two additions to the policy and procedure manual: a policy titled Ensuring Timely Health and Fire Inspections – Child Care Facilities – Southern Nevada; and a policy titled Ensuring Timely Health and Fire Inspections – Child Care Facilities – Northern Nevada. The policies describe responsibilities for providers and agency surveyors for initial and renewal licensee inspections and requirements specific to Las Vegas providers. Additionally, the Division provided an example of a memorandum to child care providers notifying them of changes to the procedures for fire and health inspection requests and possible sanctions if providers do not comply with state law.

Recommendation 4

Revise management reports to include information helpful in monitoring the timeliness of health and fire inspections.

Status – Fully Implemented

Agency Actions – The Division created a spreadsheet that includes information helpful in monitoring timeliness of health and fire inspections. The information includes when inspections are due, the type of inspection required, when the provider requested the inspection, and when the inspection was completed. A staff member has been assigned to track the spreadsheet on a daily basis to ensure fire and health inspection requests are being completed.

Recommendation 5

Develop procedures to help ensure employees at child care facilities have timely child abuse and neglect checks.

Status – Fully Implemented

Agency Actions – In December 2011 the Division developed a policy to comply with the recommendation. The Division's Bureau of Health Care Quality and Compliance made an addition to the policy and procedure manual, a policy titled Ensuring Timely Child Abuse and Neglect Checks – Child Care facilities. The policy establishes procedures for providers and the Division to follow to obtain, review and act upon information about employees working with children and to ensure they have timely child abuse and neglect checks.

Recommendation 6

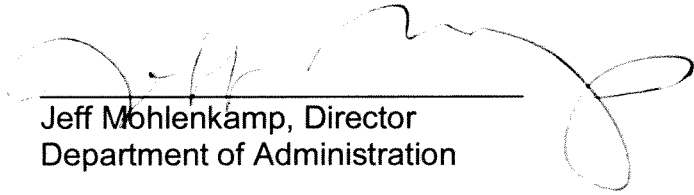
Revise inspection procedures to detect employees at child care facilities that have not had tuberculosis tests before working with children, or whose tests have expired.

Status – Fully Implemented

Agency Actions – The Division revised inspection procedures to detect employees at child care facilities that have not had tuberculosis tests before working with children, or whose tests have expired. Tuberculosis test information is now part of the employee's individual training record and shows the date of the most recent test and expiration date. Additionally, the Division advised providers that all new employees must have had their tests prior to starting their position or they will be in non-compliance with child care regulations.

Paul Townsend, Legislative Auditor
July 18, 2012
Page 4

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Willden, Director, Department of Health and Human Services
Richard Whitley, Administrator, Nevada State Health Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (SAPTA) issued on April 17, 2012. Report # LA12-15.

Background

SAPTA's mission is to reduce the impact of substance abuse in Nevada by identifying and responding to the alcohol and drug concerns of Nevadans, and providing regulatory oversight and funding for community-based public and nonprofit organizations to facilitate a continuum of care through quality education, prevention, and treatment services.

In fiscal year 2011, SAPTA had 29.5 legislatively approved FTE's. The legislatively approved budget for FY's 2012 and 2013 reduced the number of FTE's to 23. There were 20 positions filled as of January 2012. SAPTA is funded primarily with federal grants and General Fund appropriations.

SAPTA expenditures were about \$25.5 million in FY 2011. SAPTA does not provide prevention and treatment services directly. Instead, it awards grant funds to community-based public and nonprofit organizations which develop programs to provide prevention and treatment services to the public. In fiscal year 2011, SAPTA paid these organizations (coalitions and treatment providers) about \$22.6 million.

Purpose of Audit

The purpose of this audit was to determine if SAPTA provided adequate fiscal oversight of subrecipients awarded federal and state grants for the prevention and treatment of substance abuse. Our audit focused on SAPTA's activities in fiscal years 2010 and 2011, but included fiscal year 2012 and prior years in some instances.

Audit Recommendations

This audit report contains nine recommendations to help ensure grant subrecipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contains seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds.

The Agency accepted the 16 recommendations.

Recommendation Status

The Agency's 60-day plan for corrective action is due on July 12, 2012. In addition, the six-month report on the status of audit recommendations is due on January 14, 2013.

Substance Abuse Prevention and Treatment Agency

Department of Health and Human Services

Summary

SAPTA has not provided adequate fiscal oversight of subrecipients awarded grants for the prevention and treatment of substance abuse. In fiscal years 2010 and 2011, these subrecipients received over \$46 million to provide prevention and treatment services to Nevada citizens. Without adequate fiscal oversight, there is undue risk that subrecipients will not use grant funds for intended purposes.

We found SAPTA needs to improve its oversight of subrecipients to ensure audit requirements are met. Independent audits are one of the primary means SAPTA uses to ensure subrecipients spend grant funds for their intended purposes. SAPTA accepted audit reports on subrecipients that did not include procedures to determine whether funds were spent in accordance with grant requirements. In addition, some reports were not submitted timely. Furthermore, SAPTA did not always verify subrecipients corrected problems noted in audit reports. In one instance, SAPTA continued to fund a subrecipient despite no audit report submissions for 3 years. SAPTA subsequently cut off funding and notified federal and state authorities of concerns the subrecipient misused funds.

We also found SAPTA's direct fiscal monitoring of subrecipients was inadequate. The agency visits subrecipients periodically to determine whether they comply with grant requirements. The fiscal monitoring visits, along with audits, are the primary means to provide fiscal oversight of subrecipients. Problems noted included untimely monitoring visits of subrecipients, not documenting steps performed on visits, and untimely follow-up on problems found at subrecipients.

Key Findings

We examined the last two years' audit reports on the 5 coalitions and 10 treatment providers that were awarded the most funds from SAPTA in fiscal years 2010 and 2011. The 15 subrecipients were awarded nearly \$34 million in those years, which was 73% of the total awarded by SAPTA. Eight of 30 (27%) audit reports did not examine whether funds were used for the grants' intended purposes or indicate compliance with other grant requirements.

Subrecipients submitted audit reports late in over half of the reports we tested. In 11 of 16 (69%) late reports, SAPTA did not follow up after the audit report was late, or waited more than 30 days to contact them. Furthermore, SAPTA imposed sanctions on only one subrecipient, and only after the subrecipient did not submit audit reports for 3 consecutive years.

For 9 of the 14 (64%) audit reports that reported findings, the subrecipients did not comply with SAPTA's requirement to submit corrective action for audit findings. Further, SAPTA did not request the subrecipients provide documentation of corrective action for 7 of the 9 reports.

SAPTA did not detect that a subrecipient provided forged audit reports for several years. Forged reports were submitted for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, we contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. As required by NRS 218G.140(2), we reported this information to the Governor, each legislator, and the Attorney General.

None of the five coalitions tested had timely fiscal monitoring visits. Monitoring visits were late from 6 months to over 3 years, and averaged 20 months past due. Half of the 10 treatment providers had untimely fiscal monitoring site visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly \$7.1 million in fiscal years 2010 and 2011.

Documentation of procedures performed on monitoring visits was not sufficient to verify that staff properly performed important steps. Two of five fiscal monitoring forms for coalitions, and four of nine treatment providers, had insufficient documentation to support conclusions the reviewer reached.

Three of the subrecipients' fiscal monitoring forms we tested reported problems that required follow-up. Follow-up to make sure the coalitions took timely, appropriate corrective action was insufficient in all cases. For example, a monitoring visit in April 2011 noted significant concerns about a subrecipient's use of funds, yet SAPTA continued making payments through September 2011.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 14, 2013

Subject: Legislative Audit of the Division of Mental Health and Developmental Services Substance Abuse Prevention and Treatment Agency

On April 17, 2012, your office released an audit report on the Department of Health and Human Services, Division of Mental Health and Developmental Services Substance Abuse Prevention and Treatment Agency (Division). The Division subsequently filed a corrective action plan on July 3, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 16 recommendations contained in the report. The extent of the Division's compliance with the audit recommendations is as follows:

Recommendation 1

Incorporate the minimum requirements for limited scope audits into the subgrant agreements with subrecipients.

Status – Fully Implemented

Agency Actions – The Division has incorporated the minimum requirements for limited scope audits into the subgrant agreements with subrecipients. We reviewed the Notice of Award, Appendix G10 stating minimum limited scope audit requirements, and correspondence from the Division to the providers informing them of the requirements.

Recommendation 2

Develop procedures to help ensure audit reports that subrecipients submit meet requirements in the subgrant agreements, including actions to take when the requirements are not met.

Status – Partially Implemented

Agency Actions – The Division has developed procedures to help ensure audit reports that subrecipients submit meet requirements in the subgrant agreements, including actions to take when the requirements are not met. We reviewed the subgrant award, Appendix G10 stating minimum limited scope audit requirements, and draft policies to implement the procedures. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 3

Develop procedures to ensure subrecipients submit audit engagement letters timely to help ensure audit reports meet requirements.

Status – Partially Implemented

Agency Actions – The Division has developed procedures to ensure subrecipients submit audit engagement letters timely to help ensure audit reports meet requirements. We reviewed draft policies requiring letters of engagement within three months of the subgrantees' fiscal year closure. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 4

Develop procedures to ensure subrecipients submit audit reports timely, including a process for imposing sanctions on subrecipients that do not comply.

Status – Partially Implemented

Agency Actions – The Division has developed procedures to ensure subrecipients submit audit reports timely, including a process for imposing sanctions on subrecipients that do not comply. We reviewed draft policies requiring historical data be maintained and tracked. We also reviewed tracking and historical data spreadsheets. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 5

Develop audit report review procedures to ensure subrecipients take timely, appropriate corrective action on findings noted in audit reports.

Status – Partially Implemented

Agency Actions – The Division has developed audit report review procedures to ensure subrecipients take timely, appropriate corrective action on findings noted in audit reports. We reviewed draft policies requiring subrecipients comply with corrective action plans that provide for progressive enforcement steps. The Division also provided a tracking spreadsheet used to track compliance. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 6

Revise procedures to ensure subrecipients submit original audit reports with documentation the subrecipients' governing boards approved the reports presented by independent auditors.

Status – Fully Implemented

Agency Actions – The Division has revised procedures to ensure subrecipients submit original audit reports with documentation the subrecipients' governing boards approved the reports presented by independent auditors. We reviewed a FY11 and a FY12 subgrant award and the revised assurances to identify the revision.

Recommendation 7

Review audit reports, once completed, on the subrecipient who submitted forged audit reports to determine if additional grant funds were misused and if so, determine what action to take, including obtaining repayment of misused funds.

Status – Fully Implemented

Agency Actions – The Division represents it has reviewed audit reports on the subrecipient who submitted forged audit reports to determine if additional grant funds were misused and it determined some expenditures should be repaid to the Division; an independent audit confirmed the Division received the agreed repayment. The Division further represents it reported this matter to the Legislative Commission (Commission) on September 14, 2012.

Auditor's Comment – We observed that the Division was on the Commission's Agenda for September 14, 2012, but the minutes were not available at the time of our review.

Recommendation 8

Revise subgrant agreements with coalitions to include requirements for coalitions to ensure prevention providers submit the appropriate audit reports timely and for coalitions to verify audit findings are corrected.

Status – Fully Implemented

Agency Actions – The Division has revised subgrant agreements with coalitions to include requirements for coalitions to ensure prevention providers submit the appropriate audit reports timely and for coalitions to verify audit findings are corrected. We reviewed coalition awards made prior to the audit, for FY12, and after the audit, for FY13. We identified the revisions in the FY13 coalition award requirements.

Recommendation 9

Provide periodic training to coalitions to help ensure compliance with requirements to obtain and review audit reports of prevention providers and verify corrective action on audit findings.

Status – Fully Implemented

Agency Actions – The Division has provided periodic training to coalitions to help ensure compliance with requirements to obtain and review audit reports of prevention providers and verify corrective action on audit findings. We reviewed training logs and agendas for April and August 2012. The Division represents it will also provide training in February 2013 and provide coalition fiscal updates quarterly.

Recommendation 10

Develop and implement a risk-based approach to determine the nature, extent, and timing of fiscal monitoring activities performed on subrecipients.

Status – Partially Implemented

Agency Actions – The Division has developed a risk-based approach to determine the nature, extent, and timing of fiscal monitoring activities performed on subrecipients. We reviewed a risk assessment policy that provides for fiscal

monitoring with a review range of six months to three years based upon risk; monitoring can also be selected based on other factors such as requests for assistance or performance. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 11

Develop desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance monitoring steps.

Status – Fully Implemented

Agency Actions – The Division has developed desk procedures to guide staff that conduct fiscal monitoring site visits, including how to best document performance monitoring steps. We reviewed the Division's Fiscal Monitor Process/Procedure from the Grants & Projects Analyst's Desk Manual. We found references to selection, site visits, documentation, review, reports, monitoring, follow-ups/tracking, and the Division's Sanctions Policy.

Recommendation 12

Provide greater supervisory oversight to ensure sufficient, timely follow-up of problems noted on fiscal monitoring reports in accordance with policy.

Status – Fully Implemented

Agency Actions – The Division has provided greater supervisory oversight to ensure sufficient, timely follow-ups of problems noted on fiscal monitoring reports in accordance with policy. The Division provided a Master Fiscal Monitor List Maintenance Policy maintained by a Division analyst conducting fiscal monitoring. The Division also provided a Master Monitor List that schedules monitoring site visits and the Master Monitor List/CAPs Fiscal tracking spreadsheet that tracks the providers' response time. We were able to relate initial monitoring dates between the list and the spreadsheet.

We observed that providers typically provided Corrective Action Plans (CAP) within due dates. We also observed that action items due the same day as the CAP were completed timely.

Recommendation 13

Revise written procedures over fiscal monitoring to provide clear guidance for the length of time to allow subrecipients to provide documentation and respond to questions.

Status – Partially Implemented

Agency Actions – The Division has revised written procedures over fiscal monitoring to provide clear guidance for the length of time to allow subrecipients to provide documentation and respond to questions. We reviewed the Division's Fiscal Monitoring – General Information Policy which provides due dates for the Division to provide its fiscal monitoring report and the providers' due dates to submit the responding CAP. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 14

Develop procedures to address subrecipients who fail to correct problems timely, including imposing sanctions or special conditions for high-risk subrecipients.

Status – Partially Implemented

Agency Actions – The Division has developed procedures to address subrecipients who fail to correct problems timely, including imposing sanctions or special conditions for high-risk subrecipients. We reviewed the Division's Sanction Policy that includes withholding payments and prohibitions on future grants. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

Recommendation 15

Modify written procedures to require coalitions submit reports on fiscal monitoring of prevention providers with corrective action plans and follow-up performed.

Status – Partially Implemented

Agency Actions – The Division has modified its written procedures to require coalitions submit reports on fiscal monitoring of prevention providers with corrective action plans and follow-ups performed. We reviewed the Notice of Subgrant Award requiring monitoring and reporting on subrecipients. We also reviewed the Division's process for coalition oversight of subrecipients. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

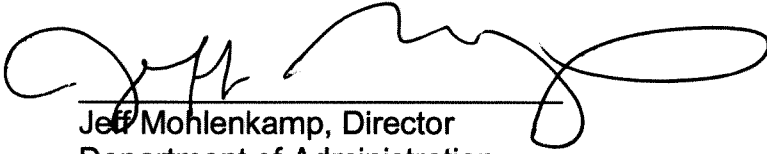
Recommendation 16

Develop procedures to guide coalitions performing fiscal monitoring activities, including how to document work performed and following up on problems found during a site visit of prevention providers.

Status – Partially Implemented

Agency Actions – The Division has developed procedures to guide coalitions performing fiscal monitoring activities, including how to document work performed and following up on problems found during a site visit of prevention providers. We reviewed the Division's process for coalition oversight of subrecipients, including coalitions providing copies of monitoring reports, CAPs, and required actions. The Division represents the procedure will be submitted to the SAPTA Advisory Board for approval in January 2013.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Mike Willden, Director, Department of Health and Human Services
Richard Whitley, Administrator, Division of Mental Health and Developmental Services
Deborah McBride, Director, Substance Abuse Prevention and Treatment Agency
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of Child and Family Services issued on October 17, 2011. Report # LA12-05.

Background

The mission of the Division is to provide support and services to assist Nevada's children and families in reaching their full human potential. The Division is primarily responsible for: (1) child protective and welfare service delivery in rural Nevada and oversight of urban county-operated child protective and welfare services, (2) children's mental/behavioral health treatment and residential services in urban Nevada, and (3) statewide juvenile justice services including state-operated youth training centers and youth parole.

In fiscal year 2011, the Division had expenditures of about \$209 million. The Division is funded primarily by state appropriations and federal funds. General fund appropriations were about \$131.5 million in fiscal year 2011. Federal funds, such as Medicaid and Title IV-E, were the second largest revenue source. The Division has offices in Carson City, Las Vegas, Reno, and various sites in rural Nevada, with the Administrator's office in Carson City. For fiscal year 2011, the Division had 1,011 authorized positions.

Purpose of Audit

The purpose of this audit was to determine if the Division: (1) has performance measures that are reliable and useful in assessing program outcomes, and (2) effectively monitors service contracts. Our audit focused on the Division's performance measure and contract activities from July 1, 2009 through March 31, 2011.

Audit Recommendations

This audit report contains two recommendations to improve the reliability of performance measures and usefulness in assessing program outcomes. In addition, there are two recommendations to enhance controls over service contracts.

The Division accepted the four recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Division of Child and Family Services

Department of Health and Human Services

Summary

Key performance measures reported by the Division were often not reliable. It is important for performance information to be reliable because it 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. Further, we found a majority of the Division's performance measures were indicators of the agency's efforts (outputs), rather than measures that demonstrate the impact of its efforts (outcomes). Increasing the number of outcome measures would provide useful information to management and oversight bodies such as the Governor and Legislature in making budget and policy decisions.

Overall, the Division has an effective process for monitoring service contracts. However, the Division could improve its monitoring to verify all insurance requirements are continuously met over the life of the contract. In addition, because one contractor's invoices did not include adequate detail, the Division had limited assurance amounts billed were valid, accurate, and in accordance with terms of the contract.

Key Findings

The reported results for 8 of 20 performance measures we tested were not reliable. The reported results were unreliable because they were not supported by competent underlying records or used an inappropriate methodology. We found four of the measures tested did not have competent underlying records and four did not use a sound methodology. These problems with reliability were caused by the lack of written policies and procedures on how results were to be computed and by inadequate review.

We identified a total of 154 performance measures that were reported by the Division in the 2011-2013 Executive Budget and other budget-related documents. We analyzed these measures and found 73% were output measures and 16% were outcome measures. The remaining were either effectiveness or quality measures. The Department of Administration's budget instructions to agencies recommend outcome measures because they demonstrate the impact the agency is having on a stated issue or problem. Further, the Federal Office of Management and Budget strongly encourages the use of outcome measures because they are more meaningful to the public than outputs. We surveyed seven states with programs similar to the Division's. All seven states indicated the use of outcome performance measures has resulted in positive feedback from legislators, governors, and the public.

The Division did not always obtain proof of insurance from contractors to verify all insurance requirements were met throughout the life of the contract. For 6 of 27 contracts with insurance requirements, the Division did not obtain proof of insurance for all required policies. The types of insurance that were not always verified included general liability, professional liability, workers' compensation, and auto. The length of time ranged from 3 months without general liability to almost 2 years without workers' compensation. When contractors do not have all required insurance, there is an increased risk to the State. Although the agency's written procedures require contract monitors to ensure insurance requirements are met, regular monitoring of required insurance policies was not performed.

For one of the 30 contracts we tested, the invoices were not adequate because they did not indicate how the amount billed was calculated and other details required by the contract. As a result, the Division did not have reasonable assurance it paid the proper amount. This contractor was paid about \$569,000 during fiscal years 2010 and 2011 for support services provided to families of children with severe emotional disabilities. The State Administrative Manual states invoices must describe all work performed in detail and by whom it was performed. Further, one of the attachments to this contract states invoices are to include specific data regarding cost, client, and referral source.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Department of Health and Human Services,
Division of Child and Family Services

On October 17, 2011, your office released an audit report on the Department of Health and Human Services, Division of Child and Family Services. The Division subsequently filed a corrective action plan on January 18, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

There were 4 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 on the compilation of performance measures to ensure reported results are reliable, including retention of supporting documentation and supervisory review of calculations and methodology.

Status – Fully Implemented

Agency Actions – In January 2012, the Division developed policies and procedures on the compilation of performance measures to ensure reported results are reliable, including retention of supporting documentation and supervisory review of calculations and methodology. The policy defines types of performance measures and how the Division uses them to monitor and adjust services. The policy proscribes a retention schedule for documentation

supporting the performance measures and identifies specific responsibilities to program staff for collecting and reviewing the performance measures.

Recommendation 2

Increase the number of outcome performance measures to help agency managers, the Governor and the Legislature, and other oversight bodies make budget and policy decisions about the Division's operations.

Status –Fully Implemented

Agency Actions – The Division used the new policy resulting from recommendation 1 to develop a new list of performance measures. These measures reflect outcome standards and criteria previously established by the federal government and other national organizations that deal with child and family services. The Division used the new performance measures to support the Governor's Priority and Performance Based Budgeting initiative for the upcoming 2013 legislative session.

Recommendation 3

Revise contract procedures to help ensure contract monitors obtain proof of insurance for all required policies throughout the life of the contract.

Status – Fully Implemented

Agency Actions – The Division revised contract procedures to help ensure contract monitors obtain proof of insurance for all required policies throughout the life of the contract. The revised procedures assign responsibility for complying with contract insurance requirements to the contract originator and assign the contract compliance manager responsibility for notifying the contract monitor when the insurance is set to expire. The Division's contract compliance manager is responsible for entering insurance information into the contract summary system. The revised procedures designate the contract summary system as the record of compliance for insurance requirements for all Division contracts.

Recommendation 4

Review contracts to ensure vendor invoices have information necessary to verify charges are accurate and invoices are properly reviewed to verify services charged were provided.

Status – Fully Implemented

Agency Actions – The Division implemented a new statewide Office Voucher Cover Sheet to review contracts to ensure vendor invoices have information necessary to verify charges are accurate and invoices are properly reviewed to verify services charged were provided. The cover sheet summarizes invoice activity and provides a checklist for fiscal staff to review the payment request and payment voucher entries. These procedures help ensure charges conform to appropriate state law and guidelines, and reconcile with state financial tracking systems.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Michael J. Willden, Director, Department of Health and Human Services
Amber Howell, Administrator, Division of Child and Family Services
Steve Weinberger, Administrator, Division of Internal Audits

Review Highlights



Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on October 17, 2011. Report # LA12-08.

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.

We identified 52 governmental and private facilities that meet the requirements of NRS 218G: 19 governmental and 33 private facilities. In addition, 150 Nevada children were placed in 22 facilities in 11 different states as of June 30, 2011.

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, 2010, through June 30, 2011, we received 1,253 complaints from 23 Nevada facilities. The remaining 29 facilities reported that no complaints were filed by youths throughout the year.

Purpose of Reviews

Reviews were conducted pursuant to the provisions of NRS 218G.570 through NRS 218G.585. The report includes the results of our reviews of 6 children's facilities, unannounced site visits to 10 children's facilities, and surveys of 52 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, 2009. In addition, we discussed related issues and observed related processes during our visits.

Review of Governmental and Private Facilities for Children

October 2011

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at five of the six facilities we reviewed provide reasonable assurance that they adequately protected the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of youths in their care. In addition, during the 10 unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the facilities.

The policies, procedures, and processes in place at one facility, Eagle Quest of Nevada, Inc., did not provide reasonable assurance that it adequately protects the health and safety of the youths in its care. Eagle Quest is a foster care agency that recruits foster parents and places youths in the foster parents' homes or in homes provided by the agency. During the year ended June 30, 2010, the agency had an average of 38 homes. We visited five of Eagle Quest's foster homes.

Eagle Quest did not ensure foster parents maintained accurate documentation of medications prescribed or administered. In addition, it did not ensure foster homes were free of safety hazards or in a safe, healthful condition. We observed significant issues at one of Eagle Quest's higher level of care homes. As a result, we contacted Clark County's Department of Family Services, which began an investigation. The six foster children in the home were moved to other homes that evening. In addition, one youth's medication file contained three different medication logs for the same medication for the same month. Due to the lack of physician's prescriptions and orders, as well as transcription errors on the medication logs, we were unable to determine if the youth was overmedicated, undermedicated, or if the medication logs were erroneously completed.

Facility Observations

All six facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from youths' computer use and access to social networking sites to facilities' inventory and control of keys.

Medication administration processes and procedures need improvement at all six facilities. Youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at five of six facilities reviewed. This includes missing evidence of physicians' orders at four of six facilities and missing medication administration records at four of six facilities. In addition, youths did not always receive medications timely at three of six facilities. Three of six facilities need to develop or update their over-the-counter standing order forms. A standing order form identifies over-the-counter medications a facility may administer to youths.

Recent actions should help improve medication administration. In our Review of Governmental and Private Facilities for Children report issued in December 2010, we recommended all facilities strengthen medication management training. Based on the information provided by 50 facilities, 13 facilities' staff (26%) had participated in training between December 1, 2010, and June 30, 2011. In addition, the 2011 Legislature passed Senate Bill 246 to require children's facilities to adopt a policy concerning the administration and management of medications. The bill also requires facilities to ensure employees who administer medication receive a copy of and understand the policy.

Five of the six facilities reviewed need to improve their background check policies and processes. Two facilities did not obtain dispositions of cases against employees when background checks showed arrests with no dispositions. In one instance, facility management requested the employee provide dispositions for arrests; however, there was no evidence management received or reviewed the dispositions. As a result, the employee continued employment with a felony conviction for possession and trafficking of a controlled substance for 2 years after documentation of the arrest was received. Other weaknesses noted during reviews included a facility using background checks based on names and social security numbers rather than fingerprints, files not always containing evidence a caregiver was fingerprinted; and an employee not being fingerprinted until 16 months after her hire date.

In our Review of Governmental and Private Facilities for Children report issued in April 2010, we recommended the Legislature consider enacting legislation to strengthen employee background check requirements for all types of facilities that provide residential services to youths. During the 2011 Legislative Session, the Legislature passed Assembly Bill 536. This bill requires fingerprint criminal history checks of employees and residents over the age of 18 for all types of facilities and requires employees be supervised until the results of the background checks are received. This bill specifies the convictions that would require termination of employees and requires fingerprint criminal history checks of all employees be conducted at least every 5 years following the initial background check.

Review Highlights



Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children, April 2012 issued on April 17, 2012. Report # LA12-16.

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, 2011, we had identified 52 governmental and private facilities that meet the requirements of NRS 218G: 19 governmental and 33 private facilities. In addition, 150 Nevada children were placed in 22 facilities in 11 different states as of June 30, 2011.

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, 2011, through December 31, 2011, we received 541 complaints from 24 facilities in Nevada. Thirty-five 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. The report includes the results of our reviews of 5 children's facilities, unannounced site visits to 7 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 include an examination of policies, procedures, processes, and complaints filed since July 1, 2010. In addition, we discussed related issues and observed related processes during our visits.

Review of Governmental and Private Facilities for Children

April 2012

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at 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. In addition, during the seven unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the facilities.

Facility Observations

All five facilities reviewed need to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated range from a timeframe to complete a youth's initial treatment plan, including when the plan should be reviewed and revised, to the control and security of keys, tools, and kitchen utensils.

Medication administration processes and procedures need improvement at all five facilities. The medication administration process should include documentation of medications administered to youths, controls over prescribed medications, and the process used to ensure the accuracy of medication files and records. Youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of five facilities reviewed. Some youths' files were missing evidence of physicians' orders at three of five facilities. At one facility, some youths' files were missing up to 5 months of medication administration records. In addition, medication files and records did not always contain evidence of independent review at three of the five facilities.

Two of five facilities needed to develop or update their over-the-counter standing order forms. A standing order form identifies over-the-counter medications a facility may administer to youths. This form helps ensure youths take only medications approved or recommended by the Federal Food and Drug Administration.

Facilities' Implementation of New Medication Policy Requirements

During the 2011 Legislative Session, the Legislature passed Senate Bill 246. This bill, effective January 1, 2012, requires children's facilities to adopt policies to:

- Document the orders of the treating physician of a child;
- Administer medication to a child;
- Store, handle, and dispose of medication;
- Document the administration of medication and any errors in the administration of medication;
- Minimize errors in the administration of medication;
- Address errors in the administration of medication;
- Ensure each employee who administers medication receives a copy of and understands the policies.

In order to assess the facilities' progress with implementing the requirements in Senate Bill 246, we requested each facility subject to a review by the Legislative Auditor submit information on the facility's implementation of the requirements contained in the bill. This request was made to the 52 facilities identified as of June 30, 2011, and an additional 10 facilities identified since June 30, 2011. However, six facilities had either closed or no longer met the definition of a governmental or private facility pursuant to NRS 218G.515 through 218G.535. Therefore, a total of 56 facilities were surveyed regarding their implementation of the bill's requirements.

As of March 15, 2012, we had received responses from 52 facilities. We will assess each facility's compliance with the requirements contained in the bill as we conduct future reviews and unannounced visits.

Review Highlights



Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on December 13, 2012. Report # LA12-22.

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, 2012, we had identified 60 governmental and private facilities that met the requirements of NRS 218G: 20 governmental and 40 private facilities. In addition, 149 Nevada children were placed in 26 facilities in 13 different states as of June 30, 2012.

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, 2011, through June 30, 2012, we received 1,039 complaints from 34 facilities in Nevada. Twenty-six facilities reported that no complaints were filed during this time.

Purpose of Review

Reviews were conducted pursuant to the provisions of NRS 218G.570 through 218G.585. The report includes the results of our reviews of 6 children's facilities, unannounced site visits to 12 children's facilities, and a survey of 60 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, 2010. In addition, we discussed related issues and observed related processes during our visits.

Review of Governmental and Private Facilities for Children

December 2012

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at the six 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. In addition, during the 12 unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the facilities.

However, a lack of adequate supervision, including employee evaluations and training, may have contributed to numerous incidents regarding inappropriate staff behavior at Oasis On-Campus Treatment Homes, which could impact the safety and welfare of the children residing at the facility. These incidents, including inappropriate use of physical force and lack of supervision of the children by staff, were reported to Oasis's licensing agency, the Clark County Department of Family Services (DFS), in the past 2 years. Some of the reports were unsubstantiated by DFS and others were still being investigated. These reports and the subsequent DFS investigation resulted in an Oasis required action plan in June 2012.

Many of the facilities had common weaknesses. For example, policies and procedures needed to be developed or were outdated. In addition, medication administration processes and procedures needed to be strengthened.

Facility Observations

All six facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from staff duties as mandatory reporters of suspected child abuse and neglect, to contraband searches, including documentation of searches.

In addition, medication administration processes and procedures needed improvement at five of the six facilities. The medication administration process should include documentation of medications administered to youths, controls over prescribed medications, and the process used to ensure the accuracy of medication files and records. Youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of the six facilities. Some youths' files were missing evidence of physicians' orders at two of the six facilities. At one facility, a youth's file indicated medication was administered on days that did not exist. In addition, medication files and records did not always contain evidence of independent review at three of the six facilities.

Facilities Need to Improve Implementation of Medication Policies

During the 76th Session of the Nevada Legislature (2011), the Legislature passed Senate Bill 246. Effective January 1, 2012, this bill requires children's facilities to adopt policies to document medication administered and medication errors, and establish processes to minimize and address errors.

Don Goforth Resource Center had not developed any policies or procedures related to medication administration at the time of our review. Senate Bill 246 requires all public and private institutions to which a court commits a child to adopt a policy covering several facets of medication administration. Furthermore, it requires each institution to ensure each employee who will administer medication receives a copy of and understands the policy.

During our reviews of the six facilities included in this report, we determined that five facilities either had incomplete medication documentation or made errors during the administration of medications that went undetected until our review. Facilities could reduce the incidence of undetected errors by implementing a process, such as an independent review, to identify errors and improve the quality of medication administration processes.

An independent review is a process to review medication administration records and identify potential errors, fraud, or abuse. For example, Desert Willow Treatment Center has assigned staff who are not routinely involved in the medication administration process to compare medication records with physician and pharmacy orders, and verify medication records are complete. The process has contributed to the facility identifying, documenting, and addressing errors. In addition, the facility has included this process in its policies and procedures.

Audit Highlights



Highlights of Legislative Auditor report on the Employment Security Division issued on December 13, 2012. Report # LA12-24.

Background

The Employment Security Division is a division of the Department of Employment, Training and Rehabilitation. The Division provides comprehensive employment and training services to Nevada businesses and workers and oversees the collection of unemployment taxes, pays unemployment benefits, and performs employment services to match job seekers with employers.

The Division's Unemployment Insurance (UI) program is a joint state/federal insurance system that provides temporary partial wage replacement to protect workers against the hardships of unemployment. The UI program provides monetary benefits to individuals who become unemployed through no fault of their own and who meet established qualifications.

The Division has been significantly impacted by the nationwide economic recession. Nevada's unemployment rate has significantly exceeded the national average since 2008. Consequently, average weekly benefit claims increased from about 48,000 in 2008 to a high of more than 142,000 in 2010. To pay these claims, the Division has had to borrow more than \$1.1 billion from the federal government when trust fund reserves and tax collections were insufficient to cover claims. As of September 30, 2012, the state owed about \$676 million and has paid \$46.5 million in interest on amounts loaned to the state.

Purpose of Audit

The purpose of the audit was to determine if certain control activities related to the verification of continued claimant eligibility were adequate to prevent and detect unemployment claim overpayments. This audit included a review of the Division's eligibility activities during fiscal year 2012 and prior fiscal years in certain instances.

Audit Recommendations

This audit report contains 12 recommendations to improve controls over assessing the continued eligibility of claimants who are incarcerated, deceased, collecting workers' compensation, or have returned to work.

The Division accepted the 12 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on March 13, 2013. In addition, the six-month report on the status of audit recommendations is due on September 13, 2013.

Employment Security Division

Department of Employment, Training and Rehabilitation

Summary

Implementing certain processes can help the Division identify and prevent payments to individuals not meeting ongoing eligibility requirements. Specifically, the Division needs to compare claimant information with external sources such as records of incarceration and death. Furthermore, the Division does not have assurance claimants are not receiving workers' compensation and unemployment benefits concurrently because the Division is not requesting or comparing records with insurance providers as required by statute. Through the development of data comparisons with state and local entities, statute revisions ensuring access to records, and improvements to policies and procedures, the Division can significantly reduce improper payments to these types of ineligible individuals.

Enhancements to current processes in the Division's program to identify claimants who have returned to work can further reduce and identify improper payments to unemployed claimants. Specifically, further application of the U.S. Department of Labor's (DOL) new hire recommended operating procedures and practices used by other states with low improper payment rates could better identify and stop payments to ineligible recipients. Furthermore, policies and procedures and supervisory review enhancements are necessary to ensure the program consistently and properly classifies and processes cases.

Key Findings

We estimate as much as \$5 million in improper payments could have been made to claimants who were incarcerated over the last 3 years. Our review of benefit claims paid in January 2012, identified 67 of the nearly 97,000 unemployment claimants were incarcerated in one local government detention center or a state correctional facility. These claimants received benefits of about \$241,000 during their period of confinement. We provided the Division with information regarding each claimant to allow for claims to be stopped and investigations to be initiated.

Division management indicated it does not have specific authority through state or federal law to compel detention facilities to provide records of incarceration. As a result, statutory revisions requiring facilities provide data to the Division are necessary to ensure the Division can compare claims data with incarceration records.

We identified eight instances of potential identity theft of claimants' personal identifying information by incarcerated individuals. Division policies should be updated to notify claimants their personal identifying information is being used by another individual.

Fifteen deceased claimants were found in the nearly 97,000 UI claimants paid benefits during January 2012. In 12 of 15 instances, benefits were not requested after the claimant's death; however, 3 deceased claimants received payments totaling \$40,417 after they had died. In addition, the Division needs to enhance its claims information system to prevent accounts of deceased claimants from being reopened when deceased individuals are identified.

The Division is not requesting data from private insurance carriers regarding individuals receiving disability, temporary partial disability, or rehabilitative services as a result of on the job injuries. NRS 612.265(9) requires private carriers of workers' compensation insurance to provide the Division a monthly list of individuals who received benefits and the Division is required to compare this information with claimant records to identify individuals concurrently receiving both benefits.

We identified potential for improper payments continued to exist in 154 of 497, or 31%, of cleared cases where claimants returned to work. Specifically, better scrutiny of earnings reported by claimants is needed, payment stops on claims should be made to ensure benefits are not restarted, claimants should be notified of their return to work status, and the Division needs to record pertinent information into the claims information system. Based on DOL estimates, a reduction in improper payments of 10% would yield savings of \$2.9 million per year. In addition, the Division needs to develop and enhance policies and procedures over the review process and institute a routine review of examiner cases to ensure consistent case resolutions.

Audit Highlights



Highlights of Legislative Auditor report on the Department of Motor Vehicles issued on February 2, 2012. Report # LA12-11.

Background

The Department of Motor Vehicles (DMV) is a multi-functional agency with responsibilities that include the collection and timely distribution of certain Highway Fund revenue and improving traffic safety through licensing, registration, monitoring and intervention programs. The Department is comprised of eight divisions: Director's Office, Administrative Services, Field Services, Central Services and Records, Compliance Enforcement, Motor Carrier, Management Services and Programs, and Motor Vehicle Information Technology.

Total revenues collected by the Department during fiscal year 2011 exceeded \$1 billion which is distributed to the federal government, State Highway Fund, local governments, State General Fund, and other recipients. The Department maintains 18 field offices statewide and has contracted with seven rural counties to perform certain DMV functions. The Department also offers access to certain services through alternate sources including its website and 27 kiosks located in DMV offices and partner locations statewide.

Purpose of Audit

The purpose of this audit was to determine whether sufficient controls are properly functioning over certain Department revenues and assets, and evaluate the reliability and adequacy of performance measures. The audit included a review of control activities over certain assets and revenues from July 1, 2009, to December 31, 2010, and prior fiscal years in some areas. Additionally, we reviewed performance measures for fiscal years 2008 to 2010.

Audit Recommendations

This audit report contains 16 recommendations to improve administrative controls. These recommendations are needed to account for registration decals; improve reconciliations; and enhance controls over driver licenses, DMV system access, and administrative citations. Furthermore, the Department should enhance its performance information.

The Department accepted the 16 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due October 29, 2012.

Department of Motor Vehicles

Summary

The Department needs to improve its administration of controls over certain processes to ensure its revenues and assets are properly safeguarded and accounted for. We found the Department can improve its control procedures over vehicle registration decals and reconciliations of its internal records to the state accounting system. Additionally, improvements are needed to controls over the issuance of driver licenses and allowing access to the DMV information system. Enhancements in these areas will help reduce risks of loss, fraud, and abuse.

The Department should also enhance its performance management system to include more outcome oriented measures and better align its measures with programs and goals. Additionally, documentation supporting reported performance measures needs to be better maintained. These improvements should benefit the Department in evaluating the success of its programs.

Key Findings

Enhancements are needed to the Department's controls over vehicle registration decals to ensure they are properly accounted for and safeguarded. We found records used to account for decals were inaccurate and unreliable in 13 of 14 months tested and some decals could not be readily accounted for. Additionally, forecasts used to determine future decal needs were inaccurate and contributed to overproduction of decals. Department records indicated more than 1 million decals were overproduced at a cost of about \$250,000 for fiscal years 2008 through 2011. The Department can enhance its processes and related policies and procedures to increase accountability for decals and reduce the risk of overproduction and undetected decal loss.

Improvements are needed to the reconciliations of the Department's internal accounting records to the state accounting system. Reconciliations were not accurate or complete with unreconciled balances as high as \$2.5 million and unsupported adjustments of more than \$1.3 million. Additionally, some reconciliations were not reviewed timely and procedures were not always sufficiently developed to support the reconciliation process. Although we identified no evidence of missing funds, improvements to the reconciliation process and procedures would enhance the Department's ability to ensure revenues are properly recorded and distributed.

Improvements are needed to the controls over monitoring certain transactions in field offices. Specifically, controls over the review of driver license applications and supporting documentation need to be formalized to ensure the integrity of licenses issued. Additionally, controls need to be enhanced to ensure vehicle registration tax exemptions are only issued to qualified individuals.

Criminal history background checks were not always completed before individuals were allowed to access and perform transactions in the DMV information system. Two of eight individuals we tested in county branch offices were granted access to the system by Department personnel without having a background check. Allowing access without verification of qualification could result in unqualified individuals accessing sensitive customer information.

The Department's Motor Carrier Division has not assessed administrative fines timely on some motor carriers. As of December 31, 2010, the backlog of citations was more than 1,500 valued at an estimated \$600,000 in billable assessments. Improved timeliness in issuing assessments should result in increased probability of collections.

The Department could enhance its performance information through better coordination and alignment of its strategic planning process. First, an increase in the number of outcome oriented measures would enhance the Department's ability to measure the success of its programs. Next, the Department could enhance its alignment of performance measures with key program activities and goals. Finally, it would benefit from consolidating pertinent strategic planning information into a single planning document. These steps should help management better measure the performance of its programs and determine whether its goals are being reached.

Key performance measures reported in the Executive Budget were not reliable. We selected a sample of eight performance measures reported in the Department's Executive Budget. Our testing found that five of the eight measures lacked supporting documentation. The remaining three measures had an inaccurate description and were based on unsound methodologies. Performance measures must be reliable to ensure proper budgetary and policy decisions are made by Legislative and Department decision makers.



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: October 29, 2012

Subject: Legislative Audit of the Department of Motor Vehicles

On February 2, 2012, your office released an audit report on the Department of Motor Vehicles. The Department subsequently filed a corrective action plan on April 25, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 16 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Enhance monitoring practices and related policies and procedures to ensure vehicle registration decals are accurately accounted for and safeguarded.

Status – Fully Implemented

Agency Actions – The Department revised its policies and procedures to ensure proper accountability and safeguarding of decals. We reviewed documentation provided by the Department and determined that decals are safeguarded and accounted for.

Recommendation 2

Improve the decal forecasting process through verification of supporting decal tracking forms and offices' decal inventory control sheets.

Status – Fully Implemented

Agency Actions – The Department revised its policies and procedures to improve the decal forecasting process by reviewing supporting decal tracking forms and inventory control sheets prior to the decal forecasting process. We reviewed information used in the most recent forecast and determined that decal tracking forms and inventory control sheets are reviewed and used as a basis for decal forecasts.

Recommendation 3

Investigate the financial viability and potential benefits of implementing a print-on-demand vehicle registration decal program.

Status – Fully Implemented

Agency Actions – The financial viability and potential benefits of Print-on-demand technology were considered and deemed desirable. The Board of Examiners approved the print-on-demand vehicle registration decal program in September 2012. The new technology is expected to be implemented in March 2013, after a 90 day programming period expected to begin January 2013.

Recommendation 4

Improve reconciliation process and enhance procedures accordingly to ensure reconciliations of the Department and state accounting systems are complete, accurate, and timely.

Status – Partially Implemented

Agency Actions – The Department revised existing policies and procedures to require supervisory monitoring of the reconciliation process to ensure complete, accurate and timely reconciliation of the Department and state accounting systems. The first reconciliation will be completed within forty-five days from the end of September 2012.

Recommendation 5

Formalize written procedures and perform timely supervisory review and approval of monthly electronic fund reconciliations.

Status – Fully Implemented

Agency Actions – The Department revised existing policies and procedures to require a timely supervisory review of the electronic fund reconciliation process. The revision became effective on September 18, 2012. The first reconciliation review occurred in September 2012 for August transactions.

Recommendation 6

Enhance written monitoring procedures to define management's expectations for transaction monitoring and ensure consistent and effective review procedures are performed at each office.

Status – Fully Implemented

Agency Actions - The Department developed written procedures to enhance transaction monitoring and ensure consistent and effective procedures are performed at each office. We reviewed supporting documentation and determined that each office monitors transactions according to procedures.

Recommendation 7

Develop procedures to require verification that all registration exemptions recorded in the DMV information system are properly supported.

Status – Fully Implemented

Agency Actions - The Department developed procedures requiring proper supporting documentation for all registration exemptions recorded in the DMV information system. The new procedures became effective on June 11, 2012.

Recommendation 8

Improve procedures to ensure individuals pass criminal history background checks before being granted access to the DMV information system.

Status – Fully Implemented

Agency Actions – The Department established a new procedure that requires approval from the DMV Information Security Officer (ISO) prior to granting new employees access to the DMV information system. The ISO's interim access approval relies on a report generated by IntegraScan, a company specializing in online criminal history searches. Once an employee is cleared through IntegraScan, he/she is given temporary access to the DMV system while the Department awaits the results of the FBI background check. This process was

deemed necessary to avoid delays in hiring associated with the FBI criminal background check. The new procedure became effective on August 1, 2012.

Recommendation 9

Work with county branch offices to improve controls over the use of shared access to the DMV information system.

Status – Fully Implemented

Agency Actions – The Department made programmatic changes that eliminate the need for shared access to the DMV Information system in county branch offices.

Recommendation 10

Develop an approach to improve the timeliness of processing administrative fines and fees associated with motor carrier citations.

Status – Fully Implemented

Agency Actions – The Department developed policies and procedures to improve the timeliness of processing administrative fines and fees for motor carriers. The new policies require the Motor Carrier Division to conduct a desk audit of the records of all Motor Carrier companies or persons issued citations. The procedures detail the process to be taken by Motor Carrier staff from receipt of citations from the Nevada Highway Patrol and the Compliance Enforcement Division to completion of the desk audit, including outstanding assessments for previous violations. The procedures became effective on April 9, 2012.

Recommendation 11

Develop procedures to control the removal of citations from the Department's unprocessed citations log.

Status – Fully Implemented

Agency Actions – The Department developed procedures to address the removal of citations from the unprocessed citations log. The procedures require annual review of the citation log to identify citations that have been cancelled or deemed unable to process. Identified unprocessed citations are noted and summarized for supervisory review. The procedure became effective March 9, 2012.

Recommendation 12

Evaluate and revise performance measures to increase the percentage of measures that are outcome oriented.

Status – Fully Implemented

Agency Actions – The Department established new performance measures which are aligned with the Department's activities as defined in their FY 14/15 Priorities and Performance Based Budget. Sixteen of the 54 new performance measures, or 30%, are outcome-oriented whereas previously, only 15 percent were outcome-oriented.

Recommendation 13

Develop a process to evaluate and revise performance measures to ensure proper alignment of measures with strategic goals and key activities.

Status – Fully Implemented

Agency Actions – The Department developed a process to evaluate and revise performance measures to ensure proper alignment of performance measures with strategic goals and key activities. The process requires evaluation and revision of performance measures if appropriate, every two years in conjunction with budget preparation to ensure these measures reflect current strategic goals and key activities. The process became effective on September 7, 2012.

Recommendation 14

Develop a single strategic planning document to coordinate the Department and its divisions' strategic plan including critical components such as mission statements, goals, strategies, objectives, and performance measures.

Status – Partially Implemented

Agency Actions – The Department is in the process of developing a single strategic planning document to coordinate the Department and its divisions' strategic plans including critical components such as mission statements, goals, strategies, objectives and performance measures. The Department anticipates full implementation of this recommendation by December 31, 2012.

Recommendation 15

Ensure documentation to support performance measures is maintained consistent with state requirements.

Status – Fully Implemented

Agency Actions – The Department developed procedures to ensure that supporting documentation is maintained consistent with state requirements. Based on our discussion with Department staff and a review of supporting documentation, we determined that documentation to support performance measures is now being maintained for 3 years.

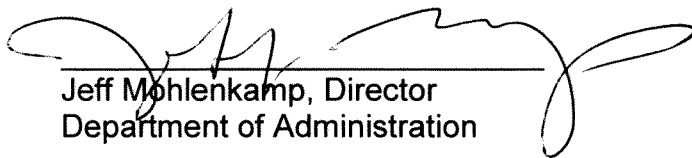
Recommendation 16

Evaluate and revise performance measure calculation methodologies and descriptions and align with supporting calculations and documentation.

Status – Fully Implemented

Agency Actions – The Department created procedures that require performance measure calculation methodologies and descriptions to be evaluated and revised every two years. Current performance measure calculation methodologies and descriptions have been evaluated, revised, and aligned with the supporting calculations and documentation.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Motor Vehicles
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of State Lands issued on September 19, 2012. Report # LA12-18.

Background

The Division of State Lands was created within the Department of Conservation and Natural Resources in 1957. The Division provides land and land use planning services to the State, its agencies, and its people. Its mission is to uphold the conservation and land resource values of Nevadans through responsible land use planning, resource programs that protect and enhance the natural environment, and land stewardship worthy of the lands entrusted to them.

As of December 2011, the Division had 18 employees located in Carson City. The Division's revenues and expenditures are recorded in one main budget account and nine other budget accounts. Agency expenditures for calendar year 2011 were about \$7.1 million. In addition to personnel and operating expenditures, many of the Division's expenditures are for grants to state and local government agencies and non-profit organizations.

During calendar year 2011, the Division's total revenue amounted to \$2.69 million, including \$1.04 million in General Fund appropriations and fees of about \$954,000. Fees are collected for various reasons, including land leases, authorizations, easements, licenses, permits, and special license plates.

Purpose of Audit

The purpose of this audit was to: (1) evaluate the reliability of the Division's performance measures used in the state's budget process, and (2) determine whether fees were collected and deposited in accordance with state laws and regulations. Our audit focused on the Division's activities for calendar year 2011.

Audit Recommendations

This audit report contains three recommendations to improve the reliability of the Division's performance measures used in the state's budget process.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

Division of State Lands

Department of Conservation and Natural Resources

Summary

The Division can take steps to strengthen the reliability of its performance measures used in the state's budget process. Some measures used in the budget process for fiscal years 2012 and 2013 were not adequately supported by underlying records and the description of one measure did not reflect what was reported. It is important for performance measures to be reliable because it 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. Reliability can be improved by enhancing written procedures on how to collect and calculate performance measurement data and providing for review of the results.

The Division has an effective process for the collection of fees. We found the Division collected and deposited fees in accordance with state laws and regulations. The Division's current process for collecting and depositing fees is much improved since the last audit. During calendar year 2011, the Division collected about \$954,000 in fee revenue.

Key Findings

The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013, specifically, the Executive Budget and the Priorities and Performance Budget. The measures are also included in the Division's strategic plan and are linked to its goals and objectives. Of the seven performance measures, we found three measures were not adequately supported. The supporting records were not retained or could not be provided. Performance measures cannot be considered reliable unless they are supported by sufficient underlying records. In addition, the Division's description for one measure did not accurately reflect the reported information. The Division lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures and insufficient review of the data collection for measures. It is important for performance measures to be reliable because it 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.

Our testing of the Division's receipts, totaling about \$380,000 of the \$954,000 collected during calendar year 2011, found the Division's controls provide reasonable assurance that fees are collected and processed accordingly. Our selection included receipts from assessments, land sales, and fees from license plates, easements, licenses, and permits. We also tested a sample of fee agreements and found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes. The Division's current process for collecting and depositing fees is much improved, as the prior audit in 2003 noted several problems with the process in place at that time. Problems noted in the prior audit included fees not always being collected and inadequate controls over the receipt of fees.

LEO DROZDOFF
Director

Department of Conservation
and Natural Resources

JAMES R. LAWRENCE
Administrator

BRIAN SANDOVAL
Governor



State Land Office
State Land Use Planning Agency
Nevada Tahoe Resource Team
Conservation Bond Program -Q1

Address Reply to

Division of State Lands
901 S. Stewart St. Suite 5003
Carson City, Nevada 89701-5246
Phone (775) 684-2720
Fax (775) 684-2721
Web www.lands.nv.gov

STATE OF NEVADA
DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

Division of State Lands

December 18, 2012

Jeff Mohlenkamp, Director
Department of Administration
209 East Musser Street – Room 200
Carson City, NV 89701

Re: Division of State Lands Audit
Plan of Corrective Action & Status Report

Dear Mr. Mohlenkamp:

Please find attached the Division of State Lands response to the Legislative Counsel Bureau's (LCB) audit which was issued on September 19, 2012. All of the recommendations by LCB were in the area of performance measures used in the state's budgeting process. Because the Agency was involved in building the budget at the time of the audit and working with updating the Division's performance indicators, we have chosen to submit a completed Plan of Corrective Action and a comprehensive Status Report pursuant to NRS 218G.250.

The report addresses the specific actions necessary to address each of the three recommendations included in the audit report. This includes better written procedures on how performance measures are computed; how the measures will be utilized and how the measures will be reviewed by the Agency.

Please let me know if there are any questions regarding the status report and how the Division addressed the recommendations.

Sincerely,


James Lawrence
Administrator

Cc w/ attachment ✓ Paul Townsend, Legislative Auditor, Legislative Counsel Bureau
Leo M. Drozdoff, Director, DCNR
Kay Scherer, Deputy Director, DCNR

The Legislative Counsel Bureau's audit of the Division of State Lands (NDSL) was issued on September 19, 2012 and included three recommendations where NDSL could improve the reliability of its performance measures. The three recommendations were:

- 1). Develop written procedures on how performance measures are computed, including the methodology and source documents used and retained.

Please see attachments for the updated procedures including how performance measures are calculated; including the methodology and the source documents utilized and retained.

NDSL is reporting that this recommendation is fully implemented.

- 2). Ensure all performance measures include a descriptive title that clearly indicates what is being measured.

Please see attachments for the updated procedures including expanded narratives which more clearly articulate what is being measured. Changes to one of the performance measures, Nevada Tahoe Regional Planning Agency – performance indicator # 6, was initiated as a result of this feedback and another was found to be duplicative and was not included in the most recent budget submittal – performance indicator # 7- Number of new authorizations to use state lands.

NDSL is reporting that this recommendation is fully implemented.

- 3). Provide for review of calculations and methodology used to compute performance measures to ensure reported results are reliable and to confirm written procedures are followed.

Please see attachments for the updated procedures including review of the calculations and computation methodology. Each performance measure now has a unique tracking spreadsheet or SQL database and a process for storing the activities of that individual quarter over time. The source material is better articulated as well as a more thorough and timely review by section heads with the Administrator, Deputy and Leadership team.

NDSL is reporting that this recommendation is fully implemented.

Because NDSL was in the process of building its budget while the audit was being conducted and was receiving feedback from the auditor about the poor quality of its existing procedures, NDSL worked to update their performance measures and the procedures as part of the budget submittal and once the final audit findings were completed. As a result NDSL is providing this status report with the associated procedure attachments and FY 13 quarter one results.

Audit Highlights



Highlights of Legislative Auditor report on the Division of Environmental Protection issued on October 17, 2011. Report # LA12-07.

Background

The Division's mission is to preserve and enhance the environment of the state to protect public health, sustain healthy ecosystems, and contribute to a vibrant economy. To accomplish its mission, the Division implements state and federal environmental laws, provides financial and technical assistance related to drinking water and wastewater systems, oversees clean-up of contaminated soil and water, administers the State Petroleum Fund, and provides public education programs.

The Division is organized into ten bureaus with offices in Carson City and Las Vegas. As of August 2011, the Division had 252 authorized positions. The Division also provides staff support to the State Environmental Commission, the Board to Finance Water Projects, and the Board to Review Petroleum Claims. The Division is primarily funded by federal grants, fees, assessments, and reimbursements. In fiscal year 2011, revenues and expenditures amounted to \$114 million, exclusive of transfers and appropriations.

Purpose of Audit

The purpose of this audit was to determine if state laws, regulations, and Division policies were followed regarding the administration of accounts receivable, reporting reliable performance measures, and the regulation of permittees. Our audit focused on the Division's activities for fiscal year 2011.

Audit Recommendations

This audit report contains 9 recommendations to assist the Division in enhancing controls over accounts receivable, performance measures, and permit issuance and fee collection.

The Division accepted the nine recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Division of Environmental Protection

Department of Conservation and Natural Resources

Summary

Developing controls to consistently turn debt over to the State Controller's Office can assist the Division with collections and ensure the removal of significantly delinquent debt. Additionally, controls to ensure subsidiary ledgers are accurate will aide in correcting quarterly reporting errors. Turning debt over to the Controller's Office and improving controls can create additional efficiencies that allow staff to concentrate efforts on other Division matters.

While the Division has a strategic plan, its performance measures can be improved by focusing on outcome based measures, maintaining supporting documentation, and developing policies and procedures. Without sound performance measures, state officials and Division management may be making decisions based on unreliable and inaccurate information. Additionally, management and stakeholders cannot effectively determine if goals and objectives are being met.

Delays were made in renewing some permits. Not promptly renewing permits may result in the Division losing revenue as permits are allowed to be active for periods beyond 5 years. Prompt issuance of permit renewals will also ensure fees are collected and permittee operations are proper.

Key Findings

Most bureaus did not actively submit debt over 60 days delinquent to the State Controller during fiscal year 2010 or 2011. Assembly Bill 87, passed during the 2009 Legislative Session, centralized the State's collection efforts to the Office of the State Controller after debts reach 60 days past due. Even though this requirement is relatively recent, the Division forwarded only about \$84,000 of its roughly \$2 million in debt.

The Division did not properly report accounts receivable on quarterly reports forwarded to the Controller's Office. Errors and inaccuracies on accounts receivable ledgers resulted in inaccurate reporting and were caused by insufficient controls and staff turnover.

Significantly aged and uncollectible debt of nearly \$2 million continues to be carried on the Division's ledgers. Some accounts related to bankrupt and abandoned facilities have been due for over a decade, and collection is highly unlikely.

Most of the Division's performance measures are non-outcome oriented. Our analysis found 30 of 37 measures were non-outcome oriented and many simply counted the number of activities or the amount of work the Division was doing. Conversely, outcome measures demonstrate the impact an agency is having on a stated issue or problem. The Legislature and the Department of Administration recommend agencies use outcome measures to help decide how well an agency is achieving its goals.

Supporting documentation for 7 of the Division's 37 performance measures reviewed was not retained. The Division was also unable to recalculate or recreate 6 of the 7 measures. Policies and procedures have not been developed over performance measures and will help ensure reported results and calculations are consistent, accurate, error free, and supporting documentation retained.

Permit renewals were delayed. We found 8 of 73 permits were not issued as old permits expired. Although the Division has decreased the frequency of delays since our last audit, we still found notable delays between permit expiration and issuance ranging from 1 year, 2 months to 7 years, 11 months. We also reviewed several types of permit listings which indicated additional expired permits of both large and small facilities. By not renewing some Water Pollution Control permits timely, the Division has already missed about \$23,000 in renewal fees.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Division of Environmental Protection

On October 17, 2011, your office released an audit report on the Department of Conservation and Natural Resources, Division of Environmental Protection (Division). The Division subsequently filed a corrective action plan on November 30, 2011. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 9 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Report debt over 60 days delinquent to the State Controller for collection in accordance with NRS 353C.195.

Status – Fully Implemented

Agency Actions – The Division is working toward reporting debt over 60 days delinquent to the State Controller for collection in accordance with NRS 353C.195. The Division has monthly reports created by its bureaus to track unpaid debt and collection efforts; the debt is billed annually and bureau staff call debtors attempting to receive payment. The Division also has a quarterly account receivable report mandated by the State Controller's Office and created by its Office of Fiscal and Personnel Management (OFPM) every 90 days. The quarterly report is used as oversight to the bureaus' actions, including collection efforts, and for transfers to the State Controller's office. After reviewing, OFPM

uses email and an Excel spreadsheet as requested by the State Controller's Office to transfer the debt.

Auditor's Comment – The Division may not be able to meet the statutory requirement of transferring the debt within 60 days. Depending upon when the debt becomes past due within the quarter, the Division may or may not transfer the debt timely pursuant to statute. NRS 353C.195 states “[u]nless an agency and the State Controller agree on a different time, an agency shall assign a debt to the State Controller for collection not later than 60 days after the debt becomes past due.”

The State Controller's Office stated the Division does not have an agreement extending the deadline. However, it stated that agencies can keep accounts when there is an effort to receive debt, such as a payment plan. The State Controller's Office verified its last receipt of transferred debt from the Division occurred on June 28, 2012, transferring debt that was slightly more than 60 days past due, which was acceptable.

Recommendation 2

Periodically update accounts receivable policies and procedures, including statutory changes, as necessary.

Status – Fully Implemented

Agency Actions – The Division updated its accounts receivable policies and procedures, including statutory changes, as necessary. For example, we reviewed the Division's 2010 and 2012 Administrative Manual and noted changes to the Accounts Receivable section that included references to statutes and administrative code.

Recommendation 3

Develop controls over accounts receivable maintenance and reporting, and consider centralization of the accounts receivable function to the Division's financial management section.

Status – Fully Implemented

Agency Actions – The Division developed controls over accounts receivable maintenance and reporting, and centralized the accounts receivable function to the Division's financial management section. We reviewed the Division's policies and procedures for accounts receivable and noted new processes. For example, new processes require OFPM to reconcile forms submitted by the bureaus,

periodically update policies and procedures, and conduct biannual audits. The Division also centralized accounts receivable functions. We reviewed debt records and transfers newly managed by the OFPM.

Recommendation 4

Review and confirm the write-off of bad debt when requested by the State Controller.

Status – Fully Implemented

Agency Actions – The Division amended its Administrative Manual to provide for the review and confirm the write-off of bad debt when requested by the State Controller. The new policies and procedures designate OFPM with this responsibility.

Auditor's Comment – The State Controller's Office confirmed it has not made a write-off request of the Division since the audit was completed.

Recommendation 5

Develop controls to ensure written policies and procedures over accounts receivable are followed.

Status – Fully Implemented

Agency Actions – The Division has developed controls to ensure written policies and procedures over accounts receivable are followed. The Division added a biannual audit to its accounts receivable procedures. We reviewed the audit record of four bureaus completed in April 2012. The Division represents it follows up with its bureaus thirty days after each audit when necessary.

Recommendation 6

Increase the number of outcome based performance measures to help Division management, the Governor, and the Legislature make fiscal and program decisions about Division operations.

Status – Fully Implemented

Agency Actions – The Division increased the number of outcome based performance measures to help Division management, the Governor, and the Legislature make fiscal and program decisions about Division operations. We reviewed past and current performance measures. We contacted the Legislative

Auditors to confirm which performance measures they considered to be “outcome” measures. The Division represents it used one of those outcome measures as a template to improve other measures. We noted three instances where the Division applied the template to create new outcome measures.

Recommendation 7

Develop written policies and procedures regarding each performance measure including the methodology regarding how each measure is to be calculated, document retention, and management review.

Status – Fully Implemented

Agency Actions – The Division developed written policies and procedures regarding performance measures. We reviewed the Division’s 2010 and 2012 Administrative Manual and noted changes to the Performance Measure section. The Division added a requirement for bureau Deputy Administrators to review performance measure documentation before submitting its biennium budget. We also reviewed the initial quarterly reports under the new process that document performance measure calculations completed by the bureaus.

Recommendation 8

Continue to monitor and revise the permitting process to help ensure permit renewals are issued within statutory timeframes.

Status – Fully Implemented

Agency Actions – The Division continues to monitor and revise the permitting process to help ensure permit renewals are issued within statutory timeframes. The Division represents two of its five permitting bureaus are currently implementing new database processes.

Recommendation 9

Develop controls to ensure fees are mathematically accurate and agree with amounts stated in laws and regulations.

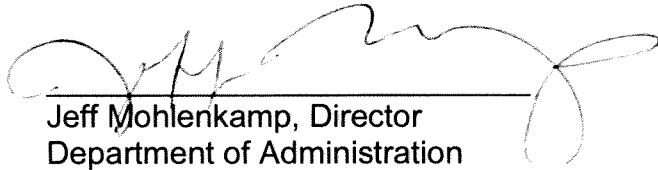
Status – Partially Implemented

Agency Actions – The Division developed controls to ensure fees are mathematically accurate and agree with amounts stated in laws and regulations; however, implementation will not be finalized until the first invoice period in 2013.

Paul Townsend, Legislative Auditor
July 18, 2012
Page 5

We reviewed records and interviewed staff and management from four bureaus. Some bureaus rely upon databases and spreadsheets to calculate and confirm accurate mathematical fee compilations and rely upon professional environmental engineers to confirm fee rates agree with laws and regulations. Other bureaus manually calculated fees based upon information provided by the permitted entity then review the fee calculations.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation & Natural Resources
Colleen Cripps, Administrator, Division of Environmental Protection
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Public Employees' Benefits Program issued on December 13, 2012. Report # LA12-23.

Background

The Public Employees' Benefits Program (PEBP) was established in 1999 to manage the state's group health insurance program for its employees and retirees. The program provides health, dental, vision, and life insurance to state and local government employees, retirees, and their covered dependents. A nine-member Board appointed by the Governor oversees PEBP's operations. The Board appoints an Executive Officer to direct the day-to-day operations.

Purpose of Audit

The purpose of this audit was to determine whether: (1) PEBP can provide additional information on the costs of healthcare procedures to assist participants with healthcare decisions, (2) PEBP has adequate controls over contract management, (3) information technology controls are sufficient to protect the confidentiality, integrity, and availability of participant information, and (4) accounting policies and procedures are complete and up-to-date. Our audit focused on healthcare cost information available to participants and included a review of PPO claims paid from July 1, 2011, through April 30, 2012. The audit also focused on contract management practices in place from July 1, 2010, through July 1, 2012. Finally, we reviewed information security controls and accounting policies and procedures in place during fiscal year 2012.

Audit Recommendations

This audit report contains three recommendations to provide participants with additional cost information when making healthcare decisions. In addition, five recommendations were made to improve contract management, and five recommendations to strengthen information security controls. Finally, one recommendation was made to update accounting policies and procedures.

The Public Employees' Benefits Program accepted the 14 recommendations.

Recommendation Status

PEBP's 60-day plan for corrective action is due on March 13, 2013. In addition, the six-month report on the status of audit recommendations is due on September 13, 2013.

Public Employees' Benefits Program

Summary

Beginning in fiscal year 2012, PEBP changed its health plan to a consumer driven high deductible health plan. Because of the high deductible amounts, participants have an incentive to become informed consumers when making healthcare decisions. In addition, a wide range in costs exists for some medical services; therefore, participants could save themselves and the Plan money by comparing prices among providers when feasible. Although PEBP has provided some information on costs, additional tools are needed to help participants fully assess the cost and quality trade-offs of healthcare decisions. Finally, Explanation of Benefits statements should include clear descriptions of services provided and medical procedure codes. This would help participants verify that billings are correct.

PEBP can take steps to strengthen contract oversight. We found contracts did not always include required performance standards. In addition, certain vendors should report performance information more timely, and other vendors' required evaluations were not done. We also found weaknesses in some contract provisions and information reported to PEBP was not always reliable. Finally, contracting policies and procedures were out-of-date and need revision.

PEBP's information technology controls can be strengthened. Sensitive data including credit card numbers and other information could be better protected. In addition, background investigations were not conducted on staff with access to confidential information.

Key Findings

A wide range in costs can occur for the same healthcare procedures in Nevada. Costs can vary widely because providers charge different amounts and negotiate varying discounts with insurance providers. When planning nonemergency procedures participants should consider comparison-shopping. Comparing prices among providers could save the participant and the Plan money.

PEBP is taking steps to provide participants with additional information to assist with comparing healthcare costs. These include providing participants with access to several on-line tools that provide information on healthcare and prescription drug costs. In addition, PEBP is working with its third party administrator (TPA) to provide participants with additional cost information for certain medical services. Although PEBP is taking steps to provide participants with additional tools to price healthcare and pharmacy costs, more work needs to be done. PEBP should periodically inform participants of the wide range in healthcare costs, tools available, and the best methods to compare prices.

Participants do not receive adequate information to verify that billings are correct. Explanation of Benefits (EOB) statements, provided to participants after a claim is processed, do not always provide clear descriptions of services billed or medical billing codes. As a result, there is an increased risk that participants and the Plan could overpay for healthcare services.

PEBP can strengthen its monitoring of vendor performance. We found 7 of 13 contracts did not include required performance standards. In addition, when standards were included in contracts, performance results were not always reported to PEBP. Finally, evaluations or audits of vendors were not always done as required by contract.

Several weaknesses were found in PEBP's contract with the wellness vendor. First, the contract did not include deadlines to ensure performance results were provided timely. Second, program implementation dates were not included in the contract. Third, the contract did not specify how results should be presented to ensure consistent reporting.

PEBP has good information technology controls over participant information. However, access to sensitive data including credit card numbers and other information could be further restricted. Five PEBP staff had access to credit card information whose job duties did not require access. In addition, PEBP and vendor staff can view sensitive participant information even though access is not needed to perform their job duties.

Prior to 2012, PEBP did not conduct background investigations on staff with access to confidential information. During our audit, PEBP began conducting *Civil Name Check* background investigations on new hires; however, current practice does not follow state requirements to conduct fingerprint based investigations on new employees. Granting employees access to sensitive data without appropriate background investigations increases the risk that individuals could gain access to sensitive information and use it inappropriately.

PEBP did not have up-to-date accounting policies and procedures. Policies and procedures have not been updated in more than 7 years despite changes to the Program's accounting function. For example, procedures refer to the prior Enrollment and Eligibility System that was replaced in 2007.

Audit Highlights



Highlights of Legislative Auditor report on the Office of Veterans' Services issued on October 17, 2011. Report # LA12-03.

Background

The Nevada Office of Veterans' Services (NOVS) was established in 1943 to serve as an advocate for veterans. NOVS is responsible for operating a state veterans' nursing home; supervising the operations and maintenance of two state veterans' cemeteries; assisting veterans and their families in obtaining available federal benefits, services, and compensation to which they are entitled; and obtaining and disseminating information to the veterans of Nevada.

NOVS has offices in Las Vegas, Reno, Elko, and Fallon and cemeteries located in Fernley and Boulder City. Additionally, the Nevada State Veterans' Home, a 180 bed skilled nursing care facility, is located in Boulder City. As of August 2010, NOVS had a total of 231 positions with 186 located at the Veterans' Home. NOVS is funded from a variety of sources including, Medicaid, private pay residents, Veterans' Affairs State Home Per Diem Program, General Fund appropriations, license plate proceeds, federal burial reimbursements, Medicare, and gifts. Expenditures were just over \$18 million for fiscal year 2010 with the majority (over \$15 million) at the Veterans' Home.

Purpose of Audit

The purpose of this audit was to determine whether internal controls at the Veterans' Home ensure that Medicaid, Medicare, Veterans' Affairs, and residents are billed timely and accurately, and revenues are collected. In addition, we determined whether the Veterans' Home has adequate controls over the resident trust fund. This audit included a review of the revenues and resident trust fund activities for calendar year 2010, and activities through February 2011 for certain areas.

Audit Recommendations

This audit report includes eight recommendations. Six recommendations were made to improve controls over billing and collecting revenues at the Veterans' Home. Two recommendations were designed to strengthen oversight of the resident trust fund. The Office accepted the eight recommendations.

Recommendation Status

The Office of Veterans' Services' 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

Office of Veterans' Services

Summary

The Nevada State Veterans' Home does not have adequate controls to ensure revenues are billed timely or accurately, and that outstanding balances are collected. During our audit, the Veterans' Home did not bill for more than \$600,000 in services timely. Although the delay should not impact the amount of Medicaid and Medicare reimbursements eventually received, it is likely that some losses will occur from private pay residents that were not billed for several months. In addition, accounts receivable balances have not been adequately monitored, and staff have not followed the state's policies for collecting and reporting accounts receivable. Most billing and collection problems stem from a lack of policies and procedures. During our audit, new fiscal staff were taking steps to develop policies and procedures and to improve the accuracy and monitoring of accounts receivable.

The Veterans' Home lacks adequate controls to ensure resident trust funds are properly safeguarded. Monthly bank reconciliations of the trust account were not completed for extended periods of time. In addition, duties have not been adequately segregated to help protect the \$181,000 average monthly balance in the resident trust fund.

Key Findings

The Veterans' Home did not always bill revenues timely or accurately. We identified billing problems from each of the four major revenue billing sources. For example, during our audit Veterans' Home staff identified \$285,000 in previously missed Medicaid reimbursements from prior months. In addition, staff did not bill Medicare for a 6-month period. We estimate that \$240,000 had not been billed; however, staff have approximately 1 year to request reimbursements from Medicare. Further, three private pay residents were not billed timely, including one resident that was not billed for 10 consecutive months of care. When a bill was finally sent, it had a balance of nearly \$53,000. For each of these revenue sources, accounting staff did not have adequate policies and procedures to guide billing activities. Policies and procedures are important because turnover occurred in key accounting positions and new staff did not have adequate guidance.

The Veterans' Home did not maintain accurate accounts receivable reports. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. Although a new software program was implemented in 2009, staff have been unable to use the program to generate an accurate accounts receivable aging report. Our review of 16 residents with outstanding balances greater than \$10,000 found that only 1 had an individual statement balance matching the accounts receivable aging report balance. For example, one resident had an aging report balance of \$23,116 and a statement balance of \$12,114 for the same day. According to management, additional software training is needed for staff, and they are working with the software vendor to ensure the program performs as specified in the contract.

The Veterans' Home has not actively pursued the collection of delinquent accounts for private pay residents. Delinquent accounts have not been turned over to the State Controller's Office for collection after 60 days as required by state law. As of December 2010, the Veterans' Home accounts receivable aging report showed over \$230,000 in outstanding debt between 1 and 2 years old. However, because the aging report contains inaccurate information, staff were unsure which debts and exact amounts that should be pursued for collection.

Monthly bank reconciliations of the resident trust fund were not completed during fiscal year 2010. In addition, reconciliations for July through November 2010 were not completed until January 2011 and included an unexplained overage of about \$2,400. The trust fund holds residents' money and serves as a bank for residents wishing to participate. The trust fund is used by residents to pay for monthly bills, clothing, haircuts, and other services and activities. Therefore, reconciliations are vital to help ensure residents' money is safeguarded and errors are detected and corrected timely.

The Veterans' Home has not adequately segregated the duties of accounting staff to help safeguard the resident trust fund. Segregation of duties is needed so that one individual cannot control all aspects of a financial transaction. The resident trust fund included accounts for over 160 residents and had an average monthly balance of \$181,000 for calendar year 2010. Segregation of duties is important to help reduce the risk of error and fraud.



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

209 East Musser Street, Room 200 | Carson City, Nevada 89701
Phone: (775) 687-0120 | Fax: (775) 687-0145

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: July 18, 2012

Subject: Legislative Audit of the Nevada Office of Veterans' Services

On October 17, 2011, your office released an audit report on the Nevada Office of Veterans' Services (Office). The Office subsequently filed a corrective action plan on January 9, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Office to comply with audit findings.

There were 8 recommendations contained in the report. The extent of the Office's compliance with the audit recommendations is as follows:

Recommendation 1

Develop comprehensive policies and procedures for billing, receiving, and monitoring Veterans' Home revenues.

Implementation Status – Fully Implemented

Agency Actions – The Office developed comprehensive policies and procedures for all their revenue areas. These policies and procedures were submitted to the Nevada State Veterans Home's Policy and Procedures Committee for review and approval. The new policies and procedures became effective August 15, 2011. We reviewed the policies and procedures and staff represented that the new policies and procedures are being used for billing, receiving and monitoring of revenues.

Recommendation 2

Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required.

Implementation Status – Partially Implemented

Agency Actions – The Office established controls to ensure accounts receivable reports are submitted to the State Controller's Office when required. However, the reports are not being submitted to the State Controller's Office as required because of high turnover in key accounting positions at Nevada State Veterans Homes as well as ongoing software-related issues resulting in inaccurate aging reports. The Office addressed the turnovers by hiring new employees and are currently pursuing RFP to address the software related issues. The Office anticipates full implementation by January 15, 2013.

Recommendation 3

Ensure staff are adequately trained in using the accounting functions of the new software program.

Implementation Status – Partially Implemented

Agency Actions – Discussions with staff disclosed that they were unable to fully implement this recommendation because of vacancies experienced by the Office and vendor inability to make the system compliant with federal requirements. However, the Office has filled the vacancies and all staff are being trained. Additionally, the Office is in the process of procuring new billing/clinical software that will be compliant with federal licensure requirements. Therefore, full implementation of this recommendation is anticipated by January 15, 2013.

Recommendation 4

Establish policies and procedures to ensure accuracy of the accounts receivable aging report.

Implementation Status – Partially Implemented

Agency Actions – The Office established policies and procedures to ensure accuracy of the accounts receivable aging report. However, high staff turnover has prevented training and continuing inaccuracies in the system has delayed full implementation. Staff represented the Office hired an outside consultant who is currently reviewing the system and training staff. The Office is also aggressively pursuing an RFP for a new software program. In addition, accounting staff is

working on correcting the data inaccuracies before the installation of the new software program. The Office anticipates full implementation of this recommendation by January 15, 2013.

Recommendation 5

Revise policies and procedures to ensure the Veterans' Home complies with the state's requirement for collection of outstanding debts.

Implementation Status – Fully Implemented

Agency Actions – The Office revised its policies and procedures spelling out the processes that would be followed when collecting outstanding debts. We reviewed the revised policies and procedures and discussed it with staff. Staff represented the Office sends out statements by the 15th of the month followed by a certified 30 day delinquent letter if payment is not received. A discharge notice is sent after 60 days, and if the resident is still owing after 70 days, the debt will be transferred to the Controller's Office for collection in accordance with a Memorandum of Understanding between the Office and the Controller's Office.

Recommendation 6

Monitor reimbursement from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited to the correct budget category.

Implementation Status – Fully Implemented

Agency Actions – The office developed policies and procedures to monitor reimbursement from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited to the correct budget category. We reviewed workpapers submitted by the Office that shows the different budget accounts used by the office for the different deposits. The Office represented the management analyst reconciles the deposits posted in the State's Data Warehouse (DAWN) to the anticipated revenues for each reimbursement budget account.

Recommendation 7

Develop policies and procedures to ensure the resident trust fund bank account is reconciled monthly, and reconciliations are submitted to the State Controller's Office when required.

Implementation Status – Fully Implemented

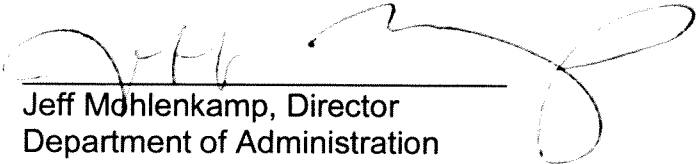
Agency Actions – The Office developed policies and procedures to ensure the resident trust fund bank account is reconciled monthly and the reconciliations are submitted to the State Controller’s Office when required. The new policies and procedures also provide information on other services provided to veterans who wish to maintain a resident trust fund account such as performing a cashiering service and providing quarterly statements.

Recommendation 8

Segregate duties over the resident trust fund, including responsibilities for completing monthly bank reconciliation.

Implementation Status – Fully Implemented

Agency Actions – The Office developed policies and procedures to ensure segregation of duties over resident trust fund, including responsibilities for completing monthly bank reconciliation. The Office represented that no one individual is allowed to perform more than one of the functions.



Jeff Mdhlenkamp, Director
Department of Administration

cc: Heidi Gansert, Chief of Staff, Office of the Governor
Caleb Cage, Director, Nevada Office of Veterans’ Services
Steve Weinberger, Administrator, Division of Internal Audits