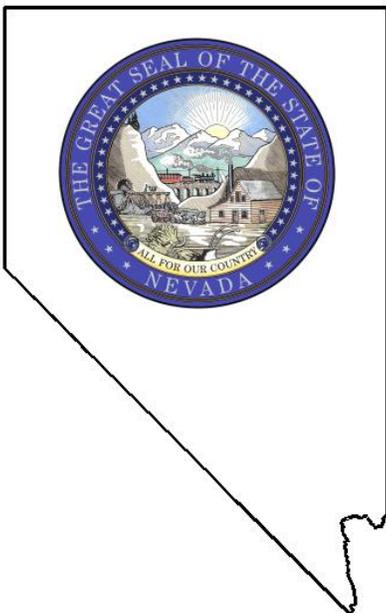


# STATE OF NEVADA

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## Biennial Report of the Legislative Auditor



December 31, 2016  
Carson City, Nevada

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LEGISLATIVE COUNSEL BUREAU

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December 30, 2016

Members of the Nevada Legislature:

I am pleased to report on the activities of the Audit Division for the biennium ended December 31, 2016. This report includes a comprehensive summary of audits issued during the biennium and also a brief overview of the Audit Division.

The Audit Division is committed to providing high quality audit reports based on independent, objective evaluations conducted in accordance with professional auditing standards. I am especially hopeful the findings and recommendations contained in our reports will assist the Legislature, the Governor, and agency heads in providing efficient and effective government services.

We gratefully acknowledge the cooperation and assistance of the members of the Legislative Commission, the Audit Subcommittee, the Interim Finance Committee, and others with whom we have worked. They made it possible for us to conduct our audits and prepare accurate and constructive reports.

Our purpose is to serve the Legislature and the citizens of Nevada. Your suggestions as to how we may continue to improve our services will always be welcomed.

For more information about Legislative Auditor reports go to: [www.leg.state.nv.us/audit](http://www.leg.state.nv.us/audit).

Respectfully,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA  
Legislative Auditor

cc: The Honorable Brian Sandoval, Governor of Nevada

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## INTRODUCTION

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The mission of the Audit Division is to improve accountability and the effectiveness of state government. This is accomplished by providing members of the Legislature with factual information concerning the operations of state agencies, programs, activities, and functions; working with state agencies to identify opportunities to improve accountability, reduce waste, and enhance program effectiveness; and recommending to the Legislature the amendment of existing laws or the enactment of new laws designed to improve the functioning of state agencies.

The key to improving any organization is an objective assessment of the performance of that organization. That is the type of assessment provided by legislative audits of state agencies. These audits, which are conducted in accordance with rigorous professional standards, provide an independent and unbiased evaluation of government operations. Performed by experienced staff who are familiar with the intricacies of government operations, the audits include specific recommendations for improvement.

### TYPES OF AUDITS CONDUCTED

The Division conducts performance audits on certain agencies and programs. Performance audits address the operational efficiency and effectiveness of programs in relation to their intended goals and objectives, sufficiency of internal controls, and compliance with laws and regulations. These audits provide important insight into agencies, especially in times of limited resources and increasing demands for public service. Historically, the Division conducted financial audits of state agencies.

The scope of the audits for the upcoming biennium will vary depending upon the nature and purpose of the agency. As in the past, the integrity of fiscal affairs will receive substantial consideration in the planning phase of each audit. Increased audit emphasis will be placed on providing an independent assessment of the performance of an agency, program, activity, or function. This will be done in order to provide information to improve public accountability and facilitate decision-making by the Legislature or those responsible for initiating corrective action. This may include determining if an agency is operating in an economical and efficient manner, or determining the extent to which a program achieves a desired level of results.

The Legislative Commission approves the biennial audit program of the Legislative Auditor and may direct him to make any special audit or investigation considered necessary. The Legislature may also direct the Legislative Auditor to conduct special audits or investigations through legislation.

### REPORTING AUDIT RESULTS

The findings and recommendations of the Audit Division are published in formal reports which include constructive suggestions for change. Since the purpose of an audit is to improve government operations, state agency officials are given the opportunity to

respond to a draft report to ensure findings are accurate and conclusions are appropriate. The comments of these officials are carefully considered in preparing the final audit report. Audit reports are presented to the Legislative Commission or the Audit Subcommittee of the Legislative Commission at public meetings. However, if the Legislature is in session and the Chairman of the Audit Subcommittee does not call a meeting within five days after being notified that an audit report is ready for presentation, the report is issued. After presentation, copies of the reports are made available to each member of the Legislature, state officials, and the public.

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## **BENEFITS OF LEGISLATIVE AUDITS**

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The benefits of the Audit Division's work can be measured in a number of ways. First, our audits save taxpayer dollars by identifying waste and inefficiencies and by finding ways to enhance state revenues and other resources. Second, legislative audits identify ways to improve program performance and effectiveness. Third, our audits ensure internal control systems are suitably designed to protect public resources. Fourth, we determine whether state agencies and programs are operating in accordance with laws and regulations. Fifth, our audits ensure public officials are held accountable. Finally, legislative audits assess risks of fraud and report significant illegal transactions to government officials.

### **MILLIONS OF TAXPAYER DOLLARS HAVE BEEN SAVED**

Legislative audits have contributed significantly over the years to saving millions of dollars for Nevada's taxpayers. In the past two years alone, measurable financial benefits of more than \$62 million have been realized by implementing our recommendations. In many cases, these benefits are based upon work we did in past years, because it often takes agencies time to implement our recommendations or because the financial benefits of the recommended course of action were felt over more than one biennium. For instance, based upon a prior audit we estimate the Division of Health Care Financing and Policy realized savings of over \$36 million by recovering Medicaid claims overpayments and controlling costs related to medical services.

### **IMPROVED PROGRAMS TO BETTER SERVE NEVADANS**

Our work has led to improvements in programs to better serve Nevadans. By increasing program effectiveness, improved levels of service can be provided thus ensuring Nevada's citizens and visitors get the most for their money. For example, the Division of Parole and Probation did not always conduct home contacts with high-risk offenders in accordance with policy, and rural high-risk offenders were not supervised similar to those living in urban areas. Additionally, problems identified during the intake process resulted in initial home contacts not always completed within the first 30 days of supervision, and procedures were lacking to identify and follow-up on probationary offenders not reporting within the first 5 days of supervision. In another example, the Nevada Highway Patrol can enhance the results of its efforts by inspecting vehicles such as vans and smaller buses, which are used to transport pupils, and reporting inspection results to the

school districts' superintendents. The inspection of all vehicles used in the transport of pupils and reporting the inspection results may prevent pupil injuries during transport to and from school related events. Furthermore, the Manufactured Housing Division collected and inadequately stored sensitive information. Unencrypted social security numbers and names of applicants were found on the Division's network, and files containing unencrypted personal identifying information were stored on local drives of individual desktop computers.

In addition, recommendations made in our audits of the Taxicab Authority and Attorney General could result in financial benefits to Nevadans and the public of over \$42 million. Recommendations to improve oversight of the taxicab industry are estimated to provide savings to the public of about \$31 million per biennium, as improved oversight will help deter long hauling practices. Furthermore, the audit of the Attorney General made recommendations to improve controls over the disbursement of restitution funds. As a result of the recommendations, over \$11 million in undisbursed settlement funds were returned to the State and paid to victims of unlawful mortgage practices, or deposited with the Nevada Treasurer's Office of Unclaimed Property for safeguarding and potential future payments.

### FOCUS IS ON IMPROVING ACCOUNTABILITY

Although not directly measurable in terms of dollar savings, improved public accountability and management controls pay dividends by ensuring assets are properly safeguarded against waste, loss, and misuse; laws and regulations are followed; appropriate goals and objectives are met; and reliable data are obtained, maintained, and fairly disclosed. Over the past two years, our audit work continued to focus on improving the accountability of Nevada State Government. Legislators, public officials, and citizens want and need to know whether the state's funds are handled properly and in compliance with laws and regulations. They also have an interest in knowing whether state agencies and programs are achieving their purposes and whether these agencies and programs are operating economically and efficiently. This need for accountability has created a demand for more information about state government. To realize government accountability, legislators, program managers, and citizens must have credible, objective, and reliable information to assess the integrity, performance, and stewardship of the government's activities.

### IDENTIFICATION OF FRAUD

Legislative audits are required by generally accepted government auditing standards to assess risks of fraud that could significantly affect the audit. The assessment includes discussions among audit team members and inquiries of agency officials. Audit procedures are designed to obtain reasonable assurance of detecting fraud. If information comes to our attention indicating that fraud may have occurred, we evaluate the impact on the audit and report significant illegal transactions to the Governor, each member of the Legislature, and the Attorney General, in accordance with NRS 218G.140.

During the biennium, we reported two instances of potential fraud. Our audit of the Division of Health Care Financing and Policy identified \$285,000 in overpayments to a dental provider for incorrect or excessive Medicaid claims. During our audit, the provider sold the practice and is no longer providing services to Nevada Medicaid recipients. The Division's internal fraud unit performed an investigation and referred the case to the Health and Human Services Office of the Inspector General for a federal review. As of December 2016, the results of the federal review were not yet available. Additionally, our review of the Board of Podiatry's 2012 and 2013 financials identified errors or deficiencies for most items listed. After obtaining additional information, including bank statements and copies of cancelled checks, we referred the matter to the Attorney General based on concerns regarding the Board's response to our requests for records. Subsequently, we learned that an investigation by the Attorney General resulted in the arrest of the Executive Director for embezzling \$34,700 from the Board.

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## 2015 – 2016 BIENNIUM IN REVIEW

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### AUDIT HIGHLIGHTS

Over the biennium the Audit Division issued 27 audit and other reports relating to the operations of state government and other governmental agencies. Many audits completed during the biennium contributed to legislative and executive branch actions resulting in significant benefits to state government and Nevada citizens. Benefits directly attributable to or notably influenced by the audit work include elimination of waste, increased collection of revenues, and more effective government programs. While it is not the sole purpose of audits to identify ways to save money or increase revenues, many audit recommendations did, in fact, have a cost-savings impact. Consequently, we have worked closely with agency management to provide constructive recommendations which should, if properly implemented, save millions of dollars.

The following summarizes the results of the audits and reports issued in the 2015 – 2016 biennium. The full text of each report and audit highlights including the significant findings can be found at: [www.leg.state.nv.us/audit](http://www.leg.state.nv.us/audit).

### AUDIT REQUESTED BY LEGISLATIVE COMMISSION

#### NEVADA STATE BOARD OF DENTAL EXAMINERS

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

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

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

- The Board overcharged licensees for investigative costs in almost half of the investigations in the last 2 years, including several over \$1,000. Overcharges were

likely due to the Board lacking an effective process for accurately determining the amount of investigative costs for individuals. At the same time the Board overcharged some licensees, other licensees were charged less than actual investigation costs after negotiations between the parties.

- As part of the provisions imposed in Board approved stipulation agreements, four licensees agreed to donate over \$140,000 to organizations that provide health-related services. However, charitable contributions are not allowable under NRS 631.350. Furthermore, these amounts were not recorded in accounting records since the checks were made payable to the charitable organizations.
- The Board paid about \$200,000 more, on average, in legal expenses in fiscal years 2014 and 2015 than shown in its financial statements. Actual legal expenses were almost three times the reported amounts and exceeded the annual contract maximum for one firm. This occurred because the actual amount paid for legal expenses was reduced by the cost recoveries and assessments related to disciplinary matters. Recording expenses in this manner reduces transparency and, therefore, may impact decisions made by policy makers and others.
- The practice of reducing actual legal expenses also affected the Board's contract with outside counsel. Specifically, the contract approved in October 2013 stated payments will not exceed \$175,000 per year. However, payments exceeded \$300,000 in both calendar years 2014 and 2015, the first two full years under the new contract terms. Additionally, the overall contract maximum of \$700,000 has almost been reached with over a year left in the 4-year contract.
- The Board could save approximately \$100,000 per year by hiring a General Counsel while still utilizing the services of outside counsel when necessary. This estimate assumes the Board would still use outside counsel about 20% of the time. Boards have a fiduciary duty to be an effective steward of public resources, which in this case is fees collected from licensees.
- Investigation results and conclusions of DSOs are not reviewed by supervisory personnel or an independent review committee. A review process would help verify conclusions and recommendations are based on clear and sufficient evidence. Without a review process, there is an increased risk that investigations could result in licensees being treated too harshly or lightly. Although disciplinary actions are approved at Board meetings, Board members are not reviewing documentation specifically related to investigations and negotiations. Other state's dental boards and Nevada medical boards we contacted have review processes in place for investigations, including review committees.
- The Board's office does not have critical documentation related to the disciplinary process. In addition, when documentation was located it was often not in the disciplinary file as anticipated. The Board does not have certain documentation related to disciplinary proceedings because it is generated by, or submitted directly to, the Board's outside counsel. Furthermore, the Board does not have an organized filing method with checklists to ensure standard documentation related to disciplinary actions is onsite and retained. Without adequate documentation, the Board cannot fully support disciplinary actions or ensure compliance with statutes.

## AGENCY AUDITS

### OFFICE OF THE ATTORNEY GENERAL

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

The Office can also improve its controls over the disbursement of restitution funds for cases other than deceptive mortgage lending practices. Restitution funds are collected by the Office through court orders or agreements, and are payments to help make victims of deceptive trade practices whole. For example, the owner of an auto repair facility was ordered by the courts to pay restitution to customers that were charged for parts and services not provided. Although most restitution funds tested were disbursed after being collected, payments to victims for several cases were delayed from about 1 year to 3 years. Finally, the Office does not have adequate controls over the disbursement of restitution funds in its court settlement account. In fiscal year 2015, over \$20 million was held in the account. Although we did not identify inappropriate disbursements, procedures are needed to help ensure funds are disbursed timely and adequately safeguarded.

- Since inception of the Home Again Program through fiscal year 2015, the Office reimbursed program grantees about \$8 million. Although most payments we tested were appropriate, almost 15% of the amounts paid did not agree to supporting documentation originally provided to the Office. Even though additional supporting documentation was later provided upon our request for most of the amount tested, grantees could not provide documentation to support \$21,000 in expenses tested. After our audit inquiries, a total of \$56,195 in overpayments to grantees have been identified and repaid to the Office.
- The Legislature requested the Office submit quarterly reports to the IFC on the activities of the Home Again Program. We found that the reported number of services provided by grantees were not always accurate. Specifically, the information for one of four quarters tested in calendar year 2014 was significantly

overstated. For example, the number of persons assisted through the credit restoration program was reported to be 1,970. However, supporting documentation showed only 696 persons received assistance.

- The Office did not perform annual fiscal audits of its three grantees for the Home Again Program. In the 2.5 years since the Program began, the Office performed one partial audit. Office procedures require annual fiscal audits of grantees. Audits help the Office ensure grantee expenses billed to the Program are appropriate.
- For 10 cases tested where the Office received restitution payments, we observed that funds collected were disbursed accurately. In addition, the majority of the funds were disbursed timely. However, funds for four cases were not disbursed timely. The funds were disbursed from about 1 year to 3 years after being received. The amount of restitution funds associated with the four cases totaled \$213,079. Delaying restitution funds may cause financial hardship to victims.
- The Office does not have adequate controls over the disbursement of restitution funds in its court settlement account, which had disbursements ranging from \$5 million to \$46 million in the past 5 years. Disbursements were authorized through memorandums issued by attorneys and did not include supporting documentation or evidence of supervisory review and approval.

## OFFICE OF THE STATE TREASURER

### UNCLAIMED PROPERTY PROGRAM

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

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

- The Program did not properly track many of the savings bonds in its vault. We tested savings bonds belonging to 70 individuals and found the bonds belonging to 35 of the individuals were not recorded in the program's database. In total, we identified \$133,950 of savings bonds that were not recorded in the program's database. As a result, potential claimants searching the database would not know they were the rightful owners of these savings bonds.
- The Program did not have an accurate inventory list or perform annual reconciliations of unclaimed property held in its vault. We performed an inventory

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

- The Program did not adequately monitor securities held in its main custodian account. We found that semi-annual reconciliations between program records and custodian statements were not completed timely. Additionally, the Program did not follow-up timely on discrepancies noted during its semi-annual reconciliations and its review of weekly transaction reports. The Program contracts with one custodian to maintain its primary account. This custodian had custody of shares valued at about \$20 million, as of December 31, 2014. Our review found there was a difference of 933,000 shares between the custodian statement and program records. According to staff, many of the unreconciled shares are worthless. However, we found certain unreconciled shares had a market value of about \$313,000.
- The Program did not adequately monitor securities held in other custodian accounts. According to program records, there were securities in 49 accounts with custodians other than the main custodian. For 14 of the 49 accounts, a December 31, 2014, statement was not obtained by staff. Therefore, there were no reconciliations performed for these accounts. When reconciliations are not performed, the Program does not know if its records are accurate. Further, when statements are not obtained, the Program does not have confirmation that the securities recorded in its database are still in the custody of the designated custodian.
- More than half of the claims we tested were not processed timely. For example, 27 of 50 paid claims tested and 17 of 30 denied claims tested were not processed timely. NRS 120A.640 requires the Administrator to allow or deny a claim within 90 days after it is filed. The Program has not implemented procedures that require a tracking system or management report for monitoring the timely processing of claims. In addition, the Program does not have adequate procedures for large claims to ensure they are properly approved. The current procedure does not establish when a claim needs a second approval, such as a dollar threshold, or require the second approval be documented.
- Security controls over the unclaimed property database could be stronger. Our review found the Program did not review reports showing who has edited data in the database. As a result, there is an increased risk data could be inappropriately altered, which could allow a fraudulent claim to be processed without detection.

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## DEPARTMENT OF BUSINESS AND INDUSTRY

### MANUFACTURED HOUSING DIVISION

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

- The Division needs to develop a process to ensure inspections are performed on structures, including a process to monitor permits where work did not meet adopted standards and permits where an inspection was never scheduled (open permits). Our review of permit and inspection records, or lack thereof, found 58% of failed inspection permits and 80% of open permits did not have a subsequent or an original inspection performed by the Division. Inspections were not performed by the Division because the Division relies solely on permit purchasers to schedule inspections and does not have a monitoring process in place to identify and perform necessary inspections when not notified by permit purchasers.
- The Division was unable to provide all records regarding inspections because inspection and permit records were not maintained appropriately. Our review of available records found the Division could usually provide permit documentation but not inspection checklists or correction notices. Furthermore, the Division does not cross-reference permit and inspection documentation to efficiently determine if regulation activities are complete and appropriate. As a result, the Division is unable, with any certainty, to determine whether work performed on regulated structures is adequate.
- The Division needs to develop a compliance label inventory system from receipt to affixation of the label. We found the Division does not maintain an adequate inventory of labels, does not complete a periodic reconciliation of labels stored in its possession, and labels are not properly safeguarded. Also, the database used to maintain the record of labels contained incomplete or inaccurate information. A compliance label inventory system is important because the Division affixes labels to structures to signify that adopted health and safety standards have been met.
- Control weaknesses exist over revenue collections and deposits. Weaknesses include fee revenue for licensing, titling, and annual park fees not always being deposited timely. The Division does not have a process to log checks upon initial receipt of payment. In addition, the Division does not perform reconciliation between the receipt log and the state accounting system to ensure all amounts are

deposited. Also, we found cash and checks received were not adequately safeguarded and access was not restricted. Finally, the Division has not adequately segregated the duties related to receipting and depositing of fees. Stronger controls over revenue collections and deposits are important because the Division collected almost \$1.5 million in fee revenue during fiscal year 2014.

- The Division is collecting and storing records of personal identifying information without statutory authority. Over 2,000 unencrypted social security numbers and names of applicants were found on the Division's network. In addition, approximately 200 files containing unencrypted personal identifying information were stored on local drives of individual desktop computers used by staff. Collecting and storing personal identifying information without appropriate safeguards puts the Division at risk of losing sensitive data.
- The Division can take steps to strengthen its oversight of performance measure results used in the State's budget process. We found records for some performance measures were not available or were incomplete for purposes of verifying reported results. Performance measures must be reliable because they can affect budget and policy decisions made by oversight bodies, including judgments made by stakeholders and the public about the Division's operations. Performance measures cannot be considered reliable; however, unless underlying records exist to support them.

## DEPARTMENT OF BUSINESS AND INDUSTRY

### DIVISION OF MORTGAGE LENDING

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

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

- The Division did not perform required examinations timely for most of the 238 licensed mortgage companies it regulates. Over the 18-month period ended December 31, 2015, 58% of licensees either were not examined or had untimely

examinations. Furthermore, as of December 31, 2015, examinations for 124 licensees were past due by an average of 13 months.

- Examiners did not conduct timely follow-up examinations for 14 of 22 licensees (64%) that had adverse ratings on their most recent examinations. For these 14 high-risk licensees, the follow-up examinations averaged 5 months past due but some went unexamined for longer periods of time. Timely follow-up with licensees that receive adverse ratings is important to help ensure they implement appropriate corrective action. The Division may conduct limited scope examinations when following up on these licensees. Performing a limited scope examination in these situations conforms to best practices for regulatory programs by focusing on the specific areas of concern from the prior examination.
- The Division needs to address its staffing issues before efforts to reduce the examination backlog will be effective. An inadequate staffing plan coupled with employee turnover directly affected examination timeliness. Specifically, the Division does not use workload projections to determine the number of examiner positions it needs. In addition, during 2015, four of seven examiner positions (57%) had turnover, and one examiner position remained unfilled for nearly 10 months as of March 31, 2016. Until the Division develops and utilizes a plan for determining the proper number of examiner positions it needs and fills vacancies timely, it will likely continue to fall short of its statutory mandate to examine all licensees.
- The Division does not use a consistent method for recording billable examination hours to licensees. Examination fees billed to licensees were inconsistent due to variances in allocations of examiners' time between billable and non-billable hours. This inconsistent billing practice occurred because staff do not have written guidelines for determining how much of the time they spend on examinations should be billed to the licensee. During fiscal year 2015, examiners' timesheets showed 2,252 hours were non-billable, which is 37% of their total examination hours. Therefore, about \$135,000 was not billed based upon the timesheet allocations to non-billable hours. For 25 examinations we tested, allocations of the examination time to billable hours ranged from 42% to 100% of the total examination hours.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### DIVISION OF CHILD AND FAMILY SERVICES

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

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

- Child Welfare Services' revenues and expenditures are recorded in nine state budget accounts. During fiscal year 2015, this amounted to over \$142.3 million, with 64% relating to services provided in Clark County, 21% in Washoe County, and 13% in the rural counties. The other 2% relates to services provided statewide. Since fiscal year 2010, Child Welfare Services' revenues and expenditures have increased by \$17.2 million or 14%. Revenue consists of approximately 50% state and 46% federal funds, with the remainder coming from fee collections, county assessments, and other miscellaneous revenue.
- Improvements are needed over the Division's monitoring of county block grants. The Division awards a block grant to Nevada's urban counties for providing child welfare services. The Division also allocates grant funds for adoption assistance programs and incentive funds to stimulate and support improvements in child welfare services. State law specifies certain reporting requirements for child welfare agencies. We reviewed the reports relating to fiscal year 2015 funding and found untimely submittals, incomplete reports, and undocumented reviews. With \$64.6 million in block grant funding in fiscal year 2015, it is imperative the Division adequately monitor the performance of child welfare agencies to ensure state and federal funds are being appropriately spent on child welfare services and help ensure the children and families served receive quality services.
- Juvenile Justice Services' revenues and expenditures are recorded in 10 state budget accounts. During fiscal year 2015, this amounted to over \$30.9 million, with 60% relating to services provided by Juvenile Correctional Care, 17% Youth Parole Bureau, and 13% Youth Alternative Placement. The other 10% represents services provided by the Juvenile Justice Programs' Office, which sub-grants federal funds to local jurisdictions for community-based programming. Since fiscal year 2010, Juvenile Justice Services' revenues and expenditures have decreased by \$3.2 million or 9%. Revenue consists of 86% state funds, 12% county assessments, and 2% federal funds.
- Children's Mental and Behavioral Health Services' revenues and expenditures are recorded in four state budget accounts. During fiscal year 2015, this amounted to over \$31 million, with 74% relating to services provided by Southern Nevada Child and Adolescent Services and 26% by Northern Nevada Child and Adolescent Services. Since fiscal year 2010, Children's Mental and Behavioral Health Services' revenues and expenditures have decreased by \$1.5 million or 5%. Revenue consists of 52% federal and 46% state funds, with the remainder coming from patient collections and rental income.

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

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### DIVISION OF HEALTH CARE FINANCING AND POLICY

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

- Based on our analysis of claims data, we identified overpayments of about \$780,000 in behavioral health claims during fiscal years 2013 and 2014. Behavioral health services we reviewed included: basic skills training, crisis intervention, day treatment, and psychosocial rehabilitation services. These services are provided in a community-based or inpatient setting, and are designed to reduce a physical or mental disability and restore an individual to the best possible functioning level. Of these overpayments, about \$680,000 was for basic skills training and \$100,000 was for other behavioral health services. For these services, daily limits are established in Medicaid policy. According to management, these overpayments occurred because the Division's computer system, the Medicaid Management Information System (MMIS), did not process claims according to policy.
- The Division's computer system also lacked sufficient edits to prevent overpayments to dental providers submitting incorrect or excessive claims. One dental provider overbilled Medicaid by submitting multiple claims for procedures that should be billed on a per visit basis. For other procedures, the number of claims submitted per patient per day were excessive when compared with other dentists' claims. We estimate more than \$285,000 was overpaid to this provider during fiscal years 2012 and 2013. To identify overpayments, we performed sorts and queries of paid dental claims data. This analysis identified unusual billing practices by one provider. Because edits were not in place, other providers also submitted incorrect claims. However, the number of incorrect claims by other providers was minimal in comparison to excessive billing practices by one provider.

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

### DEPARTMENT OF MOTOR VEHICLES

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

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

- For fiscal years 2012 through 2014, certain nonroutine, fiscal year-end accounting entries were not made to maintain accurate accounting records. As a result, asset accounts in the DMV Application and distribution spreadsheets were significantly misstated starting in fiscal year 2013. Specifically, certain cash account balances increased, per the accounting records, to more than \$5.6 billion in fiscal year 2015. In comparison, actual collections in fiscal year 2015 were \$1.3 billion, significantly less than the accounting records reflected. The manual accounting entries were not completed due to inadequate policies and procedures and insufficient supervisory oversight.
- Two of 16 nonroutine accounting entries in fiscal year 2015 were not adequately supported. Staff indicated the two entries, totaling more than \$100 million, were needed to correct an imbalance between the DMV and state accounting records caused by an accounting error. However, the entries did not contain sufficient information for a reviewer to understand the rationale and justification for the adjustment. The supervisory review process over adjusting accounting entries was also not sufficient to determine the accuracy of and reason for each entry.

Additionally, policies and procedures did not include sufficiently detailed requirements for what information should be included to support nonroutine accounting entries. Enhancing policies and procedures and supervisory review will help ensure entries are appropriate and reasons for adjustments can be examined to identify potential systemic issues.

- We identified various accounting discrepancies between DMV records and the state accounting system from fiscal years 2010 through 2015. These discrepancies were not identified by the Department primarily because only 3 of 24 quarterly account-level reconciliations between the state accounting system and the DMV records were completed from fiscal years 2010 through 2015. The discrepancies identified included misclassifications in the DMV distribution records and miscoded expenditure categories in the state accounting system. The findings in this and the two preceding paragraphs did not result in improper distributions of DMV revenues.
- The records of deposit transactions in the DMV Application were not always closed timely. Deposit records must be closed in the DMV Application by DMV fiscal staff to lock the transaction in the system, after verification of the accuracy of the deposit record. When not closed, inadvertent or intentional modifications to deposit records in the system could occur. We did not identify any such instances of improper modifications to records in the 350 deposits tested, but the potential for this to occur exists due to untimely closing of records.
- The DMV did not retain original deposit documentation for 50 of the 350 (14%) selected deposit dates as required by DMV policy. In some instances, the recreated documentation did not provide enough information to determine the date funds were received or the timeliness of deposits. Improved supervisory oversight would help identify deviations from policies designed to protect the integrity of financial accounting records.

## DEPARTMENT OF PUBLIC SAFETY

### CAPITOL POLICE

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

- The Division can make improvements when approving and processing contractor payments. For instance, review of and approval for payments should be documented by the Division Chief prior to processing. Of 18 contractor invoices reviewed, none had evidence the Chief of the Division reviewed and approved the invoices prior to payments. Division policy and procedures state all expenditures

will be approved by the Chief prior to the processing of the payment voucher. Discussions with Division and DPS fiscal personnel indicated the Chief does review invoices prior to payment; however, no evidence of this review was found on any invoice we inspected. Documentation of the Chief's review will help ensure payments are accurate and appropriate. The Division paid \$227,000 for contracted security during fiscal year 2015. This is the largest single expenditure for the Division other than personnel costs.

- Contract invoice review can be strengthened by a comparison to detailed logs maintained by security personnel at fixed posts covered by the contractor. Our review of available logs found 2 of 12 logs did not have significant activity noted by security personnel to verify personnel arrived and remained at the post for the times billed on invoices. Conversely, 10 date logs did show specific security activity, such as when perimeter checks are performed on buildings, that directly corresponded to dates and times billed.
- Our review of travel expenditures revealed the Division processed them in accordance with state laws and other requirements. Travel costs included expenses related to the Division's fleet of five patrol vehicles. The Division's vehicles are purchased and maintained by the State's Motor Pool and are subject to monthly rental and mileage charges. Charges for the fleet, of a little more than \$60,000, accounted for the majority of travel expenditures during fiscal years 2014 and 2015.
- We reviewed travel claims for compliance with state laws and related policies and procedures. Selected invoices were mathematically accurate, properly approved, and paid at the appropriate rates.

## DEPARTMENT OF PUBLIC SAFETY

### NEVADA HIGHWAY PATROL

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

NHP can strengthen administrative practices for the hazmat permit issuing process to ensure compliance with state regulations. Our testing identified that out of 67 vehicles, 16 were issued multiple permits in violation of state regulations. Furthermore, NHP does not have a written contract specific to the issuance of hazmat permits. NHP also needs to improve controls over fuel cards. We found active fuel cards for individuals no longer employed by NHP, two of which incurred charges after the cardholder transferred into

another division of the Department. Lastly, NHP lacks controls over the self-reporting inventory process. For example, we found that the self-reported inventory is not verified in accordance with NHP operating practices.

- NHP's efforts to inspect school buses resulted in out-of-service conditions being addressed. We visited 12 school bus yards throughout the State to verify observable repairs, such as inoperable window latches, horns, mirrors, inaccessible or missing first aid kits, and unsecured seats. We found that not all vehicles used to transport pupils are inspected as required by NRS 392.400. There are about 155 vans and other vehicles, besides buses, used to transport pupils across the State that need to be inspected. In addition, the school bus inspection results are not reported to the school district superintendent. Pursuant to NRS 392.400, NHP shall make written recommendations to the school district superintendent for the correction of any defects discovered during the inspection. Furthermore, NHP does not have operating standards for the school bus inspection program. Inspectors rely on the State Board of Education Out-of-Service criteria; however, this document only provides standards for placing a bus out of service. Additional guidelines are needed to ensure the inspections are conducted the same across the State and in accordance with NHP's operating standards.
- NHP does not have adequate controls over the single-trip hazmat issuing process. The Division is responsible for issuing permits for the transportation of hazardous material throughout the State. There are three types of permits issued by NHP: an annual permit for multiple vehicles, a 72-hour single-trip hazmat permit for a single vehicle, and an emergency 15-day permit. A total of 97 single-trip 72-hour hazmat permits were issued to 67 vehicles between January 1, 2014, and June 30, 2014. We found that 16 of these vehicles or 24% were issued multiple permits within a 3-month period, which is a violation of state regulation. Pursuant to NAC 459.984, temporary hazmat permits are limited to one every 3 months per vehicle. This reduces the risk of hazmat incidents. Further, NHP does not have a contract with the vendor issuing the temporary hazmat permits.
- NHP does not have an adequate process to identify when employees with fuel cards leave the Division. Our review of 454 total active fuel cards identified 23 active cards for individuals no longer employed by NHP. Out of the 23 active cards, 2 incurred charges after the cardholders transferred to another division of the Department.
- NHP lacks controls over the self-reported inventory process. This process was implemented as of January 2015 for employees to self-report their inventory via an electronic questionnaire stored on a third-party website. We tested the self-reported process and found it to be effective; however, additional controls are needed to ensure the integrity of the self-reported data and to reduce the risk that errors and theft could occur and go undetected. Finally, NHP's inventory procedures are outdated and do not reflect the self-reported inventory process, including the safeguarding of information on a third-party website.

## DEPARTMENT OF PUBLIC SAFETY

### DIVISION OF PAROLE AND PROBATION

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

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

- Ongoing home contacts with high-risk offenders, classified as intensive supervision, house arrest, or sex offenders, were not always completed within the time frames detailed in Division directives. Of 50 high-risk offenders tested, 14 (28%) had one or more untimely ongoing home contact(s) between July 1, 2013, and March 31, 2015. Of 141 ongoing home contacts that were required during this period, 19 (13%) were late. On average, ongoing home contacts were late by 32 days. Some were late by a few days, but others were late by months.
- The Division has less stringent requirements for ongoing home contacts with high-risk offenders residing in rural areas than for their urban counterparts. For example, home contacts are required every 60 to 90 days for sex offenders living in Las Vegas and Reno; however, caseload directives do not require home contacts for sex offenders living in Carson City and other less populated areas. This occurs because the Division uses general caseload directives to supervise high-risk offenders in rural areas. General caseload directives do not require periodic home contacts. Other western states we contacted indicated home contact requirements are the same for all high-risk offenders regardless of geographical location. Although home contact requirements are less stringent for high-risk rural offenders, rural management indicated officers try to conduct contacts according to the 60- or 90-day directive.
- Initial home contacts were untimely for 23 of 94 (24%) offenders tested. The Division's directive requires new offenders to have an initial home contact within 30 days of beginning supervision. This requirement follows best practices by focusing on the early period of supervision when offenders are at the greatest risk of

reoffending. We found initial home contacts were often late for offenders regardless of risk classification. Some home contacts were only late by a few days while others were more than 3 months late.

- Intake reviews, in which sergeants perform a review of all of the processes associated with supervising a new offender, were not always performed as required. Specifically, 10 of 50 (20%) files either did not have an intake review or it was untimely. Division directives require intake reviews to be performed within 90 days, yet one file was reviewed after a full year had passed. Intake reviews provide necessary oversight of officer duties and can identify problem areas where the Division can improve.
- Offenders did not always have contact with the Division in the first 5 days as detailed in Division directives. Specifically, 7 of 40 (18%) offenders on probation did not have timely initial contacts. Of these, two offenders did not have contact with the Division for several weeks.
- The Southern Command did not always charge offender supervision fees of \$30 per month. Specifically, 6 of 30 (20%) southern offenders on probation were not properly charged supervision fees in the month(s) their probation began. Based upon the results of testing, we estimate initial supervision fees totaling \$38,000 went uncharged.
- The Division did not have procedures to ensure only active users had proper access to the Division's offender database. We found 53 (10%) users should not have had access to the database out of 515 active user accounts.

## DEPARTMENT OF TOURISM AND CULTURAL AFFAIRS

### DIVISION OF MUSEUMS AND HISTORY

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

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

- For the three museums tested, we found a lack of written policies and procedures over each museum store's inventory processes. Although limited procedures were developed for processing merchandise sales in the store's point-of-sale (POS) system, procedures for purchasing and maintaining accurate merchandise inventory records did not exist.
- Adjustments made to merchandise inventory records were not adequately documented and reviewed. We found 30 of 214 adjustments (14%) to the amount of store merchandise on hand could not be adequately explained. Of the remaining 184 adjustments, almost all were explained by museum staff, but not documented for review and approval. Documenting these changes and having an independent person review them, helps ensure adjustments are reasonable. Reviewing adjustments also identifies merchandise consistently being adjusted and thereby potentially needing enhanced security to prevent loss.
- For the Las Vegas State Museum, we found additional store merchandise inventory problems. The fiscal year 2014 physical inventory was not conducted properly, and inventory adjustments were not made to reflect the physical count. Staff identified 295 of 817 items (36%) that required a quantity adjustment in the system. Without written guidance and supervisory oversight, staff were unsure of how to make these adjustments and did not make them. We also identified merchandise purchases not properly recorded in the POS system. For the 18 months ending December 31, 2014, we identified 6 of 10 purchases, of a total of 65 purchases that were not properly recorded in the POS system when received. The 6 purchases improperly recorded involved 28 items totaling \$1,800. These control weaknesses increase the risk of undetected theft and loss, unexpected shortages of merchandise, and unnecessary purchases of items already on hand.
- Control weaknesses were identified in the accounting for commemorative medallions. Staff duties in the minting process were not segregated and no physical inventories were performed of stored blanks and medallions. A lack of policies and procedures contributed to these weaknesses and are needed to help ensure these assets are properly accounted for.
- At the three museums tested, we found deposits were not always made timely. We reviewed 100 days of cash receipts from admissions, train rides, and store sales and found 44 of 140 deposits (31%) totaling over \$8,200 were not made timely in accordance with state law. The deposits ranged from 1 to 14 days late, with an average of 4 days late.
- Receipts collected at museums are not reconciled to deposits by an individual independent of the cash receipting functions. The individual preparing the deposit is the last person to have access to the daily cash register tapes and reports, and no one else reviews this information to ensure all money received has been deposited. Without this control in place, management lacks assurance that all receipts have been deposited.
- The Division's revenue policies and procedures have not been updated in more than 7 years. Several differences were identified between written procedures and actual processes we observed. Since the same individuals have been performing the key

revenue functions for several years, updating policies and procedures has not been a priority. Management indicated they have begun updating some policies and procedures.

### OFFICE OF THE MILITARY

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

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

- The Office did not have adequate documentation to support the reliability of four of the six performance measures tested. The four measures lacking underlying records were maintenance of facilities, units ready for deployment, percent of authorized officer positions filled, and percent of authorized enlisted positions filled. Although the Office maintained a spreadsheet with final numbers for each measure, we could not verify the accuracy of the information since supporting documentation was not retained. Performance measures are not considered reliable unless sufficient underlying records support them. The State Administrative Manual requires agencies to retain the records used in computing performance measures for 3 fiscal years, and to develop written procedures on how the measures are computed.
- The Office can provide better information to decision makers by improving its performance measures. Three of the six measures reviewed either did not accurately describe the measure presented or could better communicate program operations.
- The Office lacks controls over payments for contracted maintenance services because it does not have a process to ensure vendor invoices are compared to contract terms. As of October 2015, the Office managed 68 contracts totaling \$12.4 million. The majority of the contracts (65%) were for maintenance services, including 6 of the 10 contracts we tested. Five of the six routine maintenance services contracts did not include pricing schedules or base rates. In addition, the Office does not comply with the established contract solicitation policy. Solicitation documents for all 10 contracts tested did not include evidence of review

and approval of the scope of work and evaluation criteria in accordance with the established policy.

- The Office's statewide inventory listing was incomplete. As of December 17, 2015, the inventory list included 485 items totaling \$4.2 million. Our testing identified nine items purchased by the Army Guard through the state accounting system between fiscal years 2013 and 2015 and not added to the inventory list. The value for the nine items totaled \$281,000.
- The Office does not comply with established reconciliation procedures for procurement account purchases. The Office manages two procurement accounts for hardware stores and one for fuel. Our testing found a lack of compliance with existing procedures and the need for additional controls.

### SILVER STATE HEALTH INSURANCE EXCHANGE

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

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

Insufficient monitoring controls could lead to inefficient use or abuse of Exchange funds.

- Policies and procedures are needed to address the payment of unlicensed navigators and address associated potential risk factors. We found 25 of the 64 individuals employed by navigator entities from March through October 2015 were paid for enrollment and outreach services prior to being licensed. These unlicensed individuals were paid for periods ranging from a couple days to as many as 86 working days. This practice is not consistent with statutory requirements and may expose the Exchange and public to unnecessary risks.
- From May to mid-October 2015, there were no navigators providing traditional navigator services in Northern Nevada. Additionally, we noted there were only 11 education and outreach events attended in Northern Nevada between May and October 2015, compared to the more than 380 outreach events reported attended by the navigator entities and the outreach and education subcontractor in Southern Nevada. Improving navigator representation in Northern Nevada would ensure consumers have access to unbiased enrollment assistance, and outreach efforts are sufficient to reach the area's targeted populations.
- Although the Exchange deposited all checks we tested, internal controls over revenues need improvement. We found the Exchange does not adequately separate revenue collection duties. In addition, the Exchange can improve controls by monitoring receivables to ensure it collects all revenues timely, reconciling receipt logs to deposit records, and protecting financial records from unauthorized users. Furthermore, the Exchange's policies and procedures over revenue collection need updating. Good revenue controls minimize the risk of revenues being lost or stolen.

## INFORMATION SECURITY AUDITS

### DEPARTMENT OF ADMINISTRATION

#### DIVISION OF HUMAN RESOURCE MANAGEMENT, INFORMATION SECURITY

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

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

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

- Confidential information about state employees was stored unencrypted in the Division's databases, increasing the risk of unauthorized access of this information. One database contained Social Security numbers of over 145,000 current and former state employees and their beneficiaries. State security standards require that confidential personal data be encrypted whenever possible. However, this confidential personal information was not encrypted in the Division's databases. Enterprise Information Technology Services (EITS) support staff, who manage the Division's databases, indicated they were not aware that there was a requirement to encrypt this information.
- Weaknesses exist in managing network users. We identified 42 computer accounts of former staff among the 179 Division computer user accounts whose network credentials (login identification and passwords) had not been disabled. Thirty-one of these former employees had been gone for over one year. One employee had been gone almost 10 years. Untimely disabling of former employees' network credentials increases the risk that someone could gain unauthorized access to the state's information and systems.
- Five of the Division's 77 staff had not completed their annual security awareness training. State security standards require that state employees each receive annual information technology security awareness refresher training to ensure they stay aware of current security threats as well as understanding their responsibility to keep state information confidential.
- Desktop computers lacked adequate virus protection. Seven of the Division's 85 computers did not have adequate virus protection installed. State security standards require that virus protection software be updated regularly to retain protection from evolving online threats. Without current virus protection installed, computers could become infected with malicious software.
- Seventeen of the Division's 85 computers were not receiving Windows operating system updates on a regular basis. Operating system updates are released monthly by Microsoft. State security standards require updates be installed timely to fix security vulnerabilities. Computers without current software security patches installed represent weaknesses in a computer network that can be exploited by a malicious entity to gain unauthorized access to state computer resources and sensitive data stored on them.
- Some servers had vulnerabilities. For example, one of the Division's four servers did not have virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. In addition, three of the four servers had critical or high-level vulnerabilities due to

missing Windows operating system updates. Without installation of these software patches, computers remain vulnerable to online threats.

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

### NEVADA DEPARTMENT OF WILDLIFE, INFORMATION SECURITY

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

- Each of the Department's 43 game wardens in the Law Enforcement Division have a laptop computer containing unencrypted confidential information. This confidential information can contain unencrypted Personal Identifying Information (PII). For example, some case files contain driver's license numbers and credit card or other payment information. State Security Standards require that all sensitive information, including PII, be encrypted.
- All of the Department's 17 servers lacked virus protection software. State security standards require all computer systems to have current virus protection software installed. Without current virus protection software installed, servers could become infected with malicious software. According to the agency, when they converted to the Enterprise Information Technology Services, Enterprise Symantec Endpoint Protection (SEP) rollout, the rollout included virus protection software licenses for desktop and laptop computers, but not for servers. Therefore, the Department's servers were without virus protection.
- The Department's Information Technology (IT) support staff could not monitor the status of virus protection of many of the computers on the network. This was caused by faulty installation of software on at least 71 desktop computers. The faulty software installation prevented these computers from communicating with the virus protection management console that is used by IT staff to monitor the virus protection status of computers on its network. The information provided by the management console allows the IT staff to intervene when the virus protection software, or the daily virus definition updates, malfunction. The Department's IT staff were not aware of the failed software installations until our audit identified

two computers without virus protection that did not appear on their virus protection management console. During inquiry as to why these two computers did not show up on the management console, the larger virus protection software installation problem was identified. This faulty installation affected at least 71 of the 220 computers on the Department's network. A small number of these 71 computers were missing virus protection software.

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

## REVIEW REQUIRED BY STATUTES

### NRS 218G.570 - 218G.585

#### REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN, MAY 2016

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

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

- In this report and the two prior reports, we have noted three concerns that could potentially impact the health and safety of children at several of the facilities reviewed. These concerns are related to facilities' compliance with state law

requiring the consent of the person legally responsible for the psychiatric care of children prior to administering psychotropic medications; the disposal of medications; and employee fingerprint background check requirements at certain mental health treatment facilities.

- Three of the five facilities reviewed for this report needed to improve their processes and procedures for obtaining consent to administer psychotropic medications to youths from the persons legally responsible for the psychiatric care of each youth. Two of the facilities' forms for obtaining consent did not contain the information required by NRS 432B.4687(2), and the third's policies require the youth to sign the form rather than the person legally responsible. This or a similar concern has been repeated during several of our recent facility reviews. Our two prior reports, issued in April 2014 and October 2014, include reviews of 13 facilities. Of those 13 facilities, 4 either did not have an adequate process or procedure for obtaining the required consent or did not have documentation that consent was obtained for some youths.
- Four of the five facilities included in this report need to improve their methods or documentation of the destruction of expired, unused, or wasted medications. Two facilities dispose of unused medications by flushing them in a toilet, placing them in the garbage, or crushing and rinsing them down a sink with water. Two other facilities did not have adequate policies or procedures describing acceptable methods of destruction of medication. Disposing of medications by flushing, rinsing, or putting in the garbage are not in compliance with the intent of the federal Secure and Responsible Drug Disposal Act of 2010. The Act's goal is to decrease the amount of pharmaceutical controlled substances introduced into the environment, particularly into the water. Nine of the thirteen facilities included in the prior two reports also needed to improve their methods or documentation of the destruction of medications.
- Some mental health treatment facilities licensed by the Bureau of Health Care Quality and Compliance (Bureau) within the Department of Health and Human Services have not been able to obtain fingerprint-based background checks of current or potential employees using the requirements found in NRS 449.123. Facilities that provide acute psychiatric services to children are not required to obtain fingerprint-based background checks for employees working with children, even though the children may spend more than a week at the facilities. NRS 449.123 requires all medical facilities that provide residential services to children to obtain fingerprint-based background checks of employees at least every 5 years. However, NRS 449 does not include a definition of "residential services" and the Bureau has interpreted "residential services" according to the definition used by Medicaid and Medicare. The Legislature may wish to consider enacting legislation to amend NRS 449 to include a definition of "residential services" to encompass all psychiatric hospitals that provide inpatient treatment and services to children.

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## **RECOMMENDATIONS TO IMPROVE STATE GOVERNMENT**

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Audit reports issued over the biennium contained 122 recommendations to improve the operations of state government, and 121 of those recommendations were accepted by agency officials. Many of the recommendations address ways to eliminate waste, increase collection of revenues, enhance program effectiveness, improve accountability, and ensure compliance with state laws and regulations.

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## **FOLLOW-UP ON AUDIT RECOMMENDATIONS**

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Chapter 419, Statutes of Nevada, 1987 (A.B. 540), provides for a follow-up process on audit recommendations. Sixty days after an audit report becomes a public document, the agency audited must file a report outlining a plan of action to implement the recommendations (NRS 218G.250). Six months later, a status report must be filed indicating what recommendations in the audit report have been implemented, what recommendations have not been implemented, and the reason why they have not been implemented (NRS 218G.270).

The judicial branch and statewide elected officials file their six-month status reports directly with the Legislative Auditor. The Office of Finance, Office of the Governor, prepares six-month status reports on executive branch agencies and files the reports with the Legislative Auditor. The Legislative Auditor analyzes the reports and submits them to the Audit Subcommittee, Legislative Commission, and the Interim Finance Committee. Some agencies may be requested, based on the status of recommendations, to return to future meetings of the Audit Subcommittee and provide further information regarding recommendations partially or not implemented. This process provides further assurance recommendations made by the Audit Division will be properly implemented.

For the biennium ended December 2016, we received 16 six-month status reports containing 126 recommendations. Our analysis of these status reports and additional information provided to the Audit Subcommittee through the follow-up process indicates that 124 recommendations processed during the biennium were fully implemented. Two of the six-month reports, containing 2 partially implemented recommendations, remained in the follow-up process at the end of the biennium.

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## AUDIT LEGISLATION

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The statutory duties of the Legislative Auditor include recommending the enactment or amendment of statutes based upon the results of audits. During the 2015 Legislative Session, bills were introduced requesting the performance of audits directed towards improving state government. One piece of legislation was passed by the Legislature and subsequently signed into law by the Governor. As of December 31, 2016, the audit was in progress with the report to be presented no later than February 6, 2017. The description and disposition of this legislation is as follows.

|        |                                                                                                                                                                                                                                                                                                                                                           | STATUTES OF<br>NEVADA<br>CHAPTER<br>NUMBER |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| SCOPE  | BILL<br>NUMBER                                                                                                                                                                                                                                                                                                                                            | NUMBER                                     |
| AN ACT | Relating to education; requiring the Department of Education to develop certain policies, procedures and guidance related to class-size reduction; requiring the Legislative Auditor to conduct an audit concerning the use of money by each school district for the class-size reduction program; and providing other matters properly relating thereto. | A.B. 278<br>499                            |

### AUDITS REQUESTED BY LEGISLATIVE COMMISSION

During the biennium, concerns addressed at legislative committee meetings prompted the request of two special audits to be conducted by the Legislative Auditor. The Legislative Commission authorized an audit of the Nevada State Board of Dental Examiners on February 19, 2016, which was presented to the Commission on May 24, 2016. The audit focused on a review of the Board's disciplinary process and costs assessed for investigations. On June 28, 2016, the Legislative Commission authorized an audit of Horse Power, which is in progress as of December 31, 2016. The audit will review the appropriateness of expenditures and evaluate whether the organization has adequate methods and procedures in place to ensure that grants and expenditures benefit the intended recipients.

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## UNIFORM SYSTEM OF INTERNAL CONTROL

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The Department of Administration, in accordance with Chapter 774, Statutes of Nevada, 1987 (S.B. 341), issued regulations in January 1988 requiring each state agency to develop a uniform system of internal accounting and administrative control. Chapter 774 also provides that we include in our biennial report a list of those agencies audited that have not carried out a system of internal controls. The required elements of the system are described in NRS 353A.020. The agencies identified as having deficiencies in its internal accounting and administrative control systems in audits issued between January 1, 2015, and December 31, 2016, are:

OFFICE OF THE ATTORNEY GENERAL

OFFICE OF THE STATE TREASURER, UNCLAIMED PROPERTY PROGRAM

DEPARTMENT OF BUSINESS AND INDUSTRY, MANUFACTURED HOUSING DIVISION

DEPARTMENT OF BUSINESS AND INDUSTRY, DIVISION OF MORTGAGE LENDING

DEPARTMENT OF HEALTH AND HUMAN SERVICES, DIVISION OF HEALTH CARE FINANCING  
AND POLICY

DEPARTMENT OF MOTOR VEHICLES

DEPARTMENT OF PUBLIC SAFETY, CAPITOL POLICE

DEPARTMENT OF PUBLIC SAFETY, NEVADA HIGHWAY PATROL

DEPARTMENT OF PUBLIC SAFETY, DIVISION OF PAROLE AND PROBATION

DEPARTMENT OF TOURISM AND CULTURAL AFFAIRS, DIVISION OF MUSEUMS AND HISTORY

OFFICE OF THE MILITARY

SILVER STATE HEALTH INSURANCE EXCHANGE

## COUNT OF MONEY IN STATE TREASURY

NRS 353.060 requires the Legislative Auditor to count the money in the State Treasury at least annually. During this biennium, we conducted the money count on January 5, 2015, June 30, 2015, and June 30, 2016. Money count reports are filed with the Secretary of State and presented to the Audit Subcommittee. The 2016 money count has been filed with the Secretary of State and will be presented to the Audit Subcommittee in January 2017. The following schedule summarizes the money and securities in custody of the State Treasurer as of the close of business, June 30, 2016.

| Custodian             | On Deposit<br>With Financial<br>Institutions (A) | State Owned<br>Securities (B) | Securities Held<br>For Safekeeping |
|-----------------------|--------------------------------------------------|-------------------------------|------------------------------------|
| State Treasurer       | \$ --                                            | \$2,769,147,680.17            | \$ --                              |
| State Treasurer       | --                                               | --                            | 937,849,277.92                     |
| Wells Fargo           | 180,893,181.38                                   | --                            | --                                 |
| Nevada Bank and Trust | 144,954.42                                       | --                            | --                                 |
| Nevada State Bank     | 125,327.62                                       | --                            | --                                 |
| Washington Federal    | 100,720,724.10                                   | --                            | --                                 |
| JP Morgan Chase       | 587,347.86                                       | --                            | --                                 |
|                       | <u>\$282,471,535.38</u>                          | <u>\$2,769,147,680.17</u>     | <u>\$937,849,277.92</u>            |

Notes: (A) The amounts reported on deposit with financial institutions represent the institution's balance and have not been reduced by outstanding checks or increased by deposits in transit.

(B) Securities are reported at fair market value as determined by the safekeeping entity as of the close of business on June 30, 2016. Fair market value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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## ACTIVITIES THAT SUPPORT AND ENHANCE THE AUDIT FUNCTION

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### PROFESSIONAL DEVELOPMENT

We place great importance on retaining and developing qualified staff. The Audit Division encourages and provides the opportunity for all staff members to develop their professional skills to the fullest extent. Government auditing standards require auditors to complete 80 hours of continuing professional education and training every 2 years. In meeting this requirement, continuing education and training is provided and includes such topics as current developments in audit methodology, governmental accounting, assessment of internal controls, principles of management and supervision, financial management, statistical sampling, performance auditing, program evaluation, and data analysis.

The Audit Division is constantly identifying resources to provide timely professional and technical assistance on accounting, auditing, and program evaluation issues to staff. This also facilitates the development of office policies and procedures relating to professional standards and practices. The ongoing revision of the Audit Division audit manual has resulted in numerous changes to procedures to increase the effectiveness and efficiency of the audit process, while ensuring compliance with applicable professional standards.

As part of professional development, we actively support auditors seeking professional certification and advanced degrees. Most of our professional staff are either certified public accountants or have master's degrees.

### QUALITY ASSURANCE

Every 3 years the Legislative Auditor contracts with an external organization to perform a quality control review of the Audit Division's operations. The most recent review was completed in August 2015. We are pleased to report the office received an unqualified opinion on the review, (Appendix A) indicating that our system of quality control is appropriately comprehensive and suitably designed to ensure reasonable compliance with professional audit standards.

### INFORMATION TECHNOLOGY

The Audit Division continues to update and expand its capabilities to meet the challenges created by continued advances in information technology. Information technology is an important part of state operations as most functions of government increasingly utilize information systems to operate programs, process data, and store important information. Therefore, Audit Division staff must be knowledgeable about software applications and systems. The Audit Division continually improves on methods used to review agencies' operations that utilize information technology including personal computers, distributed networks, and mainframe systems.

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## OTHER SIGNIFICANT RESPONSIBILITIES

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### FEDERAL AUDIT REQUIREMENTS

The Federal Government, in 1979, transferred the responsibility for auditing federal programs to the state level. As a result, the Legislature, in 1981, created the Audit Subcommittee to address this issue. Public Law 98-502, known as the Single Audit Act of 1984, was enacted to strengthen the audit requirement. The Act was subsequently amended in 1996 in an attempt to further streamline the audit process.

The Audit Subcommittee has authorized the Legislative Auditor to contract with public accounting firms to audit these federal programs. The financing of contract audits is provided through the Office of Finance, Office of the Governor, and the Audit Division's budget. During the fiscal year ended June 30, 2015, federal financial assistance expenditures totaled about \$4.8 billion.

### SCHOOL DISTRICT REVIEWS

Chapter 482, Statutes of Nevada 2005, provides that to the extent money is made available by the Legislature, every six years each school district undergo a review of its financial management principles unless an exemption is granted by the Legislature. The Legislative Auditor assists the Legislature with selecting school districts for review and also provides the State Board of Education with a list of qualified consultants to perform these reviews. In addition, the Legislative Auditor reviews the final report from each review and the plan for corrective action adopted by the school district. The Legislative Auditor then determines the extent to which the plan has been carried out, and submits a report of this determination to the Legislature.

### CHILD WELFARE RESPONSIBILITIES

Chapter 70, Statutes of Nevada 2007, requires child welfare agencies to submit case files to the Legislative Auditor of children who suffer a fatality or near fatality if the child had prior contact with the agency. The Legislative Auditor is required to review the information to determine whether the case was handled in a manner consistent with state and federal law and to determine whether any procedures could have assisted in preventing the fatality or near fatality. This statute also requires the Legislative Auditor to provide certain information about the fatality or near fatality to a member of the public upon request.

Chapter 2, Statutes of Nevada 2009, requires the Legislative Auditor to conduct reviews, audits, and unannounced site visits of residential children's facilities. These facilities include both governmental and private facilities which have physical custody of children pursuant to the order of a court. The purpose of the reviews is 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.

## SPECIAL LICENSE PLATE REVIEWS

Chapter 239, Statutes of Nevada 2007, requires each charitable organization receiving revenue from the issuance of a special license plate, to submit a balance sheet and certain financial records to the Commission on Special License Plates and the Legislative Auditor. The Legislative Auditor is required to review the reported information to determine whether the charitable organization has properly filed the appropriate documentation, committed improper practices of financial administration, and used adequate methods and procedures to ensure all money received was expended solely for the benefit of the intended recipient. The Legislative Auditor reports the results of these reviews annually to the Commission on Special License Plates.

## AUDITS OF CERTAIN STATE BOARDS

Nevada Revised Statutes 218G.400 requires boards with annual revenues less than \$75,000 to prepare a balance sheet for that fiscal year and file it with the Legislative Auditor and the Chief of the Budget Division of the Office of Finance. If revenues exceed \$75,000, the board must engage a certified public accountant or public accountant to audit the board's fiscal records of the fiscal year and file the audit report with the Legislative Auditor and Budget Division. Boards may elect to have the audit conducted biennially. The Legislative Commission may also direct the Legislative Auditor to perform an audit of a board's fiscal records. The Legislative Auditor monitors agencies' compliance with these requirements and reviews submissions to identify control weaknesses and violations of law and regulations. A report is submitted by the Legislative Auditor to members of the Legislature every six months detailing boards' failure to report and significant issues identified.

# APPENDICES



## APPENDIX A

# EXTERNAL QUALITY CONTROL REVIEW

|                                                                           |                                                                                                                                                                                                      |                                                                                                                                                                     |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>National State<br/>Auditors Association<br/>An Affiliate of NASACT</p> | <p><b>Headquarters Office</b><br/>449 Lewis Hargett Circle, Suite 290<br/>Lexington, KY 40503-3590<br/>P (859) 276-1147, F (859) 278-0507<br/><a href="http://www.nasact.org">www.nasact.org</a></p> | <p><b>Washington Office</b><br/>The Hall of the States<br/>444 N. Capitol Street, NW, Suite 234<br/>Washington, DC 20001<br/>P (202) 624-5451, F (202) 624-5473</p> |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|



August 14, 2015

Mr. Paul Townsend, CPA, CIA  
 Legislative Auditor  
 State of Nevada  
 401 S. Carson Street  
 Carson City, Nevada 89701-4747

Dear Mr. Townsend:

We have reviewed the system of quality control of the State of Nevada's Legislative Counsel Bureau – Audit Division (the office) in effect for the period January 1, 2014 through June 30, 2015. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of Nevada's Legislative Counsel Bureau – Audit Division in effect for the period January 1, 2014 through June 30, 2015 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The State of Nevada's Legislative Counsel Bureau – Audit Division has received a peer review rating of *pass*.

|                                                                                                                                                                                |                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br>Concurring Reviewer<br>External Peer Review Team<br>National State Auditors Association | <br>Team Leader<br>External Peer Review Team<br>National State Auditors Association |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## APPENDIX B

### STATUTORY CITATIONS – LEGISLATIVE AUDITOR

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#### NRS

- 218E.205 Priorities and limitations on studies and investigations.
- 218E.240 Legislative Commission: Audit Subcommittee.
- 218F.100 Creation and composition; appointment of Director and chiefs of divisions.
- 218F.110 General powers and duties.
- 218F.150 Officers and employees of Legislative Counsel Bureau not to oppose or urge legislation; exceptions, conditions and limitations on disclosure of information.
- 218G.010 Legislative declaration.
- 218G.030 Legislative Auditor: “Agency of the state” defined.
- 218G.100 Legislative Auditor: Qualifications.
- 218G.110 Legislative Auditor: Powers and duties.
- 218G.120 Regular and special audits and investigations.
- 218G.130 Legislative Auditor to keep file of reports and releases; confidentiality of working papers from audit.
- 218G.140 Report of improper practices following audit.
- 218G.150 Report of inadequacy of fiscal records.
- 218G.160 Biennial report of Legislative Auditor.
- 218G.200 Audits of state agencies required, duty of agency personnel to assist in audit.
- 218G.210 Books and records of agencies of State: Availability to Legislative Auditor.
- 218G.220 Legislative Auditor: Request for financial statements from agencies of State.
- 218G.230 Audits: Discussion of preliminary audit report with head of agency audited; presentation of final report when Legislature in session.
- 218G.240 Audits: Presentation and distribution of final report; restriction on disclosure.
- 218G.250 Audits: Notice to agency of acceptance of final report; submission of plan for corrective action.
- 218G.260 Audits: Order for withholding money from agency for failure to submit or comply with plan for corrective action.

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**APPENDIX B****STATUTORY CITATIONS – LEGISLATIVE AUDITOR (CONTINUED)**

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NRS

- 218G.270 Audits: Report on carrying out of recommendations of Legislative Auditor; review of report.
- 218G.330 Audits required by Federal Government: Arrangements with Legislative Auditor; payment of cost of audit; Audit Contingency Account.
- 218G.340 Audits required by Federal Government: Legislative Auditor or private firm may be chosen to conduct audit; procedure for selecting firm; combining of audits.
- 218G.350 Audits to ensure compliance with federal regulations: Selection of firm to perform audit; submission, presentation and distribution of report.
- 218G.400 Preparation of balance sheets by and audit of fiscal records of certain boards; payment of costs; removal of state officer or employee for failing to prepare balance sheet, conduct audit or maintain necessary fiscal records.
- 218G.450 Special audits of certain entities which receive public money.
- 218G.550 Notification of Legislative Auditor of fatality or near fatality of child; review of information; cooperation with Legislative Auditor by agency.
- 218G.555 Legislative Auditor to disclose certain data and information by request; exceptions.
- 218G.570 Performance audits of governmental facilities for children.
- 218G.575 Inspection, review and survey of governmental facilities for children and private facilities for children.
- 218G.580 Scope of inspection, review and survey.
- 218G.585 Duty of facilities to cooperate with inspection, review and survey.
- 218H.400 Reports by registrant; audit or investigation.
- 277.200 Text of compact. (Tahoe Regional Planning Agency)
- 353.060 Count of money in state treasury by Legislative Auditor.
- 353.065 Count of securities and money in custody of State Treasurer.
- 353.070 Actual money only to be counted.
- 353.075 Report to be filed following count.

## APPENDIX B

### STATUTORY CITATIONS – LEGISLATIVE AUDITOR (CONTINUED)

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#### NRS

- 353.080 Failure of Legislative Auditor to perform duties: Penalties.
- 353.325 Distribution of audit report of state agency.
- 353A.020 System of accounting and control for agencies: Adoption; elements; modification; development of procedures.
- 353A.045 Duties of Administrator of Division of Internal Audits. Consult with Legislative Auditor.
- 354.6135 Governing body authorized to loan or transfer money from enterprise fund. (Chapter 461, 2013 Statutes of Nevada, Audit Division review of report submitted by the governing body)
- 387.613 Selection of school districts for financial management review and selection of consultants to conduct reviews.
- 387.639 Review of school district's report concerning progress on corrective action plan.
- 387.644 School district's reporting when exempt from review.
- 463.1593 Regulations concerning financial practices licensees: Duties of Legislative Auditor. (Gaming)
- 482.38277 Certain charitable organizations to prepare and file certain documents with Commission on Special License Plates; Commission to provide documents to Legislative Auditor; duties of Legislative Auditor with respect to forms and information.
- 482.38278 Legislative Auditor to present final written report to Commission on Special License Plates; distribution of report; contents of report.
- 482.382785 Commission on Special License Plates may request audit of certain charitable organizations; Legislative Commission may direct Legislative Auditor to perform audit; Legislative Auditor to prepare written report of audit.
- 514A.100 Mining Oversight and Accountability Commission can request special audit or investigation.
- 630.127 Performance audits of Board. (Board of Medical Examiners)
- 645A.050 Duties of commissioner. (Escrow Agencies and Agents)

**APPENDIX B**

**STATUTORY CITATIONS – LEGISLATIVE AUDITOR (CONTINUED)**

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NRS

- 645B.060 Duties of commissioner. (Mortgage Brokers and Mortgage Agents)
- 645E.300 Duties of commissioner. (Mortgage Bankers)
- 692A.117 Confidential Records. (Title Insurance)

## APPENDIX C

# 2016 – 2018 BASIC AUDIT PROGRAM

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



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

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

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

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

August 30, 2016

Members of the Legislative Commission  
Legislative Building  
Carson City, Nevada

### REQUEST FOR APPROVAL TO PERFORM AUDITS

Schedule 1 lists the audits we currently have in progress. In accordance with NRS 218E.205, we are requesting your approval to continue these audits as we may not be able to present all of them to the Audit Subcommittee of the Legislative Commission by the start of the 2017 Session.

In accordance with NRS 218G.120, we are requesting your approval of a basic audit program, which is set forth in Schedule 2. For agencies with several major programs, we may perform more than one audit for the agency listed. The timing as to when we can start the audits is contingent upon the availability of audit staff and additional requirements that may be placed upon the Audit Division by the Legislative Commission and the Legislature.

The proposed audits were selected using a risk assessment process. This process considered such factors as the length of time since the last audit, amount of agency revenues and expenditures, legislative and public interest, prior problems, and agency or program complexity. Audits are designed to provide information to improve public accountability and facilitate decision making by the Legislature and those responsible for corrective action. Audit objectives may include determining if an agency is operating in an economical or efficient manner, or determining the extent to which a program achieves a desired level of program results. Audit objectives can also include evaluating agencies' compliance with laws and regulations, and determining if appropriate information technology security controls are in place to protect sensitive information against unauthorized use.

Respectfully requested,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA  
Legislative Auditor

RC:sy  
Enclosures

APPROVED AT THE LEGISLATIVE COMMISSION MEETING ON NOVEMBER 2, 2016

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## APPENDIX C

### 2016 – 2018 BASIC AUDIT PROGRAM (CONTINUED)

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Legislative Counsel Bureau  
Audit Division  
Audits in Progress  
August 30, 2016

Schedule 1

- Department of Administration — Hearings Division
- Department of Education — Class Size Reduction (A.B. 278)
- Department of Health and Human Services — Aging and Disability Services Division
- Division of Public and Behavioral Health — Medical Marijuana Program
- Department of Public Safety — Investigations Division
- Report on the Count of Money in State Treasury
- Review of Governmental and Private Facilities for Children
- Statewide Single Audit
- Department of Wildlife

## APPENDIX C

### 2016 – 2018 BASIC AUDIT PROGRAM (CONTINUED)

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Legislative Counsel Bureau  
Audit Division  
Proposed Audits  
September 2016 through December 2018

Schedule 2

Department of Administration

- Division of Enterprise Information Technology Services
- Public Works Division
- Purchasing Division

Department of Business and Industry

- Financial Institutions
- Housing Division
- Division of Industrial Relations
- Real Estate Division

Department of Conservation and Natural Resources

- Division of Environmental Protection
- Division of Forestry
- Division of State Parks

Department of Corrections

Department of Employment, Training and Rehabilitation

- Employment Security Division

Gaming Control Board

Department of Health and Human Services

- Director's Office
- Division of Health Care Financing and Policy
- Division of Public and Behavioral Health
- Division of Welfare and Supportive Services

Department of Taxation

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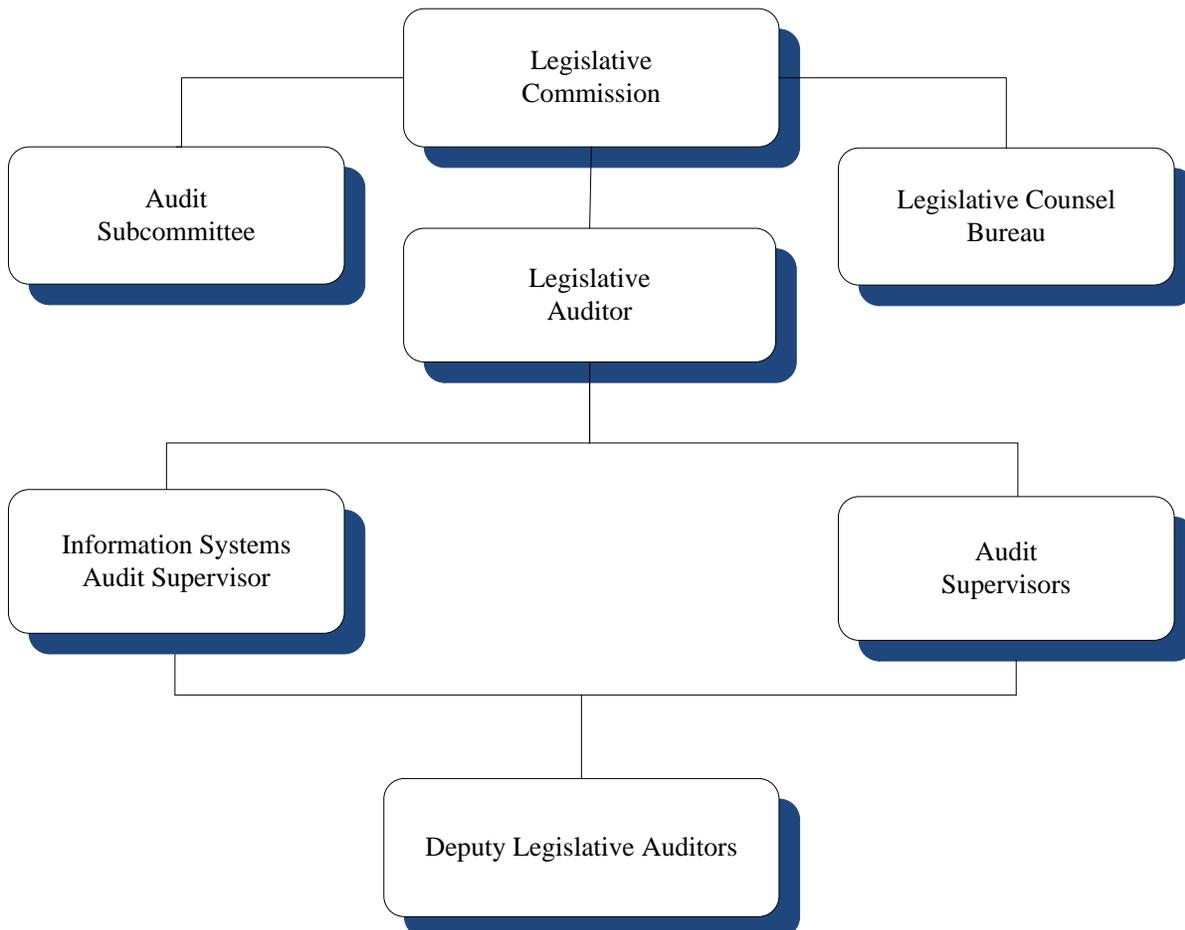
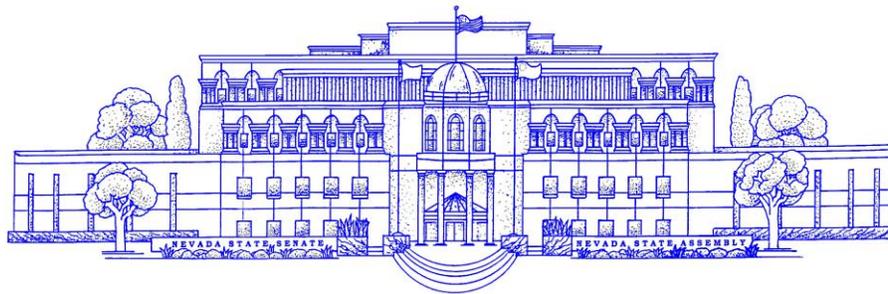
## APPENDIX D

### AUDIT DIVISION

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## ORGANIZATIONAL CHART

### LEGISLATURE



## APPENDIX D

### AUDIT DIVISION (CONTINUED)

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#### HISTORICAL LISTING OF LEGISLATIVE AUDITORS

|                        |               |
|------------------------|---------------|
| <b>ROCKY J. COOPER</b> | <b>2015 –</b> |
| PAUL V. TOWNSEND       | 2001 – 2015   |
| WM. GARY CREWS         | 1990 – 2001   |
| JOHN R. CROSSLEY       | 1978 – 1990   |
| EARL T. OLIVER         | 1971 – 1978   |
| ROBERT E. BRUCE *      | 1968 – 1971   |
| NORMAN H. TERRELL *    | 1963 – 1968   |
| A. N. JACOBSEN         | 1949 – 1963   |

The Legislative Auditor is a statutory officer appointed by the Director of the Legislative Counsel Bureau, with the approval of the Legislative Commission for an indefinite term, whose qualifications and duties are defined by law. The Legislative Auditor serves as staff to the Nevada Legislature and its various committees and is the chief of the Audit Division.

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\* The official title Fiscal Analyst (Chapter 403, Statutes of Nevada, 1963) was used for a period of ten years, 1963-1973 (Chapter 771, Statutes of Nevada, 1973); however, the principal functions and duties were auditing and accounting for the Legislative Branch of Government.

**APPENDIX D****AUDIT DIVISION (CONTINUED)****AUDIT DIVISION STAFF****ROCKY J. COOPER, CPA, MBA****LEGISLATIVE AUDITOR**


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|-----------------------------------------|--------------------------------------|
| JANE E. GIOVACCHINI, MS                 | AUDIT SUPERVISOR                     |
| DANIEL L. CROSSMAN, CPA                 | AUDIT SUPERVISOR                     |
| RICHARD A. NEIL, CPA                    | AUDIT SUPERVISOR                     |
| TODD C. PETERSON, MPA                   | AUDIT SUPERVISOR                     |
| SHANNON RYAN, CPA                       | AUDIT SUPERVISOR                     |
| S. DOUGLAS PETERSON, CISA, MPA          | INFORMATION SYSTEMS AUDIT SUPERVISOR |
| EUGENE ALLARA, CPA                      | DEPUTY LEGISLATIVE AUDITOR           |
| AMANDA BARLOW, MPA                      | DEPUTY LEGISLATIVE AUDITOR           |
| JENNIFER M. BRITO, MPA                  | DEPUTY LEGISLATIVE AUDITOR           |
| A. LILLIANA CAMACHO-POLKOW, MBA         | DEPUTY LEGISLATIVE AUDITOR           |
| PAUL E. CASEY, MBA                      | DEPUTY LEGISLATIVE AUDITOR           |
| DEBRA CLARK, CPA                        | DEPUTY LEGISLATIVE AUDITOR           |
| SHIRLEE EITEL-BINGHAM, GSEC, NISP, CICP | DEPUTY LEGISLATIVE AUDITOR           |
| ARSENIO C. ESCUDERO, MA, MPA            | DEPUTY LEGISLATIVE AUDITOR           |
| DREW FODOR, MBA                         | DEPUTY LEGISLATIVE AUDITOR           |
| SARAH R. GASPORRA, BA                   | DEPUTY LEGISLATIVE AUDITOR           |
| DIANA GIOVANNONI, CPA                   | DEPUTY LEGISLATIVE AUDITOR           |
| TAMMY A. GOETZE, CPA                    | DEPUTY LEGISLATIVE AUDITOR           |
| YETTE M. DE LUCA, MBA                   | DEPUTY LEGISLATIVE AUDITOR           |
| SANDRA T. MCGUIRK, CPA                  | DEPUTY LEGISLATIVE AUDITOR           |
| DAVID M. STEELE, CPA, MPA               | DEPUTY LEGISLATIVE AUDITOR           |
| JAMES T. THORNE, MPA                    | DEPUTY LEGISLATIVE AUDITOR           |
| SUSAN M. YOUNG, MA                      | OFFICE MANAGER                       |
| DEBORAH ANDERSON, BS                    | AUDIT SECRETARY                      |

## APPENDIX E

### SCHEDULE OF REPORTS RELEASED 2015 – 2016

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| NUMBER | REPORT                                                                                    |
|--------|-------------------------------------------------------------------------------------------|
| 16-01  | Report on Count of Money In State Treasury, January 5, 2015                               |
| 16-02  | Department of Health and Human Services, Division of Health Care Financing and Policy     |
| 16-03  | Department of Tourism and Cultural Affairs, Division of Museums and History               |
| 16-04  | Department of Business and Industry, Manufactured Housing Division                        |
| 16-05  | Department of Public Safety, Nevada Highway Patrol                                        |
| 16-06  | Office of the Attorney General                                                            |
| 16-07  | Office of the State Treasurer, Unclaimed Property Program                                 |
| 16-08  | Department of Public Safety, Capitol Police                                               |
| 16-09  | Report on Count of Money in State Treasury, June 30, 2015                                 |
| 16-10  | Department of Public Safety, Division of Parole and Probation                             |
| 16-11  | Department of Health and Human Services, Division of Child and Family Services            |
| 16-12  | Silver State Health Insurance Exchange                                                    |
| 16-13  | Review of Governmental and Private Facilities for Children, May 2016                      |
| 16-14  | Nevada State Board of Dental Examiners                                                    |
| 16-15  | Department of Administration, Division of Human Resource Management, Information Security |
| 16-16  | Department of Business and Industry, Division of Mortgage Lending                         |
| 16-17  | Nevada Department of Wildlife, Information Security                                       |
| 16-18  | Office of the Military                                                                    |
| 16-19  | Department of Motor Vehicles                                                              |