

STATE OF NEVADA

Legislative Counsel Bureau Audit Division Audit Report Summaries



Seventy-Eighth
Nevada Legislature

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MEMORANDUM

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

FROM: Paul V. Townsend, Legislative Auditor

DATE: February 9, 2015

SUBJECT: **Audit Report Summaries**

This document contains summaries of audits issued during the past biennium. The table of contents references both the summary page and the agency's corresponding page in the Executive Budget. Each section contains one-page highlights of the audits performed, followed by additional information regarding agency action on recommendations.

The involvement of the money committees is an important part of the audit follow-up process that helps ensure corrective action is taken. Consequently, the committees' involvement has contributed to continuing financial benefits. We have identified measurable cost reductions or enhanced revenues totaling more than \$83 million over the past two years resulting from the implementation of our audit recommendations. These savings would not have been possible without the support and involvement of the Legislature.

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Audit Highlights



Highlights of performance audit report on the Agency for Nuclear Projects issued on January 7, 2014. Legislative Auditor report # LA14-08.

Background

The Agency for Nuclear Projects (Agency) was established by executive order in 1983 following passage of the federal Nuclear Waste Policy Act of 1982. The 1985 Legislature formally established the Agency in statute and created a seven-member Commission on Nuclear Projects to advise the Agency and provide guidance to the Governor and Legislature on matters concerning the high-level nuclear waste program. In 1997, the Legislature placed the Agency within the Office of the Governor.

The Agency's mission is to assure that the health, safety, and welfare of Nevada's citizens and the State's unique environment and economy are adequately protected with regard to any federal high-level nuclear waste disposal activities in the State.

Purpose of Audit

The purpose of this audit was to evaluate the Agency's financial and administrative practices over contract monitoring, property and equipment, employee compensation, and the ongoing monitoring of its system of internal controls. This audit focused on the Agency's financial and administrative activities during fiscal year 2013.

Audit Recommendations

This report contains no audit recommendations.

Agency for Nuclear Projects

Office of the Governor

Summary

The Agency for Nuclear Projects had adequate internal controls over key financial and administrative functions. Specifically, the Agency properly monitored its contracts with consultants to help ensure contract payments were appropriate and that consultants complied with contract terms and state requirements. In addition, the Agency maintained adequate controls over its property and equipment. Furthermore, employee compensation did not exceed the maximum amount authorized by state law. Finally, the Agency complied with state requirements for periodic reviews and reporting of its system of internal controls.

Key Findings

There are no audit findings to report.

Audit Highlights



Highlights of performance audit report on the Supreme Court of Nevada issued on October 6, 2014. Legislative Auditor report # LA14-20.

Background

The Nevada Judiciary is one of three branches of government. It consists of the Supreme Court, the State's highest court, and three levels of trial courts: the district, justice, and municipal courts. The Supreme Court rules on appeals from the trial courts, determining if legal errors occurred in court cases, or whether verdicts and judgments were fair and correct.

As of July 26, 2014, the Supreme Court had 150 filled positions. In addition, 89 judges were paid through a budget account administered by the Supreme Court. The main Supreme Court building is located in Carson City, and additional offices are located in Carson City and Las Vegas.

Funding for the Supreme Court is administered by the Administrative Office of the Courts (AOC). Funding comes primarily from the state's General Fund and from administrative assessments on misdemeanor criminal and traffic violations heard in justice and municipal courts. It also collects peremptory challenge fees from district courts when a party to a case seeks a change in the judge hearing the case. Filing fees are collected when a special proceeding is brought to the Supreme Court. Expenditures for the Supreme Court and other accounts it administers were about \$51 million in fiscal year 2014.

Purpose of Audit

The purpose of the audit was to determine whether the Supreme Court has effective controls over the procurement of goods and services, collection of peremptory challenge and court filing fees, and safeguarding of equipment.

This audit focused on the 12-month period ending March 31, 2014, and prior years for some procurement and equipment activities.

Audit Recommendations

This audit report contains six recommendations to improve controls over the procurement of goods and services, collection of certain fees, and safeguarding of equipment.

The Supreme Court accepted five recommendations and rejected one recommendation.

Recommendation Status

The Supreme Court's 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

Supreme Court of Nevada

Judicial Branch of Government

Summary

In general, the Supreme Court has adequate controls over the procurement of goods and services. However, the Supreme Court can improve oversight of its procurement activities. Specifically, it needs to take additional action to help ensure multiple bids or quotes are obtained when selecting vendors. From our testing of the procurement of goods and services, we found that most procurements did not have documentation showing multiple bids or quotes were requested. As a result, the Supreme Court cannot demonstrate it received the best product at the best price. In addition, internal procurement policies and procedures were not always followed. Adequate oversight of procurement activities is important to help ensure the Court receives those goods and services desired, and that its interests are protected.

The Supreme Court has effective controls to ensure the timely deposit of peremptory challenge and filing fees. We tested 90 transactions and found these fees were deposited timely. However, additional controls are needed to reduce the risk of loss of these fees. Specifically, checks need to be restrictively endorsed immediately upon receipt, and recorded and reconciled properly. During fiscal year 2014, the Court received over \$565,000 in peremptory challenge and filing fees.

The Supreme Court needs to strengthen its controls over equipment. We found the Court did not properly track its equipment, and as a result its equipment records were not accurate. In addition, the proper disposal of some equipment, such as computers and monitors, could not be verified. Adequate controls in these areas are important to help ensure equipment is properly safeguarded, including items with a high susceptibility to theft or loss, such as laptop computers. State property records indicate the total acquisition cost of items held by the Court is over \$4.1 million.

Key Findings

For 13 of 20 (65%) procurements tested, the Supreme Court did not solicit multiple bids or quotes, or did not document they were requested. The value of these procurements totaled over \$598,000. When competitive procedures are not used to select vendors, the Supreme Court does not have assurance it receives the best product at the best price. For example, one vendor that performs janitorial services has been under contract with the Supreme Court since 2006. The vendor's contract was amended in 2011, but multiple bids were not requested. (page 5)

The Supreme Court has developed procedures to help control its procurement activities. Our testing of over \$1.8 million in procurements of goods and services found procedures were often followed. For example, all 10 procurements of goods tested received the proper approvals before being purchased, and payments were made after the execution of the contract. However, staff did not always follow policies and procedures, including those requiring contract summary sheets and documenting receipt of goods. (page 7)

We tested 30 filing fee and 60 peremptory challenge fee transactions and found the correct fee amount was collected and deposited timely. However, key controls to log, restrictively endorse, and reconcile receipts were not performed or performed timely. Our testing did not identify missing funds; nevertheless, additional controls over cash receipts are needed to help ensure they are not lost or stolen. (page 9)

The Court did not perform an annual inventory of equipment. According to the Court's records, its most recent inventory of information technology (IT) equipment was performed in February 2012. In addition, staff were not sure when the last inventory of non-IT equipment was performed. Nevertheless, our testing of equipment did not find significant problems. However, the Court has less assurance equipment is properly safeguarded when physical inventories are not performed. (page 12)

Our testing of the Court's disposal of IT equipment found discrepancies between the Court's disposal lists and the receipts provided by the entity receiving the equipment. In addition, the Court does not have a receipt for one disposal documenting the entity received the equipment. Policies and procedures do not address the process needed to verify items approved for disposal were disposed of properly. Without adequate controls over the disposal of equipment, the Supreme Court's excess equipment could be stolen or given away improperly. (page 13)

SUPREME COURT OF NEVADA
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December 1, 2014

Mr. Paul Townsend, CPA
Legislative Auditor
Nevada Legislature
401 South Carson Street
Carson City, Nevada 89701

RE: Implementation plan in response to 2014 audit

Dear Mr. Townsend:

The attached information details the plan by the Supreme Court to make changes as noted in the accepted recommendations from the Legislative Counsel Bureau audit of the Judicial Branch, which was completed in 2014 and submitted to the Audit Subcommittee of the Legislative Commission on October 6, 2014. As almost all elements of the plan have been completed as well, a status of each plan item is provided also.

Recommendation 2. Monitor procurement activities to ensure compliance with policies and procedures. (Accepted.)

IMPLEMENTATION PLAN:

Currently, the Director of the Administrative Office of the Courts signs a majority of the contracts. The Director will only review or sign contract with a cover sheet. The Clerk of the Court is also authorized to sign contracts and she has reviewed the audit and participated in the discussions regarding cover sheets.

Current Accounting Unit assistants have been reminded to return packing slips if appropriate signatures are not provided. Court employees have also been reminded to have someone review and concur with the receipt of goods and sign the packing slip.

All departments of the Court have been reminded to follow all procurement policies and procedures.

STATUS OF PLAN:

All elements of the plan have been executed through email or other procedure reminders.

Recommendation 3. Ensure checks and money orders are restrictively endorsed immediately upon receipt. (Accepted.)

IMPLEMENTATION PLAN:

The deputy clerks who process the mail or receive checks or money orders at the counter endorse the checks or money orders immediately. A check log is updated and subsequently used for reconciliation. The new process is documented.

STATUS OF PLAN:

The procedures have been updated to include the endorsement of checks or money orders upon receipt in mail or at counter as well as the use of the check log. The new procedure has been in place since the auditor recommended it to the Clerk of Court.

Recommendation 4. Revised written procedures to ensure fees are properly recorded and reconciled to deposits in the state accounting system. (Accepted.)

IMPLEMENTATION PLAN:

The check log from recommendation 3 is used in reconciliation of fees received. A letter from the Clerk of Court was sent to all District Court Clerks of Court requesting quarterly reports to be used for reconciliation of the peremptory challenge fees. The new processes are documented.

STATUS OF PLAN:

The check log is maintained and used for reconciliation purposes. The letter from the Clerk of Court was sent to the District Court Clerks of Court on November 10, 2014, requesting quarterly reports of peremptory challenge fees be submitted to the Supreme Court. The procedures for both of these items have been revised to document the recording and reconciliation processes.

Recommendation 5. Perform an annual inventory of equipment, including reconciliation to equipment inventory records. (Accepted.)

IMPLEMENTATION PLAN:

Our Information Technology staff implemented new asset management software with modifications as needed following the completion of the full inventory in November. Policies and procedures were prepared and adjusted as needed following the inventory. Items listed on the State system will be updated following the inventory completion and hiring of an accountant, whose job is to update the State inventory system.

STATUS OF PLAN:

The asset management policy, which notes annual inventories will be completed, has been drafted and is pending approval by the Justices. The new asset management software has been set up, initial data entered, and custom reports prepared. The initial inventory was started on November 17th. The procedures were drafted and are being reviewed for any updates following the initial inventory. The State inventory system update will be completed within the 6-month window for completing activities.

Recommendation 6. Enhance written procedures to ensure disposal of equipment is properly recorded and verified. (Accepted.)

IMPLEMENTATION PLAN:

The asset management policy requires reconciliation with the asset management system of donated items and the vendor receipt. The procedures include more detailed processes about how that reconciliation will happen and where the documentation will be kept.

STATUS OF PLAN:

The asset management policy, which notes reconciliation of donated items will be completed, has been drafted and is pending approval by the Justices. The written procedures for the asset management policy detail the process for reconciliation of donated items.

Our Judicial Branch Auditor has reviewed all the aforementioned revised or drafted procedures to confirm that the current procedures adequately address the concerns expressed in the Legislative Audit.

We will notify you in the spring when the update of the State inventory system is complete and the asset management policy is approved by the Justices. Otherwise, we expect the information contained in this document will suffice for our 6-month implementation report as well.

Respectfully,

A handwritten signature in black ink, appearing to read "Mark Gibbons", written in a cursive style.

Mark Gibbons
Chief Justice

cc: Justice James Hardesty
Tracie Lindeman, Clerk of the Court
Robin Sweet, Director, Administrative Office of the Courts
Deanna Bjork, Manager of Budgets
Staci Anderson, Judicial Branch Auditor

Audit Highlights



Highlights of Legislative Auditor report on the Risk Management Division issued on May 8, 2013. Report # LA14-05.

Background

The mission of the Risk Management Division is to preserve and protect state property and personnel. According to the Division, this is achieved by integrating agency programs that systematically identify and analyze exposures to risk, selecting and implementing appropriate risk control strategies, financing anticipated or incurred losses, and monitoring regularly for continual improvement and enhancement.

The Division is comprised of two primary sections: Insurance and Loss Prevention, and Workers' Compensation and Safety. The Insurance and Loss Prevention section is responsible for providing automobile, aviation, crime, liability, and property insurance coverage for the State, and other miscellaneous insurance as needed by state agencies. This section also oversees loss prevention services, such as workplace safety training to state employees. The Workers' Compensation and Safety section administers the state's workers' compensation coverage for all state employees and a number of political subdivisions such as boards, commissions, and conservation districts.

The Division has one office in Carson City. For fiscal year 2012, the Division had seven full-time employees and was administered by a Risk Manager. The Division has one operating budget account which is supported by assessments to the agencies it serves. In fiscal year 2012, the Division had expenditures of about \$21 million, which included approximately \$18 million in workers' compensation costs.

Purpose of Audit

The purpose of our audit was to determine if the Division effectively monitors service contracts.

This audit included a review of the Division's contract monitoring activities for the period of July 2011 through December 2012.

Audit Recommendations

This audit report contains seven recommendations to improve contract practices. The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 2, 2013. In addition, the six-month report on the status of audit recommendations is due on February 3, 2014.

Risk Management Division

Department of Administration

Summary

Overall, the Risk Management Division (Division) provided adequate oversight of its contracts; however, the Division could improve certain contract practices. We found the Division did not always establish a clear and mutual understanding of service expectations and deliverables in its contracts. As a result, the Division has limited assurance its programs are operating as intended. Further, the Division did not always require contractors to provide evidence that certain services were performed, and some payments to vendors were not accurate or proper. Improvements to these processes would help ensure vendor performance is satisfactory and payments are accurate and in compliance with state laws.

Key Findings

Our review of two important broker contracts found the Division did not always establish what the broker was to do, when it was to be done, and what documents should be provided to the Division. One of the Division's contracts is with a broker to oversee and manage the workers' compensation program. We found the Division's expectations were not clearly defined for some of the services listed in the service agreement for clinics that treat injured workers. For example, the agreement states the broker is to conduct on-site visits, monitor wait time, and meet regularly with the clinic manager. However, the Division has not established the frequency of on-site visits, how often to monitor wait time and meet with the clinic manager, or what reports should be provided to the Division. Regular monitoring of these clinics would help ensure they meet Division standards and injured workers receive timely treatment. (page 6)

The Division did not always require brokers to provide evidence that certain services were provided. Further, when documentation was provided, it was not adequately reviewed. As a result, there is an increased risk the Division did not receive all services that were factored into the brokers' fees. The Division contracts with a broker to provide loss prevention services. We reviewed activity reports submitted by the broker and found many of the required weeks for training were not provided. For example, 5 of the 20 required weeks of training in southern Nevada were not provided, 3 of the 5 required weeks of training in rural Nevada were not provided, and 7 of the 8 required weeks for special projects were not provided. Had the Division timely reviewed activity reports submitted by the broker, this issue could have been identified and corrective action taken. (page 10)

The Division may not need to contract for a full-time person to provide training throughout the State. Included in one contract is a requirement that the broker provide one full-time person dedicated to providing training and program development. This includes various types of training to state employees required by the State Administrative Manual, such as defensive driving and workplace safety. We reviewed activity reports for 2012 which were submitted by the broker for this person. The reports indicated there were 46 weeks during the year when this person provided training. Our analysis of the 46 weeks with training found none of the weeks had more than 3 days of training, 18 weeks had 3 days of training, 23 weeks had 2 days of training, and 5 weeks had 1 day of training. In addition, the Division has opportunities to implement technology that should result in cost savings. (page 11)

The Division could strengthen its controls over contract payments. Although most payments we tested were accurate and appropriate, we found some payments did not comply with state law and some payments exceeded the contract rate. For example, the Division paid a former employee for services that were performed prior to expiration of the required "cooling-off" period. This included 11 payments totaling about \$21,300 for services provided in the first year after the person left employment with the State. Some services were provided as soon as 3 weeks after the employee's termination date. NRS 284.1729 does not allow an agency to enter into a contract with a person to provide services if the person is a former employee of an agency of this State and less than 2 years has expired since the termination of the person's employment with the State. (page 13)



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: February 3, 2014

Subject: Legislative Audit of the Risk Management Division

On May 8, 2013, your office released an audit report on the Department of Administration, Risk Management Division (Division). The Division subsequently filed a corrective action plan on July 25, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

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

Recommendation 1

Revise service agreements with brokers to communicate a clear and mutual understanding of the contract requirements and include the specific contract deliverables.

Status – Fully Implemented

Agency Actions – The Division revised all current service agreements with brokers to communicate a clear and mutual understanding of the contract requirements, including language that addresses specific contract requirements and deliverables. We compared the terms noted in each of the revised service agreements to those in the prior version. In each service agreement, the terms had been expanded to provide additional detail with respect to contract requirements and deliverables.

Recommendation 2

Revise the workers' compensation service agreement to include a claims audit or review requirement. This should include an independently selected sample, the frequency of audits, and documentation requirements.

Status – Fully Implemented

Agency Actions - The Division revised the workers' compensation service agreement to specify a claims audit requirement, which includes an independently selected sample of claims to be audited by the broker. The frequency and documentation requirements have also been added to the revised service agreement. We verified the revised workers' compensation service agreement requires the broker to randomly select and review four workers' compensation claims files each week for forty weeks each year, to address issues noted during the review with the Third Party Administrator, and to report monthly to Risk Management the review results.

Recommendation 3

Revise the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved. When broker fees are based on a commission instead of a flat fee, document the decision was properly approved.

Status – Fully Implemented

Agency Actions – The Division revised the process for instances when brokers procure an insurance policy to include steps that help ensure broker fees are clearly stated, and properly documented and approved, including when broker fees are based on a commission instead of a flat fee. The Division revised its "Order to Bind" document, which authorizes the broker to bind coverage on behalf of the State, to specifically include the cost of the policy premium along with the service fee or commission associated with the policy procurement. We verified revisions on two recently executed "Orders to Bind." The revised document now includes the amount of broker fees related to the procurement of the insurance policy, that the fee is commission-based, if applicable, and notes the approval of the Risk Manager.

Recommendation 4

Revise policies and procedures for monitoring broker contracts to help ensure contractors provide all required services.

Status – Partially Implemented

Agency Comments – The Division revised the broker contract monitoring section of its Internal Control Manual to add meeting and reporting requirements for brokers. Provisions for subsequent review and follow-up by Program Managers were also added.

Auditor Comments – We reviewed the revisions in the Internal Control Manual. The procedures should be expanded to distinguish clearly the types of brokers, and the meeting and reporting requirements of each type. The agency expects full implementation by April 1, 2014.

Recommendation 5

Evaluate the training needs of the loss prevention program and potential cost savings measures. This includes determining if it is necessary for the contractor to charge a fee based on a full-time training person, and the potential benefits of implementing online classes and videoconferences.

Status – Fully Implemented

Agency Actions – The Division evaluated the training needs of the loss prevention program and potential cost savings measures, which includes determining if it is necessary for the contractor to charge a fee based on a full-time training person as well as the potential benefits of implementing online classes and videoconferences. The Division revised the service agreement to reflect a clear understanding of the number of classes to be taught on an annual basis, classes that will be developed as an “online class,” as well as future use of videoconferencing for training purposes. The revised service agreement removes the need for a fee based full-time training person. The Division represents that the ability to provide training via video conference has been hindered by the lack of bandwidth in the building where Risk Management is located; however, they are in negotiations to have EITS provide a solution to this issue.

Recommendation 6

Revise the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. Implement controls to ensure the results of these meetings are well documented.

Status – Fully Implemented

Agency Actions – The Division revised the contract monitoring policy to require meetings with brokers, at least annually, to discuss goals, outcomes, past performance of vendors, and items in the service agreement not routinely addressed at monthly meetings. The Division implemented controls to ensure the results of these meetings are well documented by revising all broker service agreements to clearly outline the requirement for annual stewardship meetings, including the documentation requirement.

Recommendation 7


Revise procedures for expenditures to include steps that provide reasonable assurance all payments are accurate and appropriate.

Status – Fully Implemented

Agency Actions – The Division revised its Internal Control Manual outlining the steps to provide reasonable assurance all payments are accurate and appropriate. The Certified Contract Manager ensures all contract payments are appropriate. The revised version of the Internal Control Manual adds an additional level of review in which the Administrative Assistant responsible for maintaining the contract log reviews invoices for accuracy prior to forwarding to the appropriate program manager for approval. The program manager then forwards the invoice to the Deputy Risk Manager for final review.

Paul Townsend, Legislative Auditor
February 3, 2014
Page 5

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Ana Andrews, Administrator, Risk Management Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Nevada State Library and Archives, Mail Services issued on January 7, 2014. Legislative Auditor report # LA14-10.

Background

The Nevada State Library and Archives (NSLA) is a division of the Department of Administration and is responsible for providing full access to a range of information services that enhance the quality of life for all and center on creating an educated and enlightened citizenry, while supporting the interests of the State.

Support for NSLA's activities are recorded in six budget accounts. NSLA's funding sources for fiscal year 2013, consist mainly of service fees, general fund appropriations, and receipts from other governments. Of the almost \$13 million in total funding sources, nearly \$6.4 million or 51% were derived from mail service delivery. Further, in fiscal year 2013, NSLA had expenditures of \$12.5 million of which \$5 million or 40% related to postage and parcel fees.

Mail service can be grouped into three categories: interdepartmental mail is collected and delivered from one state agency to another; postal mail is delivered by a third party; and production services include folding, inserting, and addressing envelopes.

In calendar year 2012, Mail Services processed over 14 million pieces of mail and 7 million pieces of production items. An administrative fee of roughly 18% is applied to all services and is used to fund operations.

Purpose of Audit

The purpose of our audit was to determine if the process of billing state agencies for mail service was accurate and complete. Billing activities were reviewed for calendar year 2012.

Audit Recommendations

This audit report contains two recommendations to improve oversight and control activities related to billing state agencies for mail service.

The NSLA accepted the two recommendations.

Recommendation Status

The NSLA's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Nevada State Library and Archives Mail Services

Department of Administration

Summary

Generally, Mail Services' billing process is reasonably accurate and complete; however, minor control weaknesses at Mail Services and the Administrative Services Division (ASD) of the Department of Administration could allow errors and omissions to occur and not be identified. Our review of billing documents revealed weaknesses that resulted in instances of omitted billings, duplicate charges, and improper amounts charged to state agencies for postage. Errors occurred because the process to compile and bill agencies for postage costs relies on spreadsheets and manual processes. About \$8,200 in over and under billings of state agencies occurred due mainly to formula and other errors noted on spreadsheets.

Key Findings

Mail Services relies on multiple spreadsheets and manual operations to generate agency billings. These processes are inherently susceptible to error. Some cells in spreadsheets we examined had inaccurate or non-existent totals and inconsistent formulas. In addition, some data entered manually was inaccurate and resulted in improper totals and amounts billed. These errors occurred due to the cumbersome process and inadequate review and reconciliation. (page 7)

During calendar year 2012, Mail Services and ASD sent over 3,100 billings totaling over \$6 million for postage, parcel, and production services. Billings are sent monthly to all user agencies who accumulate fees in excess of \$3. (page 7)

Our review of monthly spreadsheets for all of calendar year 2012 found some agencies were billed inaccurate amounts or were not billed at all. Examples of errors include:

- Six user agencies with fees totaling nearly \$4,200 were not billed because spreadsheet formulas were missing.
- Six agency bills included duplicate charges of about \$2,800 for postage and other fees because spreadsheet formulas were incorrect.
- In one instance, an agency was overbilled when the spreadsheet cell containing the number of mail pieces was added to the cost of postage. This formula error resulted in an overbilling of almost \$1,200. (page 8)

Additional minor billing errors occurred when data recorded on logs was manually transferred into the mail management information system incorrectly. We tested a random sample of 40 billing claims and found 5 with minor billing errors. Billing errors included the transposition of numbers, posting to the wrong budget account, and omitting the number of pieces processed. (page 9)

Although the errors found were not significant, larger errors could occur if controls are not strengthened. Posting to the wrong budget account and omitting the number of mail pieces processed could impact user agencies' budget planning and oversight. Revising written policies and procedures to include a periodic review of data manually input by a person independent of the process could help to identify errors. (page 9)

Brian Sandoval
Governor



Julia Teska
Director

Janet Murphy
Deputy State Budget Director

Ann Wilkinson
Deputy Director

**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: October 3, 2014

Subject: Legislative Audit of the Nevada State Library and Archives, Mail Services

On January 7, 2014, your office released an audit report on the Department of Administration, Nevada State Library and Archives Division's Mail Services (division). The division subsequently filed a corrective action plan on April 9, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

Recommendation 1

Work with Administrative Services Division to improve controls over billings by implementing management review, monitoring, and reconciliation processes.

Status – Partially Implemented

Agency Comments – The division has worked with Administrative Services Division (ASD) to improve controls over billings. The division reports it performs periodic reviews of manually input data. The division also reports reconciling totals between logs and billing software before sending billing claims to ASD daily. ASD reports implementing an internal database in 2014 to process the division's billing files. The internal database replaces the spreadsheet noted in the audit containing formula and other errors. ASD also reports it audits the bill claim process.

Auditor's Comments – We reviewed division and ASD billing policies, division data entry process, and ASD controls. We tested and reconciled six division billing claims prepared by ASD for March, May, and June 2014. The billing claims were prepared using the new internal database. We did not find any errors in the resulting bills. The division represents it completes periodic reviews, but does not document those reviews. Accordingly, we were unable to substantiate the division is implementing the new policies and procedures.

Recommendation 2

Enhance written policies and procedures to include periodic reviews of data manually input from logs and reports.

Status – Partially Implemented

Agency Comments - The division enhanced written policies and procedures to include periodic reviews of data manually input from logs and reports. We reviewed policies from the division and ASD, and noted changes in both documents adding in review processes. Division staff report completing required reviews as workloads allow.

Auditor's Comments – The division represents it completes periodic reviews, but does not document those reviews. Accordingly, we were unable to substantiate the division is implementing the new policies and procedures.

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



Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
Daphne O. DeLeon, Administrator, Division of Nevada State Library and Archives
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Department of Education issued on December 2, 2014. Legislative Auditor report # LA14-22.

Background

The mission of the Department of Education is to improve student achievement and educator effectiveness by ensuring opportunities, facilitating learning, and promoting excellence.

For fiscal year 2014, the Department had total approved funding of about \$1.9 billion, which includes about \$1.25 billion in General Fund appropriations. Much of the Department's funding passes through the Distributive School Account to the school districts. Operating expenditures for the Department were about \$25 million in fiscal year 2014. For fiscal year 2014, the Department had 168 legislatively approved positions.

The Office of Educator Licensure (Office) is responsible for the issuance and renewal of educator licenses based on standards adopted by the Commission on Professional Standards. Prior to April 2014, the Office was known as the Office of Teacher Licensure.

The state's class-size reduction (CSR) program is administered by the Department's Business and Support Services Office. The CSR program was first funded by the Legislature in fiscal year 1991. In fiscal year 2014, program funding was about \$177 million.

Purpose of Audit

The purpose of this audit was to: (1) evaluate the operational processes of the Office of Educator Licensure, and (2) evaluate controls over the class-size reduction program. Our audit focused on the Department's educator licensing and class-size reduction activities from July 2012 through March 2014.

Audit Recommendations

This audit report contains nine recommendations to improve operational processes of the Office of Educator Licensing. In addition, there are nine recommendations to enhance controls over the class-size reduction program.

The Department accepted the 18 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on March 2, 2015. In addition, the six-month report on the status of audit recommendations is due on September 2, 2015.

Department of Education

Summary

The Office of Educator Licensure plays a critical role, along with school districts, in ensuring teachers and other educators in Nevada schools are qualified. We found the Office needs to strengthen its processes for revoking licenses, issuing provisional licenses, and tracking and reviewing criminal history reports. Improvements to these processes will help ensure timely action for criminal cases involving licensees. In addition, increased monitoring is needed to help ensure licensing applications are processed timely. Nevertheless, the Office has taken steps to address legislative concerns regarding customer service, document security, and other operational issues.

The Department could improve its controls over the class-size reduction program. We found the Department's oversight of class-size reduction plans and other class-size reduction information submitted by the school districts was not adequate. Better oversight would provide more accurate information to decision makers and stakeholders. Further, the process for distributing class-size reduction funds needs strengthening.

Key Findings

The Office does not have an adequate revocation process for licensees convicted of crimes. Specifically, the Office did not adopt regulations to help ensure it was notified timely when a licensee had been arrested. As a result, our testing of 13 revocation cases found the number of days from the arrest date to when the Office became aware of the arrest ranged from 1 to 1,200 days, with an average of 367 days. Further, once the Office was notified of an arrest, it did not always monitor such cases and revoke licenses in a timely manner. (page 6)

The Office did not properly issue or monitor provisional licenses. We found provisional licenses were issued for 1 year instead of the 120-day maximum allowed under state regulations. Further, the information systems used to track the status of provisional licenses were not reliable and criminal history reports were not always reviewed timely. As a result, the process to invalidate a license when an applicant has a criminal history is not always timely or effective. (page 9)

The Office has not exercised its authority to invalidate or revoke a license when a crime involving moral turpitude has been committed. The Office's practice during the audit was to invalidate a provisional license upon learning that a licensee has been convicted of a felony. However, state law also authorizes the Office to take licensing action against persons convicted of non-felony crimes involving moral turpitude. Our review of NRS identified several examples of non-felony crimes (gross misdemeanors and misdemeanors) that could be considered crimes of moral turpitude. (page 13)

The Department's oversight of class-size reduction (CSR) plans can be enhanced. Our review found the Department did not receive sufficient information from the school districts regarding their CSR plans. Further, the Department did not require districts to provide plans that included items required by statute. For example, all school districts are required to demonstrate how they will reduce pupil-teacher ratios within the limits of available funding. We found the Department did not receive such information from any of the school districts. Without proper monitoring of CSR plans, there is an increased risk that districts will not maximize progress towards achieving class-size reduction. (page 19)

The Department did not effectively monitor quarterly class-size reduction reports and variance requests submitted by school districts. These reports aid the Department in overseeing the CSR program and are required to be posted on districts' websites. Further, Department staff summarize this information and submit it to the State Board of Education and the Interim Finance Committee. We found instances when reports had errors and did not include all required information. Inaccurate reports submitted to decision makers reduce accountability over the State's CSR program. (page 22)

The Department's process for distributing class-size reduction funds has control weaknesses. Specifically, the Department needs written policies and procedures for calculating how CSR funds are distributed to the school districts. The Department is responsible for distributing \$381 million in CSR funds during fiscal years 2014 and 2015. Determining the amount distributed to each school district involves a very large number of calculations and data from many different sources, but the calculations are not reviewed and lack supporting documents. Additionally, the Department did not communicate its funding expectations to the school districts, such as the minimum number of teachers they were expected to employ with CSR funds. This increases the risk that funds will not be used as intended. (page 25)

Audit Highlights



Highlights of performance audit report on the Division of Minerals issued on January 7, 2014. Legislative Auditor report # LA14-12.

Background

The Division of Minerals, a part of the Commission on Mineral Resources, is responsible for administering programs and activities to promote, advance, and protect mining and the development and production of petroleum and geothermal resources in Nevada. The Division's offices are located in Carson City and Las Vegas. As of June 30, 2013, the Division had 11 full-time employees. The Division is funded primarily from fees paid by the mining industry. In fiscal year 2013, mining claim fees collected totaled about \$2.1 million. Fees collected from the oil, gas, and geothermal industries amounted to about \$173,000. Division expenditures totaled approximately \$2.5 million in fiscal year 2013.

The Division's responsibilities include permitting, inspecting, and monitoring all oil, gas, and geothermal drilling activities on both public and private lands in Nevada. In addition, the Division's Abandoned Mines Program was established in 1987. Program activities include identifying dangerous mines sites, ranking the sites according to the degree of danger, and notifying responsible parties of their obligation to secure dangerous conditions. The Division is responsible for securing abandoned mines where no responsible party can be found.

Purpose of Audit

The purpose of this audit was to evaluate the Division's efforts to: (1) monitor oil, gas, and geothermal drilling operations for compliance with regulatory requirements; and (2) secure abandoned mines by notifying responsible parties.

This audit focused on the Division's activities from July 1, 2010, through June 30, 2013.

Audit Recommendations

This audit report contains three recommendations to improve monitoring of oil, gas, and geothermal operations. In addition, one recommendation was made to improve efforts to secure abandoned mines by notifying responsible parties.

The Division accepted the four recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Division of Minerals

Commission on Mineral Resources

Summary

The Division can enhance its monitoring of oil and geothermal drilling operations in the State. Specifically, by performing periodic inspections of operations, it can obtain greater assurance that these operations are complying with requirements in regulations adopted by the Commission on Mineral Resources. The regulations are intended to ensure safety, protect the environment, and minimize the waste of natural resources. Furthermore, the Division needs to witness geothermal pressure tests to ensure geothermal operators perform the test in accordance with regulations adopted by the Commission. The tests are intended to ensure well safety equipment is working effectively to minimize the risk of a blowout incident.

The Division's efforts to secure abandoned mines by notifying responsible parties have been effective. In the past 3 years, hundreds of mines have been secured through the Division identifying and informing parties of abandoned mines that the parties were responsible for securing. However, the Division can enhance the results of its efforts by following up when responsible parties do not provide evidence that abandoned mines have been secured. Follow-up should include notifying counties of responsible parties that have failed to secure the abandoned mines. Improved follow-up may prevent physical harm to persons or animals from occurring at hazardous abandoned mines.

Key Findings

The Division has not established an inspection process to help ensure oil and geothermal operations are meeting regulatory requirements. Although the Division reviews an entity's operating plans for compliance with the regulations before approving drilling permits, inspections are not regularly performed. Inspections would provide greater assurance that an entity is complying with requirements related to the construction, operation, and abandonment of wells. Management indicated wells are visited on an exception basis if problems arise, but the inspections are not sufficiently documented. Near the end of the audit, the Division began taking steps to establish an inspection process. Currently, there are 430 geothermal-related wells and 111 oil-related wells in Nevada. About 40% (181 of 430) of the geothermal-related wells and almost all (107 of 111) of the oil-related wells are on federally-managed land. The Bureau of Land Management (BLM) is responsible for regulating wells on federal lands. However, the Division also has oversight responsibility since it issues operating permits for wells on federal lands. (page 6)

The Division did not witness safety tests performed at geothermal well operations. Regulations adopted by the Commission require the Division to witness the testing of blowout prevention equipment immediately after it is installed at a well site. We randomly selected 10 safety tests and found none were witnessed by Division personnel. This problem was noted in the last audit of the Division. (page 8)

Recent efforts by the Division to secure abandoned mines by notifying responsible parties have been effective. Based on our testing of Division records, responsible parties secured 642 hazards (abandoned mines) in the last 3 years after the Division notified them of their responsibility. This occurred because the Division researched county records to determine who was responsible for securing the abandoned mines it investigated. When the research identified a responsible party, the Division notified the party of their responsibility to secure the dangerous condition. Parties were notified about the specific hazards on their claims, timeframes for taking action, documentation that had to be provided upon securing the hazard, and contact information for assistance. Pursuant to NAC 513.380, dangerous conditions had to be secured within 60 to 180 days depending on the danger rating assigned by the Division. The actual number of mines secured may be higher than found through examining Division records. Management indicated that based on its experience, some responsible parties secure mines, but fail to provide documentation to the Division. (page 11)

From our testing of Division records, we found the Division did not perform sufficient follow-up when responsible parties failed to adequately respond upon notification of their responsibility to secure abandoned mines. From the hazards that remained unsecured after the Division notified the responsible parties, we randomly selected 40 hazards and reviewed agency records for documentation of follow-up efforts. Our test found that after the initial notification, the Division did not follow up with the responsible party for all 40 hazards. Counties are authorized by state law to take enforcement action against responsible parties failing to secure abandoned mines. (page 12)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: October 3, 2014

Subject: Legislative Audit of the Commission on Mineral Resources, Division of Minerals

On January 7, 2014, your office released an audit report on the Commission on Mineral Resources, Division of Minerals (division). The division subsequently filed a corrective action plan on April 2, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

Recommendation 1

Develop and implement a risk-based approach to determine the nature, extent, and timing of inspections performed on oil, gas and geothermal operations.

Status – Partially Implemented

Agency Comments – The division is developing and implementing a risk-based approach to determine the nature, extent, and timing of inspections performed on oil, gas and geothermal operations. The division has a risk matrix to score potential risk and inspectors reportedly consider those risks when scheduling inspections.

Auditor's Comments - The division established a risk matrix to record data from inspections and scores for evaluating risk. We noted there was limited data on the matrix. There is insufficient evidence to determine if the recommendation is adequately implemented.

Recommendation 2

Document inspections of oil, gas, and geothermal operations to indicate what requirements were checked, the inspection results, and any corrective action needed; and communicate this information to well operators.

Status – Partially Implemented

Agency Actions – The division documents inspections of oil, gas, and geothermal operations (well operations) to indicate what requirements were checked, the inspection results, and any corrective action needed. It communicates this information to well operators by letter. The division intends on tracking well operations data with an internal database that it plans to modify over the winter. The division inspects wells and communicates findings to operators. We reviewed inspection spreadsheets and letters to operators addressing corrective action needs. We noted that both contained inspection results. The division believes the recommendation will be fully implemented by March 2015 after it has modified its internal database.

Recommendation 3

Obtain credible evidence, in accordance with state regulations, that document geothermal well blowout prevention tests were performed by operators.

Status – Fully Implemented

Agency Comments – The division obtains credible evidence, in accordance with state regulations, that documents geothermal well blowout prevention tests were performed by operators. The division currently travels to well sites to observe well blowout testing. We randomly selected three of eighteen, or about 17 percent, of the wells drilled in 2014 and noted reports made by the owner-operator's contracted geologist indicated the presence of staff on site during drilling and graphical testing results for prevention tests in all the sampled files.

Recommendation 4


Establish a follow-up process to ensure that parties notified of their responsibility to secure abandoned mines do so, including referral to county officials so that enforcement action can be taken when appropriate.

Status – Partially Implemented

Agency Actions – The division is establishing a follow-up process to ensure that parties are notified of their responsibility to secure abandoned mines. The division reports identifying 1,400 of 18,600 sites, about 7.5 percent that need to be notified. It reports preparing to send

first notifications to operators of the requirement to secure abandoned mines in October 2014. The second notifications will be sent in March 2015, and include referrals to county officials so that enforcement action can be taken when appropriate. The division also intends to populate the modified abandoned mine database with updated ownership data. We reviewed the modified database and verified the division was adding updated data. The division believes the recommendation will be completed by March 2015.

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



Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
Richard Perry, Administrator, Division of Minerals
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Nevada State Athletic Commission issued on April 28, 2014. Report # LA14-17.

Background

The Nevada State Athletic Commission administers and enforces state laws and regulations pertaining to unarmed combat for the protection of the public and to ensure the health and safety of the contestants. The Commission's mission is to regulate all unarmed combat contests or exhibitions. Generally, unarmed combat includes boxing, kickboxing and mixed martial arts. The Commission was established in 1941 and became part of the Department of Business and Industry in 1993.

The Commission consists of five members appointed by the Governor, an executive director, and four staff. The Commission maintains one office in Las Vegas. In fiscal year 2013, the Commission regulated 110 events, issued 1,957 licenses, and collected \$4,083,797 in permit and license fees which were deposited directly into the General Fund. During the same time, the Commission expended approximately \$595,000.

Purpose of Audit

The purpose of the audit was to evaluate: (1) financial and administrative practices in place to carry out applicable laws and regulations, (2) information security controls to protect the confidentiality, integrity, and availability of sensitive information and information systems, and (3) performance measures, including reliability of reported results. Our audit focused on management controls during fiscal years 2010 – 2014, and included a review of money received from promoters for licenses issued or renewed since calendar year 2003. The audit also focused on performance measures and reported results for fiscal year 2012.

Audit Recommendations

This audit report contains 11 recommendations to improve: (1) financial and administrative practices and to ensure money received from promoters is deposited in accordance with statutes, (2) the protection of sensitive information, and (3) oversight for the reliability of performance measures used in the state's budget process.

The Commission accepted the 11 recommendations.

Recommendation Status

The Commission's 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Nevada State Athletic Commission

Department of Business and Industry

Summary

The Nevada State Athletic Commission can make improvements to its financial and administrative practices regarding license fees and deposits of money. The Commission did not always calculate license fees correctly and did not incorporate all complimentary tickets issued when preparing its calculation. Also, the Commission did not deposit money received from promoters with the State Treasurer as required by statute. Instead, the money was deposited in an outside bank account. Furthermore, there is no record the Commission received approval from the State Board of Finance to open an outside bank account to deposit money received from promoters.

The Commission needs to better protect sensitive information. We found the server used for file storage was not physically secured, as required by state security standards. In addition, we found unencrypted personal identifying information (PII) was accessible through the server.

The Commission can take steps to strengthen its oversight for the reliability of performance measures used in the state's budget process. Some measures used in the budget process for fiscal year 2012 were not adequately supported by underlying records and the reported result for one measure was inaccurate.

Key Findings

The Commission did not calculate license fees for closed-circuit telecast events in accordance with statute. For 7 of 12 closed-circuit telecast events reviewed, we found the Commission calculated fees at a rate of 6 cents for each \$1 received for admission instead of 4 cents. The Commission's incorrect calculation of license fees resulted in the collection of overpayments totaling over \$55,000. In addition, the Commission has not documented procedures to ensure fees are collected accurately and timely. (page 3)

The Commission did not deposit money received with the State Treasurer, as required by statute. The Commission received this money from applicants prior to issuing a promoter license to hold an unarmed combat event. Money the Commission receives from applicants may be used to satisfy any obligation incurred by the promoter during a contest or exhibition. All money the Commission receives from applicants, to satisfy any obligation incurred by the promoter, must be deposited in the Athletic Commission's Agency Account. However, the Commission deposited money received with an outside bank account. In addition, there is no record of approval from the State Board of Finance allowing the Commission to deposit money in an outside bank. (page 6)

The Commission's file server was not adequately secured. Specifically, the server was stored on a desk in an open area of the Commission's office. During our audit we observed individuals from the public enter and pass the open area in the Commission's office where the server is located. In addition, files containing unencrypted personal identifying information (PII) were accessible through the Commission's file server. We identified several files containing approximately 1,000 social security numbers and names of state employees, including personnel reports. (page 9)

Reported results for five performance measures were not adequately supported by underlying records. The Commission's records to support results were either not available to verify calculation of a performance measure or data was not tracked. In addition, the reported result for the measurement of fees collected timely was not accurate. (page 11)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Nevada State Athletic Commission

On April 28, 2014, your office released an audit report on the Nevada State Athletic Commission (commission). The commission subsequently filed a corrective action plan on July 23, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the commission to comply with audit findings.

There were 11 recommendations contained in the report. The extent of the commission's compliance with the audit recommendations is as follows:

Recommendation 1

Contact the State Board of Examiners for approval to refund the overpayment of license fees collected for closed-circuit telecast events.

Status – Fully Implemented

Agency Actions – The commission discussed the refund with the budget office and the LCB auditor and they determined that since the two promoters have upcoming events, it would be preferable to apply credits for the overpayment to each promoter's account instead of issuing refunds. We reviewed supporting workpapers submitted by the commission and determined the credits were properly applied to each promoters account in settlement of the overpayment.

Recommendation 2

Develop procedures to ensure license fees for closed-circuit telecast events are calculated correctly.

Status – Fully Implemented

Agency Actions – The commission developed a new procedure to ensure license fees for closed-circuit telecast events are calculated correctly. We reviewed the commission's fee calculations for closed circuit telecasts and live events and determined the fees were properly calculated.

Recommendation 3

Develop procedures to address current practices for preparing reports used for license fees and to ensure fees are collected timely.

Status – Fully Implemented

Agency Actions – The commission developed procedures to address current practices for preparing reports used for license fees and to ensure fees are collected timely. The new procedure specifically states that promoters are required to pay license fees no later than 20 days after the event and designates a specific employee with the responsibility of ensuring the fees are paid in accordance with NRS 467.109.2.

Recommendation 4

Develop procedures to ensure money received from promoters is deposited in the Athletic Commission's Agency Account, in accordance with NRS 467.080.

Status – Fully Implemented

Agency Actions – In lieu of developing procedures in accordance with NRS 467.080, the commission adopted a new policy of accepting only bonds from promoters. They will no longer accept cash or certificates of deposits; therefore, no additional procedures will be developed. We reviewed the letters sent to promoters by the commission and discussed the commission's procedures with staff. Based on our review and discussions, it appears that the commission closed all the deposits with the outside bank and returned the money on deposit to the promoters with a request they maintain a \$10,000 refund bond for as long as they retain their licenses.

Recommendation 5

Close the certificates of deposit opened in an outside bank account and either deposit the money with the State Treasurer, or require promoters to file a bond or other form of security authorized by statute.

Status – Fully Implemented

Agency Actions – The commission closed the certificates of deposits opened in an outside bank account and returned the money to the promoters. We reviewed the letters sent out by the commission stating they have closed all the accounts and will no longer accept certificates of deposits.

Recommendation 6

Obtain guidance from the Department for assistance in physically securing the server in accordance with state security standards and NRS 603A.210.

Status – Fully Implemented

Agency Actions – The commission stated the server has been moved to a secure location in the Grant Sawyer Building. We independently confirmed with Enterprise Information Technology Services staff that access to the room housing the server now requires a key which is controlled by EITS and Capitol Police.

Recommendation 7

Contact the department to identify and remove all files containing unencrypted personal identifying information from the Department's server that are accessible through the commission's file server.

Status – Fully Implemented

Agency Actions – The commission stated they requested assistance from the department's IT to identify and remove all files containing unencrypted personal identifying information (PII) accessible through the commission's file server. Discussions with staff disclosed that all the unencrypted PII have been removed from the commission's file server.

Recommendation 8

Update procedures to ensure records are available to support results reported for each performance measure.

Status – Partially Implemented

Agency Actions – The commission stated policies and procedures for ensuring records are available to support results reported for each performance measure are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission's policies and procedures. The commission anticipates full implementation of these procedures by June 30, 2015.

Recommendation 9

Track data to support each performance measure for increased efficiency when reporting results.

Status – Partially Implemented

Agency Actions – The commission stated that policies and procedures for tracking data to support each performance measure for increased efficiency when reporting results are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission's policies and procedures. The commission anticipates full implementation of these procedures by June 30, 2015.

Recommendation 10

Revise procedures to ensure supporting documentation for performance measures is retained for at least 3 fiscal years.

Status – Fully Implemented

Agency Actions – The commission has adopted the department's policy and procedure regarding records retention, which requires that records be retained for six years.

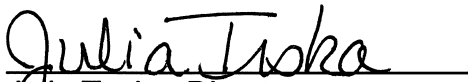
Recommendation 11

Develop controls to ensure reported results are accurate.

Status – Partially Implemented

Agency Actions – The commission stated policies and procedures for developing controls to ensure performance measure reported results are accurate are being developed. The commission also indicated they are in the process of recruiting a management analyst II whose main function will be the development of the commission's policies and procedures. The commission anticipates full implementation of these procedures by January 31, 2015.

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


Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry
Lisa Figueroa, ASO IV, Department of Business and Industry
Steve Weinberger, Administrator, Division of Internal Audit

Audit Highlights



Highlights of Legislative Auditor report on the Taxicab Authority issued on April 22, 2013. Report # LA14-04.

Background

The Taxicab Authority was created by the Legislature in 1969 and is an agency within the Department of Business and Industry. The Authority is charged with regulating the taxicab industry in any Nevada county with a population of 700,000 or more. There are 16 taxicab companies in Clark County; employing approximately 9,000 drivers, and operating a taxicab fleet of approximately 3,100 vehicles. The Director of the Department of Business and Industry appoints an Administrator to oversee the day-to-day operations of the agency. In fiscal year 2012, the Authority had 56 authorized positions. The Authority is self-funded and receives most of its funding from taxicab trip charges. In 2012, expenditures totaled about \$5.5 million.

The Authority is governed by a five-member board appointed by the Governor. The Taxicab Authority Board conducts hearings and renders decisions regarding the administration and enforcement of laws and regulations, as well as the issuance and transfer of certificates of public convenience for taxicab companies.

Purpose of Audit

The purpose of this audit was to determine whether: (1) the Authority performed adequate regulatory activities to ensure proper oversight of taxicab company operations; (2) the Authority had adequate management information for deciding medallion allocations and controls over the medallion inventory; and (3) internal controls over collecting and recording cash receipts were adequate.

Audit Recommendations

This audit report contains two recommendations to help detect and deter long hauling practices, and to ensure proper oversight of taxicab companies. In addition, three recommendations were made to improve management information used to determine medallion allocations and track the medallion inventory. Finally, three recommendations were made to ensure proper controls over cash receipts.

The Taxicab Authority accepted the eight recommendations.

Recommendation Status

The Taxicab Authority's 60-day plan for corrective action is due on July 17, 2013. In addition, the six-month report on the status of audit recommendations is due on January 17, 2014.

Taxicab Authority

Department of Business and Industry

Summary

The Taxicab Authority can strengthen its oversight of the taxicab industry in Clark County. Specifically, the Authority needs to take additional action to help prevent long hauling. Long hauling occurs when a driver takes a longer route than necessary to increase the fare amount. From our testing of drivers' trip sheets, we identified potential long hauling occurred for 22.5% of trips to or from the airport. As a result, we estimate airport passengers were overcharged \$14.8 million in 2012. In addition, the Authority has not performed audits of taxicab companies in over 3½ years. Adequate oversight of taxicab drivers and companies is important to help ensure passengers are treated properly and companies comply with state laws.

The Authority can improve the information provided to its Board for determining taxicab medallion allocations, and its oversight of the medallion inventory. Medallions are the small metal plates affixed to taxicabs authorizing them to operate. The number of authorized taxicabs is important because too few will increase passengers' wait times. Conversely, too many taxicabs reduce the number of trips drivers can take per shift; thereby, increasing the pressure for drivers to long haul passengers to make more money. Furthermore, staff did not adequately track medallions, and taxicab companies did not provide accurate information when reporting lost or stolen medallions. Tracking the medallion inventory is important because each permanent medallion generates about \$190,000 in gross revenue annually.

Key Findings

Long hauling is one of the biggest enforcement issues for the Authority. Our testing identified potential long hauling for 614 of 2,730 (22.5%) trips to or from the airport. Based on the percent of long haul trips identified, we conservatively estimate airport passengers were overcharged \$14.8 million in 2012. Although the Authority has increased its efforts to detect long hauling, more needs to be done, including the use of preventative measures. Taxicab trips are often the first and last experience tourists have in Las Vegas. Therefore, long hauling may result in tourists having a negative experience. (page 7)

The Authority did not conduct any taxicab company audits for over 3½ years. When regular audits are not performed, the Authority does not have assurance laws and regulations are being followed. For example, our review of 600 drivers' trip sheets identified 53% did not contain the required time stamps that would allow verification of the number of hours worked. This is a safety issue because if drivers work too long they could become fatigued. In 2003, the Legislature provided additional resources so the Authority could audit taxicab companies; however, audits have not occurred because management assigned other tasks to staff responsible for performing audits. (page 12)

Information provided to the Board does not always help members with their decision to allocate additional permanent medallions. Staff did not always provide the information timely, and the data did not include passenger wait times or other important taxicab demand and capacity information. Medallion allocations are important because they affect passengers' wait times, drivers' wages, companies' revenues, and the Authority's resources. (page 14)

The Authority did not adequately track the taxicab medallion inventory. Specifically, staff did not perform annual medallion inventories, rotate medallions annually, and verify a medallion's status when performing enforcement activities. In addition, taxicab companies frequently reported inaccurate information related to lost or stolen medallions. As a result, one company received an extra medallion, which it had for approximately 14 months. Another company reported 76 of 114 (67%) authorized medallions as lost or stolen since 2006. Because the Authority has not maintained an accurate medallion inventory, there is a greater risk companies will gain unauthorized market share. (page 17)

Although the Authority has improved cash controls since our last audit, additional action is needed to strengthen controls over cash receipts. Specifically, key duties were not properly separated, supervision over cash receipts was not adequate, and computer system access controls were weak. Outdated policies and procedures contributed to these weaknesses. Strong cash controls are important because staff collected payments totaling more than \$500,000 during fiscal year 2012. (page 22)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 17, 2014

Subject: Legislative Audit of the Department of Business and Industry, Taxicab Authority

On April 22, 2013, your office released an audit report on the Department of Business and Industry, Taxicab Authority (Authority). The Authority subsequently filed a corrective action plan on July 18, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

Develop additional preventative measures to deter long hauling practices, including providing information to passengers that helps them prevent or immediately identify long hauling.

Status – Partially Implemented

Agency Actions – The Authority developed preventative measures to deter long hauling practices including conducting administrative checkpoints and undercover operations along the hotel/resort and airport corridor; and publishing approximate fare ranges from McCarran International Airport to various Las Vegas Strip hotel/resort and tourist destinations on their website. The Authority plans to disseminate pamphlets containing approximate fares from the airport at strip resorts, hotels, convention centers, and other tourist destinations; and set

up a booth and kiosk at the airport to provide estimated fares and best routes to take. The Authority anticipates full implementation of this recommendation by February 28, 2014.

Recommendation 2

Comply with agency policy for performing company audits and develop steps to help identify long hauling practices, including steps to hold companies accountable for excessive long hauling activities.

Status – Partially Implemented

Agency Actions – The Authority revised their audit plan to help ensure taxicab companies are audited biannually. We noted they audited five of the 16 taxicab companies and plan to complete the remaining audits by November 2014. Additionally, the Authority developed steps to help identify long hauling practices by reviewing trip sheets, and notifying the taxicab company of any potential long hauling practices. The Authority also represents they increased sanctions on cab drivers for long hauling violations to the statutory maximum. Status is considered partially implemented as the Authority has not completed audits of all taxicab companies.

Recommendation 3

Work with the Taxicab Authority Board to identify information needs for medallion allocations, and use available resources to compile information on taxicab utilization.

Status – Partially Implemented

Agency Actions – The Authority represents they are hosting planning meetings to assess best practices for taxicab allocations and are collaborating with the airport, convention centers, and hotel/resorts to evaluate taxicab demand, capacity and wait times. We reviewed the October 2013 Taxicab Authority Board member packet which includes information on annual review of medallions, rates, fees, statistics, and allocation of temporary medallions during upcoming Las Vegas events. The Authority anticipates completion of this recommendation by February 28, 2014.

Recommendation 4

Comply with policies and procedures for controlling medallions until new technology is implemented, including periodic rotation of medallions and verification of medallion validity when officers perform enforcement activities.

Status – Fully Implemented

Agency Actions – The Authority revised its existing policies and procedures for controlling medallions. The Authority distributed new medallions to each certified cab company and performed a reconciliation of the medallions that were discontinued as of December 2013. Additionally, the Administrator and Chief Investigator represented medallions are verified when officers perform enforcement activities and incidents are reported in their computer aided dispatch system.

Recommendation 5

Develop guidance for companies to help ensure medallions are properly affixed and safeguarded, and consider penalties for reporting incorrect medallion information.

Status – Partially Implemented

Agency Comments – The Authority has disseminated information to taxicab companies as to how to properly affix medallions onto the taxicabs. Additionally, enforcement and vehicle inspectors will verify medallions are affixed properly during routine investigations.

Auditor Comments – Although the Department disseminated information for safeguarding medallions, we noted six of 11 (55 percent) taxicab companies sampled were not properly affixing medallions onto the taxicabs.

Recommendation 6

Ensure proper management oversight so that policies and procedures regarding separation of duties, reconciliations, and proper supervision of cash receipts are followed.

Status – Fully Implemented

Agency Actions – The Authority revised existing policies and procedures regarding the cash receipt process. We observed the cash receipt process and noted adequate separation of duties and proper reconciliation procedures. Additionally, we examined 12 deposits, reconciled the deposit amount and verified adequate separation of duties.

Recommendation 7

Limit access to cash receipt systems to ensure changes cannot be made without proper approval.

Status – Fully Implemented

Agency Actions – The Authority has updated their cash receipt systems to ensure changes cannot be made without proper approval. We tested the systems to ensure changes could only be made by supervisory personnel.

Recommendation 8

Update policies and procedures to ensure they safeguard agency resources and reflect current practices.

Status – Partially Implemented

Agency Actions – The Authority is still in the process of updating their policies and procedures. The Authority anticipates full implementation of this recommendation by January 31, 2014.

Paul Townsend, Legislative Auditor
January 17, 2014
Page 5

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry
Ash Mirchandani, Deputy Director, Department of Business and Industry
Charles D. Harvey, Administrator, Taxicab Authority
Jennifer DeRose, Deputy Administrator, Taxicab Authority
Ruben Aquino, Chief Investigator, Taxicab Authority
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit on the Nevada Transportation Authority issued on January 7, 2014. Legislative Auditor report # LA14-07.

Background

The Nevada Transportation Authority (NTA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the NTA primarily includes limousines, taxicabs outside of Clark County, charter buses, and airport shuttle services. NTA was established in 1997. Prior to this date, the agency was part of the former Public Service Commission. NTA's mission is to administer economic regulation of fully regulated common carriers of passenger and household goods and protect the safety of consumers in intrastate transportation of passengers, household goods, and tow cars.

NTA has offices located in Las Vegas and Reno. In fiscal year 2012 expenditures were about \$2.9 million. NTA has 24 authorized positions, including 3 commissioners appointed by the Governor to 4-year terms. These commissioners serve as administrative hearings officers. The Governor designates one commissioner to serve as the chair or executive officer.

Purpose of Audit

The purpose of this audit was to: (1) evaluate the processes for selecting and conducting operational inspections, and (2) evaluate performance measures, including the reliability of reported results. Our audit focused on the processes used for selecting operational inspections during fiscal years 2008 – 2012, and included a review of inspections completed from January 1, 2010 through June 30, 2012. The audit also focused on performance measures and reported results for fiscal years 2010 – 2012.

Audit Recommendations

This audit report contains three recommendations to strengthen the process of selecting carriers for inspection, and four recommendations to improve the reliability and effectiveness of performance measures.

The Nevada Transportation Authority accepted the seven recommendations.

Recommendation Status

The Authority's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Nevada Transportation Authority

Department of Business and Industry

Summary

The Nevada Transportation Authority (NTA) can improve its process to select carriers for operational inspections. From our review of inspection reports, we identified 18 carriers that had not been inspected during the past 5 fiscal years, as required. In addition, NTA's selection procedures should be updated to better address staff responsibilities. Furthermore, carriers with a history of safety violations were not always selected for a follow-up inspection, while other carriers without deficiencies were inspected several years in a row.

The NTA can take steps to improve the effectiveness and reliability of its performance measures. The goals for some measures do not accurately reflect performance. For example, one measure addresses completing 80% of industry applications within 6 months. However, we found some applications on average could be processed within a few weeks while others required 8 to 12 months or more to process. In addition, policies and procedures for performance measures do not always clearly define what should be measured.

Key Findings

NTA's selection procedures do not ensure carriers are inspected periodically. For example, procedures require that each carrier receive an operational inspection at least once every 5 years. However, as of fiscal year 2012, we identified 18 of 315 carriers that were not inspected during fiscal years 2008 to 2012, or 5 years. (page 5)

NTA should revise its procedures addressing selecting carriers for inspection. While procedures outline several factors for staff to consider when selecting a carrier for inspection, we found procedures do not clearly identify all staff involved in the selection process, address the expected timeframe to develop a list of carriers for inspection, or define the reasons a carrier may be selected for an inspection. (page 6)

Although a process is in place to correct violations, NTA did not always conduct follow-up inspections of carriers after issuing a citation for safety violations. A follow-up inspection would verify if the carrier remains in compliance. This inspection could involve reviewing all aspects of compliance such as driver qualification and vehicle maintenance files, insurance, tariffs, and checking vehicles. Or, the inspection could focus on specific prior violations. NTA issued citations to 15 carriers during fiscal year 2012 for safety violations identified during an operational inspection. However, NTA did not select 10 of the 15 carriers for a follow-up inspection. Meanwhile carriers with no safety violations were selected 2 or 3 years in a row for an inspection. Of the five carriers subsequently selected for an inspection, three were ordered by the Commissioners as part of the administrative hearing process, and the other two were randomly selected by staff. (page 7)

Several NTA performance measures as currently written and reported do not provide management with the best information. For example, one measure addresses completing 80% of industry applications within 6 months. However, we found some applications on average could be processed within a few weeks while others required 8 to 12 months or more to process. As a result, the measure as currently reported does not provide specific information on the timeliness of key applications. In addition, another measure designed to identify potential financial problems does not include a review of all carriers. (page 11)

The goals for some measures understate performance. For example, one measure addresses the percentage of consumer complaints resolved within 6 months. NTA's goal for this measure is to resolve 90% of all complaints within 6 months. However, we found NTA resolves more than 90% of all complaints in 60 days or less. (page 14)

Although NTA has developed policies and procedures governing performance measures, some revisions are needed. Current procedures do not provide sufficient guidance to ensure performance measure results are consistently reported. As a result, incorrect information was reported in some cases. In addition, procedures need to be revised to define application completion timeframes, safety violations, and financial audits. (page 15)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: October 3, 2014

Subject: Legislative Audit of the Nevada Transportation Authority

On January 7, 2014, your office released an audit report on the Department of Business and Industry, Nevada Transportation Authority (division). The division subsequently filed a corrective action plan on April 2, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

Recommendation 1

Ensure all carriers are selected for an operational inspection at least once every 5 years.

Status – Fully Implemented

Agency Actions – The division ensures all carriers are selected for an operational inspection at least once every 5 years. The division tracks the carriers' last inspection dates by fiscal year in order to schedule 5 year operational inspections. We reviewed the division's list of new carriers receiving inspections and the list indicating the last inspection of each carrier; we noted that all carriers, with the exception of one that is reportedly out of business but still on the division's records, had been inspected within the last 5 years.

Recommendation 2

Update inspection procedures to reflect current practices and include future revisions made to the selection process.

Status – Fully Implemented

Agency Actions - The division updated inspection procedures to reflect current practices, which includes provisions for future revisions made to the selection process. The Chief Inspector is responsible for developing the annual inspection schedule on or about July 1st each year. We reviewed updates to inspection policies and procedures and discussed the current inspection practices with staff. Additionally, we reviewed the inspection schedule, including new carriers, aging carriers, citation follow-ups, and random inspections in accordance with policies. The Deputy Commissioner is responsible for future updates to policies and procedures.

Recommendation 3

Require a follow-up inspection on carriers issued a citation during the prior inspection.

Status – Fully Implemented

Agency Actions – The division requires a follow-up inspection on carriers issued a citation during the prior inspection. The division uses a spreadsheet to track carriers issued citations and uses the spreadsheet to schedule follow-up inspections in the next year. We reviewed policies and procedures for updated follow-up inspection procedures and noted that policies now provide for citation follow-up inspections. We reconciled FY14 safety violation citations from operational inspections to completed inspections and to the inspection schedule for FY15. All carriers receiving a safety violation in FY14 were either re-inspected in FY14 or scheduled for a follow-up inspection in FY15.

Recommendation 4

Revise performance measures to address processing timeliness for key applications.

Status – Fully Implemented

Agency Actions – The division revised performance measures to address processing timeliness for key applications. The division defines key applications as the initial applications from carriers going into business for the first time. We reviewed policies and procedures for revisions and observed that the new goal is to complete 80 percent of new applications within nine months. We also reviewed the FY14 performance measures and noted 77 percent were reported completed within that time period.

Recommendation 5

Revise performance measures to identify carriers with equity issues.

Status – Fully Implemented

Agency Actions – The division revised performance measures to identify carriers with equity issues. Staff review all the carriers' annual reports annually. We reviewed policies and procedures for revisions and noted performance measures are to complete a 100 percent review of carriers' annual reports to ensure 20 percent equity is maintained. Additionally, carriers with less than 20 percent equity are to be tracked for further follow-up. We noted the performance measures reported 100 percent of the 125 annual reports submitted were reviewed by staff within FY14.

Recommendation 6

Modify performance goals to more accurately reflect performance.

Status – Fully Implemented

Agency Actions – The division modified performance goals to more accurately reflect performance. The audit report identifies two areas of concern: resolving consumer complaints and answering public information requests. We reviewed past and current policies and procedures for modifications. We observed six of ten performance measures were modified. For example, consumer complaint resolutions were reduced from 6 months to 60 days and answering public information requests was reduced from 10 to 5 days. We reviewed the FY14 performance measures and noted 99.5 percent of consumer complaints and 100 percent of public information requests were completed within stated time periods.


Recommendation 7

Revise policies and procedures to clearly identify what information should be used to calculate performance measures.

Status – Fully Implemented

Agency Actions – The division has revised policies and procedures to clearly identify what information should be used to calculate performance measures. For example, the division created a procedure for each of the ten performance indicators that identify the source data, the relevant time period or data range to be measured, and the outcome. We reviewed the guidance for calculating ten performance indicators. We noted the source data and calculation procedures were clearly identified.

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


Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
Andrew J. MacKay, Chairman, Nevada Transportation Authority
Marilyn Skibinski, Deputy Commissioner, Nevada Transportation Authority
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Division of Tourism issued on April 28, 2014. Legislative Auditor report # LA14-15.

Background

The Nevada Commission on Tourism was created in 1983 to develop and implement a national and international marketing campaign. During the 2011 Legislative Session, the Legislature created the Department of Tourism and Cultural Affairs and placed the Division of Tourism (formerly part of the Nevada Commission on Tourism) within the Department. In addition, the Division includes the Nevada Magazine. There is also a Commission on Tourism that establishes policies and approves programs and budgets for the Division of Tourism.

The Division's day-to-day operations are supervised by the Director of the Department of Tourism and Cultural Affairs. The Governor appoints the Director. The 2013 legislatively approved budget included 26 authorized full-time positions for the Division, and an additional 7.75 for Nevada Magazine.

The Division is funded by a 3/8 share of the one percent lodging tax established by the Legislature in 1983. In fiscal year 2013, the Division's lodging tax revenue totaled \$17.6 million. The Nevada Magazine accounts for its financial activities through an enterprise fund and exists on monies generated from magazine, calendar, and advertising sales. The Magazine's fiscal year 2013 revenue totaled just over \$1 million.

Purpose of Audit

The purpose of this audit was to determine whether: (1) the Division effectively procured, awarded, and managed contracts for services; and (2) Nevada Magazine properly controlled its cash receipts.

The primary focus of our work was fiscal year 2013. However, we performed follow-up work in certain areas through November 2013, and we included information from prior years in several areas.

Audit Recommendations

This audit report contains nine recommendations to improve the Division's activities related to the procurement of contractor services and contract management. In addition, one recommendation was made to help ensure Nevada Magazine's cash receipts are properly safeguarded.

The Division of Tourism accepted nine recommendations and rejected one recommendation.

Recommendation Status

The Division's 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Division of Tourism

Department of Tourism and Cultural Affairs

Summary

When procuring contracts for services, the Division did not always follow state procurement requirements. For 2 of 10 contractors tested, the Division did not have formal, state contracts. In addition, we found the Division did not select these contractors through a formal, competitive process as required by law. Furthermore, the Division's selection of another contractor did not comply with the selection process described in the Request for Proposal. Failure to follow state procurement requirements could expose the State to unnecessary liabilities and costs, and does not ensure millions of dollars for professional services are awarded fairly.

The Division's management of contracts was inadequate. Payments to contractors were made without adequate supporting documentation, payments to some contractors exceeded contract maximums, and some contractor invoices were not properly reviewed. Adequate oversight of contracts is critical to help ensure the Division receives those services it desires and that state tax dollars are spent effectively.

Nevada Magazine does not have adequate controls to safeguard its cash receipts. We tested Nevada Magazine's receipt process for advertising revenue and found key activities were not properly segregated. In fiscal year 2013, the Magazine received over \$598,000 in advertising receipts, or 57% of its revenues for the year. Although we did not identify missing funds, proper segregation of duties is important to help ensure agency assets are safeguarded.

Key Findings

For 2 of 10 contractors tested, the Division did not have state contracts. These contractors acted as brokers for purchasing traditional and digital advertising. Fiscal year 2012 and 2013 payments to one contractor were over \$4.7 million, and payments to the other contractor were \$2.3 million in fiscal year 2013. The Division used insertion orders to procure the services of these contractors. Insertion orders are written agreements to publish advertisements for established prices. However, insertion orders are not state contracts and do not ensure the State is adequately protected. (page 6)

The Division did not comply with state law for selecting these two contractors. Division management indicated a solicitation waiver and an emergency procurement authorization allowed them to award the services without competitive bids. However, the Division did not follow the requirements of the solicitation waiver or the state's emergency procurement procedures. (page 7)

For 21 of 57 (37%) payments tested, contractors' invoices lacked adequate supporting documentation. For example, the Division paid \$2.3 million to purchase advertising space from media providers through a digital media advertising contractor, but did not have evidence from the publishers that the advertisements were placed, or the costs charged by the publishers. Proper supporting documentation is important to ensure only appropriate costs are paid. (page 11)

For 5 of 10 contractors tested, payments exceeded the contract maximums. Payments for the five contractors exceeded the maximums by over \$660,000, and could be more because payments related to one contract were made to other contractors. Paying more than the contract maximum could force the Division to limit or eliminate expenditures in other program areas if adequate funding is not available. (page 14)

For the 57 contractor payments tested, we found several instances where contractor invoices were not properly reviewed, and some contractors were overpaid. For example, the Division paid \$2,200 for travel expenses not allowed by the contract. Failure to properly review contractors' invoices may result in payments for services and products that do not comply with contract terms. (page 17)

Some payments and obligations to the Division's public relations and marketing contractor have, or will, result in itemized costs for some contract deliverables being exceeded. For example, Division payments and future obligations for production of television commercials could exceed \$1.2 million, compared to the \$537,000 specified in the contract. The terms for this contract included vague language regarding deliverables. When contracts do not clearly define deliverables, the State may not receive the services or products desired, and other contract services may not be realized. (page 18)

The Division has not fully realized deliverables contained in one contract. The contract terms indicated that, at the end of fiscal year 2013, the Division would have redesigned websites and a mobile application to help promote Nevada. However, neither of these deliverables were fully realized as of December 2013. At the end of fiscal year 2013, payments for website redesign and mobile application development totaled \$125,500 and \$69,200 respectively. (page 20)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Department of Tourism and Cultural Affairs

On April 28, 2014, your office released an audit report on the Department of Tourism and Cultural Affairs (department). The department subsequently filed a corrective action plan on August 27, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the department to comply with audit findings.

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

Recommendation 1

Ensure formal, state contracts are used to procure services.

Status –Fully Implemented

Agency Actions – The department updated its contracting process to ensure formal, state contracts are used to procure services. In addition, the department developed a comprehensive policy that integrates all regulations mandated by State Purchasing, NRS 333.165, NAC 333.150, SAM 0300 and the department's internal controls. We reviewed a sample of contract payments made to vendors, both international and domestic, and verified each vendor had an active contract without exception. We also reviewed the contracting policy and our testing shows it is in line with state requirements.

Recommendation 2

Solicit formal, competitive bids for vendor services when required by state law.

Status –Fully Implemented

Agency Actions – The department developed purchasing and contracting policies to solicit competitive bids for vendor services when required by state law. We reviewed the policies and the purchasing guide and our testing shows it is in line with state requirements. We also reviewed RFPs for the international contracts due to bid in early 2015 and found the department was obtaining competitive bids for their contracts as required by state law.

Recommendation 3

Ensure contracts are awarded pursuant to the RFP and based on total evaluation scores.

Status –Fully Implemented

Agency Actions – The department worked closely with State Purchasing to ensure contracts are awarded pursuant to the RFP and based on total evaluation scores. The department represents it relies on Purchasing to direct the process. We reviewed a sample of contracts resulting from RFP bids and evaluation scoring. We verified criteria noted in the RFP were included on the scoring sheets and contracts were awarded to the highest scored bidder.

Recommendation 4

Ensure payments have adequate, detailed documentation of the propriety of expenses.

Status –Partially Implemented

Agency Actions – The department has instructed all its vendors to provide detailed expense reports that outline all expenses and adequate back-up documentation to ensure payments have adequate, detailed documentation of the propriety of expenses. The department is working to draft a procedure and associated budget tracking spreadsheet that can be used by all vendors to document completed work. We reviewed emails to vendors requesting more detailed invoices and verified the department is working towards getting all vendors to provide the required documentation.

Recommendation 5

Ensure contract maximums include all budgeted costs for each contractor, and properly record payments to the appropriate contract.

Status –Fully Implemented

Agency Actions – New contracts were developed for the international offices reflecting the total program costs to ensure contract maximums include all budgeted costs for each contractor. Additionally, the department has contract logs in place to ensure proper recording of payments to the appropriate contract. We reviewed a sample of contract payments made to vendors, both international and domestic, and traced them to the contract log to ensure payments were properly recorded to the appropriate contract and payments did not exceed contract maximums with no exceptions noted.

Recommendation 6

Ensure future contracts include terms that clearly specify deliverable requirements, and, when possible, tie payments to acceptance of deliverables.

Status – Fully Implemented

Agency Actions – The department has discussed with and continuously works with the Attorney General's office to carefully review all its contracts to ensure future contracts include terms that clearly specify deliverable requirements, and when possible, tie payments to acceptance of deliverables. The department developed contracts for its international vendors that include stated deliverables and associated timeframes and will track its invoices and provide information about the timeframe of its invoice processing from date received to date processed with approval sign offs and any notes citing exceptions. Payments to all vendors are tied to work performance and measurable objectives as outlined in the scope of work attached to the contract, and vendors are required to provide either a monthly or quarterly activity report as required in the scope of work included in the contract. We reviewed a sample of contract payments made to both international and domestic vendors, and when applicable, traced payments to contract deliverables with no exceptions noted.

Recommendation 7

Ensure future contracts include specific due dates and deadlines for deliverables.

Status – Fully Implemented

Agency Actions – As noted in the Agency's Actions for Recommendation 6 above, the department has discussed with and continuously works with the Attorney General's office to ensure future contracts include specific due dates and deadlines for deliverables. We reviewed the department's contracting policy and noted the department program managers are responsible for tracking contract requirements, obtaining vendor evaluations and discussing rebidding, if necessary, in addition to ensuring whether the vendor accomplishes the scope of work satisfactorily. Additionally, we reviewed upcoming RFPs and noted specific due dates and deadlines for deliverables.

Recommendation 8

Train contract monitors to properly review contractor invoices as required by agency policies.

Status –Fully Implemented

Agency Actions – The department trained contract managers to properly review contractor invoices as required by agency policies and developed an agency policy to ensure the contract monitor adequately reviews the contract and its processing. We reviewed the department's contracting policy for the appropriate monitors' duties. Discussions with staff disclosed training has been implemented to ensure correct monitoring and processing of contracts. We also reviewed training records of contract staff to ensure training completion and found the contract managers had attended the contract management class.

Recommendation 9

Ensure future contracts contain requirements for the timely submission of invoices, and develop internal policies and procedures for the timely review and payment of invoices.

Status –Fully Implemented

Agency Actions – The department developed a new invoicing process and hired an additional fiscal/operations person to help ensure future contracts contain requirements for the timely submission, review, and payment of invoices. We reviewed a sample of invoices and noted timely review and payment of invoices. Additionally, we reviewed upcoming RFPs and noted requirements for timely submission of invoices.


Recommendation 10

Develop policies and procedures to ensure the key duties of receiving, depositing, and reconciling cash receipts are properly segregated.

Status –Fully Implemented

Agency Actions – The department developed policies and procedures to ensure the key duties of receiving, depositing, and reconciling cash receipts are properly segregated. We observed the cash receipts cycle on Tuesday, January 6, 2014 and noted no exceptions.

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


Julia Teska, Director
Department of Administration

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

Audit Highlights



Highlights of performance audit report on the Use of Certain Assessments Paid by Counties issued on October 6, 2014. Legislative Auditor Report # LA14-19.

Background

During the 2013 Legislative Session, concerns were expressed regarding the Department of Health and Human Services' use of certain county assessments, many of which were enacted in 2011. As a result, Assembly Bill 255 was passed. Assembly Bill 255 requires the Legislative Auditor to audit the Department's use of assessments paid by counties pursuant to Nevada Revised Statutes 62B.150, 62B.165, 432B.326, and 439.4905.

The Department of Health and Human Services collects several county assessments. During the 2011 Legislative Session, the funding source for several programs or services shifted from the state General Fund to county assessments. These programs or services directly benefit the residents of the counties impacted.

Assembly Bill 255 specified the following five assessments administered by the Division of Public and Behavioral Health and the Division of Child and Family Services to be audited: Community Health Services, Consumer Health Protection, Rural Child Welfare, Youth Alternative Placement, and Youth Parole Bureau. From July 1, 2011, to December 31, 2013, the Department collected over \$20.6 million in county assessments.

Purpose of Audit

The purpose of this audit was to evaluate the Department's calculation and collection of assessments, and use of assessments paid by counties for the operation of regional facilities for the detention of children, activities of the Youth Parole Bureau, child protective services in rural counties, and health services provided in the counties. Our audit focused on assessment revenues and related expenditures for the 30-month period ending December 31, 2013.

Audit Recommendations

This audit report contains six recommendations to improve controls over assessment calculations and communication with counties.

The Department accepted the six recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

Use of Certain Assessments Paid by Counties

Department of Health and Human Services

Summary

The Department of Health and Human Services' use of certain assessments paid by counties complied with state law; however, stronger controls are needed over the calculation of assessments. We reviewed the assessment calculations for fiscal years 2012 through 2014 and found assessment calculations were not supported by adequate underlying records. Policies and procedures also lacked sufficient guidance regarding the calculation of certain health assessments. In addition, certain youth assessments were not calculated in compliance with state law. In contrast, we reviewed 144 county payments totaling over \$12 million and found the Department of Health and Human Services collected and deposited assessment revenues in accordance with state requirements.

The Department used county assessment revenues as statutorily intended. We tested 225 expenditures totaling over \$3.7 million and found transactions were properly approved, mathematically accurate, and properly recorded. Costs also related to the services being provided. Although assessment revenues were used as intended, communication with the counties about the use of assessment revenues and services provided can be improved.

Key Findings

Assessment calculations cannot be considered reliable unless they are supported by adequate underlying records. None of the five county assessments we audited were supported by sufficient underlying records. Either the documents provided did not support the amounts assessed or supporting documents could not be provided. Management indicated employee turnover led to supporting documents no longer being available. In addition, current policies and procedures do not provide adequate guidance to assist staff with developing and providing adequate support for assessment calculations. (page 5)

Written policies and procedures have not been developed for the health assessments. As a result, staff could not explain the differences we found in the number of food establishments used in the calculation of the Consumer Health Protection assessment. The support for the number of food establishments used in the assessment calculation was not retained. Although staff provided similar documentation to support the calculation, the number of food establishments indicated on this documentation did not match the number used in the assessment calculation. The difference between the number of food establishments on the documents was small, less than 1%; however, the difference did affect the distribution of the assessment between counties. Additionally, staff could not explain how the base contract amounts were calculated for the Community Health Services assessment. (page 9)

The calculation of certain youth assessments did not comply with state law. Incorrect student enrollment data was used in the calculation of the Youth Alternative Placement and Youth Parole Bureau assessments. As a result, counties were not assessed the proper amounts in fiscal years 2012 to 2014. State law requires the total number of pupils in the State in the preceding school year be used for the calculation of the Youth Alternative Placement assessment; however, we found the fiscal year 2012 assessment only included students enrolled in grades 7 through 12, and the fiscal years 2013 and 2014 assessments did not use student enrollment data from the preceding school year. We recalculated the correct assessment amounts and determined the largest differences for fiscal years 2012 through 2014 combined were Elko County being under assessed by \$9,182, and Washoe County being over assessed by \$13,414. In addition, state law requires the total number of pupils in grades 7 through 12 in public schools in the State for the preceding school year be used for the calculation of the Youth Parole Bureau assessment; however, we found the fiscal years 2012 through 2014 assessments incorrectly included private school students, and the fiscal year 2014 assessment did not use student enrollment data from the preceding school year. We recalculated the correct assessment amounts and determined the largest differences for fiscal years 2012 through 2014 combined were Clark County being under assessed by \$29,549, and Washoe County being over assessed by \$45,154. (page 10)

Better communication with counties is needed regarding the use of assessment revenues and services provided. We surveyed 10 counties regarding concerns they may have relating to these assessments, and several counties did not feel they had enough information to answer our questions. Counties stated that they pay their annual assessments, but receive very little or no correspondence to show how their money is being used and the services being provided to their counties. (page 23)



DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIRECTOR'S OFFICE
4126 Technology Way, Suite 100
Carson City, Nevada 89706
Telephone (775) 684-4000 • Fax (775) 684-4010
<http://dhhs.nv.gov>

January 22, 2015

Paul Townsend, CAP
Legislative Auditor
401 S. Carson Street
Carson City, NV 89701

Dear Mr. Townsend,

On October 6, 2014, the Legislative Council Bureau issued an audit report for the Use of Certain Assessments Paid by the Counties. The Department of Health and Human Services and Division of Public and Behavioral Health accepted the findings and recommendations contained in the audit report. As required, the Division's 60-day status of its plan of corrective action is summarized below:

Recommendation 1. Enhance policies and procedures to include the retention of underlying records for both the health assessments and the county youth assessments.

Division Response: Community Health Nursing (CHN) has implemented policies and procedures to manage the retention of CHN county health assessment records. Consumer Health Protection has an approved policy to retain underlying records for the health assessments.

Recommendation 2. Develop policies and procedures describing each health assessment, including calculation, methodology for calculation, supervisory review of the calculation, and when revisions are necessary.

Division Response: CHN has implemented policies and procedures to describe the calculation methodology, including reevaluations, for county health assessments. The methodology includes the number of clients served each fiscal year, description of services provided, disease prevalence and incidence by county, most recent county health rankings, Legislative updates (if applicable), and Division of Public and Behavioral Health updates (if applicable). Consumer Health Protection has an approved policy that describes the assessment, methodology, calculation of assessments and required supervisory review of the calculations and timeliness of revisions.

Recommendation 5. Communicate with counties the use of assessment revenues and services provided, and consider adopting regulations to assist counties with their understanding of the health assessments.

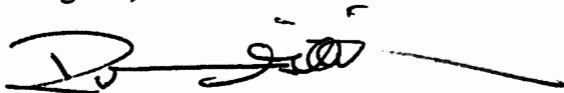
Division Response: CHN policies include the requirement to meet face-to-face with county commissioners to present and discuss their county's health assessment. At a minimum, CHN will present and discuss the number of clients served each fiscal year, provide description of services provided, disease prevalence and incidence by county, most recent county health rankings, Legislative updates (if applicable), and Division of Public and Behavioral Health updates (if applicable). Consumer Health Protection has an approved policy to communicate with the counties. Information provided will include the services provided, the costs of these services and how they are being charged an equitable amount compared to the other counties.

The Division of Child and Family Services would like to again thank the Legislative Audit Division for their assistance and feedback regarding the audit of county assessments. As required, the Division's 60-day status of its plan of corrective action is summarized below: Our action plan addressed the following recommendations:

- Enhancing policies and procedures
- Adhering to state law and policies in calculating the assessments
- Supervisory oversight and
- Ensuring appropriate county partners receive continued communication

Should you have any questions or concerns related to the corrective action measures described above, please call me at (775) 684-4000

Regards,



Romaine Gilliland
Director
Department of Health & Human Services

cc: Ellen Crecelius
Amber Howell, Administrator, Child and Family Services
Richard Whitley, Administrator, Public and Behavioral Health
Mark Winebarger
Danette Kluever, Deputy Administrator

DIVISION OF CHILD AND FAMILY SERVICES

ACTION PLAN BASED ON COUNTY ASSESSMENTS

FINDING	ACTION STEP	PERSON RESPONSIBLE	DUE DATE
<i>Enhance policies and procedures to include the retention of underlying records for county youth assessments</i>	DCFS will revise the <u>DCFS County Assessment Procedures</u> to include retention of records for county youth assessments.	Deputy Administrator, ASO III or designee	March 31, 2015
<i>Adhere to state law, policies and procedures for calculating county youth assessments.</i>	Draft a memo for all staff to remind them of appropriate procedures. Meet with the Department of Education to ensure the appropriate data can be accessed by them for calculation purposes.	Deputy Administrator, ASO III or designee	February 15, 2015
<i>Revision of policies and procedures to include supervisory review of county youth assessment calculations</i>	DCFS will revise the <u>DCFS County Assessment Procedures</u> to include supervisory approval prior to final submission to the counties.	Deputy Administrator, ASO III or designee	January 31, 2015
<i>Review the listing of individuals receiving the rural child welfare assessment's statutory report on child protective services to ensure it is being sent to the appropriate county official.</i>	DCFS will add an attachment to the current Child Protective Services Assessment Policy with a list of the County Manager for each county. All Correspondences related to this assessment will be mailed to their attention with a CC to the local budget office.	Deputy Administrator, ASO III or designee	December 1, 2014 COMPLETE

Review Highlights



Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on April 28, 2014. Report # LA14-16.

Background

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

As of June 30, 2013, we had identified 63 governmental and private facilities that met the requirements of NRS 218G: 20 governmental and 43 private facilities. In addition, 113 Nevada children were placed in 24 facilities in 13 different states as of June 30, 2013.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the period from July 1, 2012, through June 30, 2013, we received 907 complaints from 29 facilities in Nevada. Thirty-four facilities reported that no complaints were filed during this time.

Purpose of Reviews

Reviews were conducted pursuant to the provisions of NRS 218G.570 through 218G.585. The report includes the results of our reviews of 9 children's facilities, unannounced site visits to 7 children's facilities, and a survey of 63 children's facilities. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards, as outlined in *Government Auditing Standards* issued by the Comptroller General of the United States, or in accordance with the *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of our reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities and whether the facilities respect the civil and other rights of the children in their care. These reviews included an examination of policies, procedures, processes, and complaints filed since July 1, 2011. In addition, we discussed related issues and observed related processes during our visits. Our work was conducted from November 2012 through December 2013.

Review of Governmental and Private Facilities for Children

April 2014

Summary

Based on the procedures performed and except as otherwise noted, the policies, procedures, and processes in place at seven of the nine 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 WestCare-Harris Springs Ranch did not provide reasonable assurance that it adequately protects the safety of youths in its care. It did not document that it took sufficient steps to ensure its employees had not been convicted of violent crimes which would have excluded them from employment under NRS 449.174(1).

The policies, procedures, processes, and staff's compliance with policies at Etxea Services did not provide reasonable assurance it protects the safety of youths in its care. Etxea Services' policies did not adequately define contraband, which may have contributed to contraband-type items observed in the two homes. Furthermore, staff did not always enforce the rules, and management did not always enforce requirements found in state regulations related to the condition of the homes.

In addition, during six of the seven unannounced visits conducted, we did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the facilities. However, based on an unannounced visit conducted at Etxea Services, we determined it prudent to conduct a review.

Facility Observations

Many of the facilities had common weaknesses. For example, policies and procedures needed to be developed or were outdated. In addition, medication administration processes and procedures needed improvement, and facilities needed to improve compliance with fingerprint background check requirements. (page 7)

All nine facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated included: establishing identity kits for each youth served for use during an emergency; disposing of discontinued, expired, or unused medication; and ensuring that documented policies and procedures are consistent with actual practices. (page 7)

Medication administration processes and procedures needed to be strengthened at all nine facilities. Youth medication files did not always contain complete or clear documentation of dispensed, prescribed medication at seven facilities. Some youths' files were missing key documentation, such as physicians' orders and pharmacies' instructions at seven facilities. In addition, at six facilities, some youths' files contained errors, such as documentation of an incorrect dosage of medication or documentation of medication administered to a youth after the youth had been discharged from the facility. (page 8)

All nine facilities needed to improve their compliance with fingerprint background check requirements. Seven facilities needed to develop or improve hiring policies and procedures, including maintaining accurate records of information collected during the hiring process. Employees at two facilities were subject to social security number and name-based background checks, instead of statutorily required fingerprint background checks. In addition, one of the facilities that required fingerprint background checks did not follow-up or obtain dispositions for arrests listed in the employees' background check results. (page 8)

Review Highlights



Highlights of Legislative Auditor report on the Review of Governmental and Private Facilities for Children issued on October 6, 2014.
Report # LA14-21.

Background

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

As of June 30, 2014, we had identified 63 governmental and private facilities that met the requirements of NRS 218G: 21 governmental and 42 private facilities. In addition, 105 Nevada children were placed in 25 facilities in 13 different states as of June 30, 2014.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the period from July 1, 2013, through June 30, 2014, we received 833 complaints from 29 facilities in Nevada. Thirty-two facilities reported that no complaints were filed during this time, and two facilities did not provide us with complaint information.

Purpose of Reviews

Reviews were conducted pursuant to the provisions of NRS 218G.570 through 218G.585. The report includes the results of our reviews of 4 children's facilities, unannounced site visits to 2 children's facilities, and a survey of 63 children's facilities. As reviews and not audits, they were not conducted in accordance with generally accepted government auditing standards, as outlined in *Government Auditing Standards* issued by the Comptroller General of the United States, or in accordance with the *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of our reviews was to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities, and whether the facilities respect the civil and other rights of the children in their care. These reviews included an examination of policies, procedures, processes, and complaints filed since July 1, 2012, for three of the facilities, and since December 2013 for Rite of Passage-Red Rock Academy. In addition, we discussed related issues and observed related processes during our visits. Our work was conducted from January 2014 through September 2014.

Review of Governmental and Private Facilities for Children

October 2014

Summary

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

We concluded that the policies, procedures, and processes in place at the Rite of Passage-Red Rock Academy did not provide reasonable assurance that it adequately protects the health, safety, and welfare of the youths, and respects the civil and other rights of youths in its care. The facility is owned by the State and is located in Las Vegas on the campus of the former Summit View Youth Correctional Center. The Academy is operated through a contract between the Nevada Department of Health and Human Services, Division of Child and Family Services, and Rite of Passage, a private, not-for-profit organization. The Academy's policies and procedures need improvement, and management needs to take additional steps to ensure staff comply with all policies and procedures. For example, the Academy's noncompliance with requirements for administration of medications, noncompliance with requirements for staff-to-youth ratios, lack of control over tools and contraband, poor reporting of corrective room restrictions, and lack of notification of youth rights do not ensure the youths at the Academy are adequately protected.

We did not note anything that caused us to question the health, safety, welfare, or protection of rights of the children in the two facilities where we conducted unannounced site visits.

Facility Observations

Many of the facilities had common weaknesses. For example, policies and procedures needed to be developed or were outdated, medication administration processes and procedures needed to be strengthened, and facilities needed to improve background investigation processes and policies. (page 6)

All four facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated included: establishing identity kits for each youth served for use during an emergency; implementing the Prison Rape Elimination Act requirements; specifying the timeframe in which a treatment plan must be developed; and clarifying what types of actions constitute corrective room restriction and tracking the use of corrective room restrictions. (page 6)

Medication administration processes and procedures needed to be strengthened at all four facilities reviewed. Some youths' files were missing key documentation, such as physicians' orders, at two of the four facilities. In addition, at three facilities, some youths' medication administration records contained errors or blank spaces, such as documentation of an incorrect dosage of medication or documentation of medication administered to a youth on a day that didn't exist. At one facility, youths' files showed some youths did not receive their medication for up to 22 days after it was prescribed. Medication policies and procedures that needed improvement at three facilities included: verifying and documenting the amount of medication received by the facility; addressing the process and documentation of disposing of medications; and conducting independent reviews of medication files. (page 6)

All four facilities reviewed needed to improve their background investigation processes and policies. Policies at two facilities did not include an accurate list of the convictions which would preclude a person from working at the facilities. One facility obtained fingerprint background checks for all of its employees, but cited incorrect statutes as authority for the checks. This resulted in the background check results being compared to more lenient conviction standards than required. Finally, two facilities could improve their background investigation policies and procedures by including a requirement for all new employees to be subject to a search of the Statewide Central Registry for the Collection of Information Concerning the Abuse or Neglect of a Child (CANS). Although neither facility is required to request information about employees from CANS, NRS 432.100 allows the Division of Child and Family Services to release information from CANS to employers if the employees have regular contact with children. (page 7)

Audit Highlights



Highlights of performance audit report on the Rehabilitation Division issued on October 6, 2014. Report # LA14-18.

Background

The Rehabilitation Division provides services to address disability assessment, training, treatment, and job placement for disabled Nevadans; bridging the gap between disability and self-sufficiency. The Division's mission is to bring Nevadans together to promote barrier-free communities in which individuals with disabilities have equal access to opportunities for quality work and self-sufficiency. The Division is comprised of three bureaus, which include Vocational Rehabilitation, Services to the Blind and Visually Impaired, and Disability Adjudication.

The Division is primarily funded through federal grants and general fund appropriations. Total revenues for fiscal year 2013 amounted to nearly \$40.5 million. Expenditures from the same time period were nearly \$39.4 million. The bureaus of Vocational Rehabilitation and Services to the Blind and Visually Impaired accounted for \$21.6 million in revenues and \$20.7 million in expenditures during fiscal year 2013. The Division provides vocational rehabilitation and blind and visually impaired services from 15 offices located throughout the State.

Purpose of Audit

The purpose of our audit was to determine whether the Division (1) ensured vocational rehabilitation and blind and visually impaired service payments were properly approved, paid, monitored, and in accordance with Individual Plans of Employment, and (2) ensured Individual Plans of Employment were approved in accordance with Division policies and procedures.

This audit focused on the Division's vocational rehabilitation and blind and visually impaired services between July 1, 2011, and March 31, 2013. We expanded our scope to prior fiscal years and through June 30, 2013, for dental services.

Audit Recommendations

This audit report contains 12 recommendations to improve oversight, policies and procedures, and controls over rehabilitation services provided to participants.

The Division accepted the 12 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on January 6, 2015. In addition, the six-month report on the status of audit recommendations is due on July 6, 2015.

Rehabilitation Division

Department of Employment, Training and Rehabilitation

Summary

The Rehabilitation Division (Division) does not have adequate controls to ensure payments for vocational rehabilitation services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Division does not always ensure IPEs are approved in accordance with policies and procedures. For example, our review of rehabilitation activities found certain offices provided dental services at higher occurrence rates and as the sole or primary service. Had these offices incurred dental service rates similar to other offices, dental expenditures would have been \$900,000 lower for fiscal years 2009 to 2013. These activities were not discovered by the Division because certain staff perform all of the functions for participant rehabilitation with little required oversight. Furthermore, when management review is required it is not always obtained and documented. These issues warrant stronger controls and review to ensure vocational rehabilitation activities are proper and utilized as intended.

The Division lacks controls over transportation activities to prevent or detect misuse, abuse, or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper. Our review of fuel cards and bus passes for the Southern District found the Division could not provide documentation detailing which participant, if any, received the fuel card or pass in 272 of 404 (67%) instances. These unaccounted for fuel cards and passes were worth nearly \$19,000 of \$24,000 reviewed. Transportation assistance can easily be misused and failure to establish adequate controls and enforce existing policies limits the Division's ability to ensure services are being used for intended purposes.

Key Findings

Certain offices provided dental services at significantly higher occurrence rates than expected. For instance, the Ely office provided dental services to 41% of participants while most offices provided dental services to less than 7%. Nearly \$378,000 or 35% of total service costs for the Ely office during fiscal years 2009 to 2013 were for dental services. (page 8)

Participants receiving dental services typically have a primary disability other than dental used for determining eligibility for vocational rehabilitation services. In several instances, dental services were the only, or vast majority, of all services rendered when other significant disabilities were noted for determining eligibility. (page 10)

Rehabilitation counselors are responsible for nearly all rehabilitation case activities with little required oversight by management. Current approval levels allow counselors to approve 97.6% of all expenditures resulting in a lack of adequate oversight of counselor duties required for a sound system of control. Counselors determine eligibility, prepare and approve IPEs, and approve invoices with little oversight. Implementing compensating controls or segregating counselor duties will reduce the risk of fraud and abuse occurring. (page 13)

Payments made from an outside bank account used to pay participants and vendors who are not established in the state accounting system were not always accurate or properly documented. Our review of eight direct purchases for a total of \$16,909 identified four (50%) for \$11,299 that were not adequately supported or properly authorized in the IPE. (page 16)

IPEs were not always approved by the proper authority within the Division. The Division has adopted approval levels regarding the estimated amount to be spent on an IPE but relies entirely on counselors to submit IPEs needing management approval for review and the Division does not track whether approval is granted. (page 18)

Fuel cards and bus passes purchased in bulk were not inventoried or safeguarded upon receipt and not always tracked or logged when distributed to technicians or participants. Additionally, a periodic count and reconciliation of these negotiable items was not conducted. (page 23)

Of the 60 direct fuel purchases reviewed, we could not find a signed participant receipt for 41 (68%). In one instance, the Division paid for the same purchase twice when it was duplicated on an invoice from a fuel retailer. (page 24)

Division staff rarely require participants to account for fuel assistance received in either the Northern or Southern Districts. Out of 84 fuel assistance transactions, mileage logs were not collected for 78 (93%). Mileage logs are a critical control to ensuring state and federal resources are being used for their intended purpose and participants are receiving assistance for approved services only. (page 25)



OFFICE OF THE DIRECTOR

December 29, 2014

Julia Teska, Director
Department of Administration
209 East Musser Street, Room 302
Carson City, Nevada 89701

Dear Director Teska,

The August 2014 Legislative Council Bureau (LCB) audit of the Department of Employment, Training and Rehabilitation's (DETR) Rehabilitation Division had 12 principal findings. The DETR Rehabilitation Division accepted all 12 recommendations on August 27, 2014. In response to your latest letter dated October 13, 2014, attached is DETR Rehabilitation Division's 60 day plan for corrective action which is to be filed with you, the Legislative auditor and the Division of Internal Audits.

If you have any questions concerning the 60 day corrective action plan and/or with any of the attached documentation, please do not hesitate to call me at (775) 684-3911 or Shelley Hendren, Administrator of the Rehabilitation Division at (702) 486-3213. Thank you.

Sincerely,


Don Soderberg, Director

cc: Dennis Perea, DETR Deputy Director
Shelley Hendren, DETR, Rehab Administrator
Janice John, DETR, Rehab Deputy Administrator
Melaine Mason, DETR, Rehab Deputy Administrator
Duane Anderson, DETR, Chief Auditor
Steve Weinberger, Chief, Division of Internal Audits
Paul V. Townsend, Legislative Auditor
Lynn Castro, DETR, Director's Office

2014 LEGISLATIVE COUNCIL BUREAU (LCB) PERFORMANCE AUDIT

DETR/REHABILITATION DIVISION RESPONSE TO LCB AUDIT

DECEMBER 23, 2014

Section I. - Additional Oversight of Rehabilitation Services Necessary

Findings 1-7 Clearer Guidelines Needed Over Providing Dental Services

The Rehabilitation Division does not ensure payments for vocational rehabilitation (VR) services are properly approved, paid, monitored, and in accordance with Individual Plans of Employment (IPE). In addition, the Rehabilitation Division does not ensure IPE's are approved in accordance with policies and procedures.

Recommendation #1

Develop specific policies and procedures for determining when dental services will be provided. Policies, procedures, and enhanced controls should address the circumstance under which dental services will be provided when eligibility is dependent upon disabilities other than dental.

DETR's Response

In an effort to strengthen our provision of dental services to clients, the administrative team developed new policies and procedures for determining when dental services will be provided. These new policies address concerns statewide and give examples of when services are appropriate, the use of comparable benefits and conditions upon which dental services may stand alone as the qualifying disability. (Dental impairment as a sole disability includes a facial deformity involving the mouth and teeth, or the condition of TMJ/TMD only). These policies and procedures became effective on June 1, 2014, after approval by the Nevada State Rehabilitation Council (NSRC). Staff have received extensive training on the new policies and procedures via 2 formal statewide trainings. These new policies may be found in the Rehabilitation Division's "Participant Services Policy and Procedures Manual," "Section 12: Scope of VR Services," and by clicking on "Scope of Services Available." The new dental policies start on page 7. (See attached policy, provided in part, or link: [Scope of VR Services](#)).

Recommendation #2

Routinely monitor controls systems to ensure policies and procedures are followed by staff.

DETR's Response

The Rehabilitation Division does have a multi-pronged system whereby counselors' cases are regularly reviewed for quality and adherence to policies and procedures.

The Division's Quality Control Team also facilitates or conducts regular case file reviews per calendar year, as noted below:

- Two comprehensive case file reviews (District-wide and State-wide) which review the entire case from application to closure. These reviews typically involve the review of two cases from each counselor's caseload--one case that was closed unsuccessfully and one case that was closed successfully (rehabilitated/employed).
- Four targeted reviews:
 1. An Eligibility Determination review which typically involves the review of one case from each counselor's caseload.
 2. An Assessment of Vocational Needs and Individualized Plan for Employment (IPE) Review which typically involves the review of one case from each counselor's caseload.
 3. A Case Documentation/Case and Expenditure Management and Case Closure Review which typically involves the review of two cases from each counselor's caseload-- one case that was closed unsuccessfully and one case that was closed successfully.
 4. A Transition case file review (students transitioning from school to work) which typically involves a review of 25% of all transition cases in "Service" status.

A total of 1,538 reviews have been completed since calendar year 2011:

2011: 404
2012: 463
2013: 466
2014: 205 (to date)

- In addition, in 2013 the Quality Control Team conducted a baseline review of case files with job developer and/or job coaching services. 71 files were reviewed. The 2nd annual review of job developer and/or job coaching case files was completed in December 2014. About 275 files were reviewed. A final report is currently pending.
- A 5th targeted review is being added to the Quality Control Team's annual review calendar starting in 2016, as an additional compensating control. It will review expenditure transactions specifically, from two cases from each counselor's caseload, and include a review of authorizations, invoices, receipts, authority levels, and form RD-87 (proof of receipt) to ensure compliance with the Rehabilitation Division's "Participant Services Policy and Procedures Manual,"

**“Section 18: Purchases and Payments of Goods and Services,
Authorizations, Authority Levels and Cash Pays.”**

In addition, supervisors review no less than 15 unique cases annually for every Rehabilitation Counselor under their supervision, to ensure that policies and procedures are being followed.

Annually, the outside accounting firm of Kafoury, Armstrong & Co. performs a targeted review of a random sampling of Rehabilitation case files to test for eligibility requirements.

Recommendation #3

Reduce approval levels for individual expenditure transactions to ensure oversight is adequate.

DETR's Response

The Division acknowledges that increased oversight is needed and agrees to reduce the expenditure approval limit from \$6000 to \$4000 for individual transactions (see Performance Audit, Exhibit 10). The Division feels this will allow supervisors to balance the need to conduct reviews of individual expenditure authorities with providing services to clients without delays. The Division agrees to this reduction of the individual expenditure limit for Rehabilitation Counselors to \$4000. At \$4000, the individual expenditure would trigger the requirement for a supervisor's approval of the expenditure.

Recommendation #4

Implement compensating controls to prevent and detect inappropriate activity, including fraud and abuse, or segregate rehabilitation counselor activities.

DETR's Response

We have ensured that our Field Accounting Assistants work performance standards include the following: “Monitors and reviews case service budget records for accounts 3265 & 3254. Adheres to internal control procedures, utilizes RAISON system to monitor monthly/quarterly case service budgets and outstanding authorizations. Identifies case expenditure problems and brings it to the attention of the Rehabilitation Manager as required.” (See attached document entitled, “Rehab Division ACCTG ASST III WPS”).

In addition, a 5th targeted review is being added to the Quality Control Team's annual review calendar starting in 2016, as an additional compensating control. It will review expenditure transactions specifically,

from two cases from each counselor's caseload, and include a review of authorizations, invoices, receipts, authority levels, and form RD-87 (proof of receipt) to ensure compliance with the Rehabilitation Division's "Participant Services Policy and Procedures Manual," "Section 18: Purchases and Payments of Goods and Services, Authorizations, Authority Levels and Cash Pays." This review will identify trends in spending in order to prevent possible fraud or abuse. (See attached policy, provided in part, or link: [Scope of VR Services](#)).

Recommendation #5

Strengthen controls over direct payments. Ensure appropriate supporting documentation is obtained and evaluated prior to payments being issued.

DETR's Response

Numerous changes were made to the Rehabilitation Division's "Participant Services Policy and Procedures Manual," after approval by the NSRC, and effective on June 1, 2014. "Section 18: Purchases and Payments of Goods and Services, Authorizations, Authority Levels and Cash Pays." (See attached policy, provided in part, or link: [Scope of VR Services](#)).

- Of specific note are the following:
 1. A direct citation from the State Administrative Manual (SAM) "1546-Circumventing: *Direct purchases shall not be made contrary to the requirements included in SAM, nor shall they be made in such a manner as to circumvent the intent of this chapter, nor shall related or similar items be purchased separately (by splitting purchases or by a series of smaller purchases) as a device to avoid these requirements.*"
 2. On page 9, we also added a new policy under the heading: "8. Direct Authorizations (Cash Pays)," which states, in part, "Direct Authorizations are permitted in rare occurrences due to a unique situation, which may involve the required payment at the time of purchase wherein a Purchase Order will not be accepted by the vendor...Direct Authorizations cannot be used to circumvent the process and procedures outlined in Section 18. Direct Authorizations may be used only when the purchase utilizes a vendor who has not been approved by the State of Nevada or a vendor who cannot submit the required paperwork to become an approved vendor... A receipt is required at the time the cash pay is requested and the receipt must reflect the exact amount of the direct authorization request."
- Additionally, existing policy states that Accounting Field Staff are not allowed to approve direct authorizations/cash payments.

Recommendation #6

Develop controls over IPEs and associated expenditures to ensure approvals are obtained as detailed in policy.

DETR's Response

The Division created an automated alert that directly notifies the District Manager and Bureau Chief any time expenditures exceed the amount approved in the IPE. This is used as a management tool to monitor counselor compliance with policy and procedures to ensure that IPE expenditures are within approved limits.

Following is an example of the alert:

-----Original Message-----

From: RAISON@Do.not.reply [mailto:RAISON@Do.not.reply]

Sent: Monday, September 29, 2014 4:50 PM

To: RAISON-AUTHO-CONTROL; Sheila Rasor

Subject: Agency Obligated Amount Exceeded

Staff Member _____ has exceeded the Agency Amount (\$1900) on the current IPE by issuing VR Authorization Number: 380300 in the amount of \$25 for Case Master ID: 72732. \$1890 has already been obligated toward this plan. Please direct Sally to update the plan to include current and future spending projections.

Upon receipt of the notification, staff are required to respond to the Bureau Chief that the issue has been reviewed and appropriately resolved.

Recommendation #7

Develop policies and procedures detailing when IPE revisions are required and develop controls to ensure revisions are performed and submitted to the proper authority for review.

DETR's Response

Federal regulations require that Division staff perform annual reviews of all open IPEs. The Rehabilitation Division's "Participant Services Policy and Procedures Manual," "Section 11: Individualized Plan for Employment (IPE)" outlines this mandate. The Division also developed a new report in its RAISON case management system, called the "Plan Cost Allocation Report," which may be run for any individual caseload, office, district, or statewide. It provides the total cost of the current IPE, amount spent on goods and services in the IPE to date, total funds obligated, and total remaining authority. This tool allows supervisors to accurately track IPE spending. (See attached policy, provided in part, or link: Scope of VR Services).

Furthermore, the Division created an automated alert that directly notifies the District Manager and Bureau Chief any time expenditures exceed the amount approved in the IPE. This is used as a management tool to monitor counselor compliance with policy and procedures to ensure that IPE expenditures are within approved limits.

Following is an example of the alert:

-----Original Message-----

From: RAISON@Do.not.reply [mailto:RAISON@Do.not.reply]

Sent: Monday, September 29, 2014 4:50 PM

To: RAISON-AUTHO-CONTROL; Sheila Rasor

Subject: Agency Obligated Amount Exceeded

Staff Member _____ has exceeded the Agency Amount (\$1900) on the current IPE by issuing VR Authorization Number: 380300 in the amount of \$25 for Case Master ID: 72732. \$1890 has already been obligated toward this plan. Please direct Sally to update the plan to include current and future spending projections.

Upon receipt of the notification, staff are required to respond to the Bureau Chief that the issue has been reviewed and appropriately resolved.

Section II. - Additional Oversight of Rehabilitation Services Necessary

Findings 8-12 Division Does Not Adequately Oversee Fuel Assistance

The Rehabilitation Division lacks controls over transportation activities to prevent or detect misuse, abuse or fraud. Specifically, custody of negotiable fuel cards was not adequate, documentation supporting the distribution of cards and passes was deficient or nonexistent, and the Rehabilitation Division failed to obtain and review receipts and mileage logs to ensure invoices and assistance provided participants was reasonable and proper.

Recommendation #8

Maintain an inventory by recording all fuel cards and bus passes upon receipt. Include identifying characteristics of each card or pass, purchase, and distribution information.

DETR's Response

The Division developed a log system for its offices statewide, to inventory and distribute bus passes and fuel cards to clients. For each bus pass and fuel card, the log identifies: a) serial number; b) date received, and by whom; c) client name to whom it was issued; d) client's case ID number;

e) rehabilitation counselor for the client; f) date provided to client; g) authorization number; and h) whether the RD-87, mileage log and signed receipts were received. (This will be discussed under “DETR’s Response” to #12 below). (See attached document called, “Rehab Division Fuel Log Sample”).

Recommendation #9

Perform inventory counts and reconciliations on a periodic basis so fuel cards and bus passes are accounted for and properly safeguarded.

DETR’s Response

Before purchasing any new bus passes or gas cards, District Managers or their designee will perform a visual audit of the logs to ensure that inventory has been distributed appropriately and that new inventory is warranted. The District Managers also ensure that inventory is kept in a safe, locked environment. Only upon receipt of this assurance from the District Manager will the Bureau Chief proceed with approval for the purchase of any new gas cards or bus passes.

Recommendation #10

Develop and enhance policies and procedures over fuel cards and bus passes including a periodic review of control systems to ensure they are being followed and working as intended.

DETR’s Response

Field Accounting maintains a binder with copies of all packing slips for bus passes and gas cards, to confirm receipt by Field Accounting. The distribution of the bus passes and gas cards are kept on a log sheet, as previously discussed and provided under #8 “DETR’s Response” above. The logs are kept on a shared drive. There are separate documents for each pass or card type. Each log was created as an Excel spreadsheet, and each technician maintains their own, exclusive worksheet. Accounting fills in the receipt columns and the technicians fill in the distribution columns. The columns are password protected. Logs are reviewed by Field Accounting for missing information prior to the distribution of additional cards.

Recommendation #11

Institute controls to ensure signed receipts for direct fuel purchases are submitted and compared to vendor invoices prior to payment.

DETR’s Response

In both the northern and southern districts, the Division exclusively utilizes State fuel vendors from whom it purchases fuel cards that may

only be used with that vendor. The Division has made attempts to limit the number of vendors and to only utilize recognized fuel vendors (i.e. Shell, Arco). There are some exceptions in the rural areas due to having limited options for fuel vendors.

Controls on fuel purchases remain consistent statewide, and include a new policy which was distributed to staff statewide in October 2014 (See attached e-mail called, "Gas Card Policy In Place immediately"). This policy is currently in effect. However, it still requires approval by the Nevada State Rehabilitation Council (NSRC), after which it will be incorporated into the Rehabilitation Division's "Participant Services Policy and Procedures Manual." The new policy reiterates that fuel cards may only be used to purchase fuel and only for VR authorized travel/activities.

Participants fill out and submit Form RD-87 verifying receipt of the fuel card. The RD-87 is kept in the participant's case file. The new policy also states that participants must sign each fuel purchase receipt and provide it to their Rehabilitation Counselor. No further fuel cards will be provided to clients who do not submit appropriate signed fuel receipts for authorized travel.

Recommendation #12

Enforce existing policies and procedures requiring the submittal and review of mileage logs prior to providing continued fuel assistance.

DETR's Response

This is being implemented. The Division added a column to its existing fuel log (attached document called, "Rehab Division Fuel Log Sample") that requires Technicians to verify that the client submitted the Form RD-87, mileage log and signed fuel receipts, as per current policy and procedure.

Additionally, all Rehabilitation Counselors' work performance standards are in the process of being updated to include their responsibility to "Ensure that all case expenditures are appropriate and follow federal regulation and internal policies." All Counselors' work performance standards will be updated with this new language within 6 months. (See attached document entitled, "Rehab Division Counselor WPS").

Audit Highlights



Highlights of Legislative Auditor report on the Department of Corrections, Accuracy of Criminal History Information issued on February 25, 2013. Report # LA14-02

Background

The Department is responsible for confining individuals convicted of felonies in Nevada. At June 30, 2012, it had a total of 12,877 inmates and about 2,600 employees. Total expenditures for fiscal year 2012 were \$250.7 million.

The Nevada Offender Tracking Information System (NOTIS) is used to track and manage inmates. NOTIS has many functions, including recording and maintaining information about inmates' crimes and sentences (referred to as criminal history information in this audit).

Purpose of Audit

The purpose of the audit was to determine whether the Department (1) accurately records and maintains inmates' criminal history information in NOTIS, (2) reports accurate and complete information to the Parole Board about inmates' criminal history, (3) resolves inmate grievances related to the accuracy of criminal history in a fair and appropriate manner, and (4) controls access to its computer network and NOTIS to reduce the risk of unauthorized changes to criminal history information. This included a review of information in NOTIS as of October 17, 2012. It included inmates that were incarcerated between June 2007 (when NOTIS was implemented) and October 17, 2012. It also included a review of the most recent *Parole Progress Report* for each inmate tested. Finally, it included inmate grievances related to the accuracy of criminal history information filed in fiscal year 2012 and access controls over NOTIS and the Department's computer network as of September 2012.

Audit Recommendations

This audit report contains 10 recommendations to improve (1) the accuracy of criminal history information in NOTIS and reported to the Parole Board, (2) the timeliness of its responses to grievances and documentation in its grievance files, and (3) controls that limit access to criminal history information.

The Department accepted the 10 recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on May 20, 2013. In addition, the six-month report on the status of audit recommendations is due on November 20, 2013.

Accuracy of Criminal History Information

Department of Corrections

Summary

Although we found errors in inmates' information in NOTIS, few of the errors had any consequences. There were few consequences because most of the errors related to current offense dates, which can only have an impact in a small number of instances. Nevertheless, for 3 of 300 (1%) of the inmates tested, errors in their NOTIS criminal history information affected when the inmates were released. Two of these three inmates were released a few months early and one inmate had his parole hearing delayed by about 10 months. In addition, the Department identified an instance where an inmate was released about 14 months after his eligible release date because of an error in NOTIS. However, the Department promptly took action to identify and correct the problem before it could impact other inmates. The Department can reduce the risk of these errors by improving guidance provided to staff on verifying the accuracy of information in NOTIS and by providing additional oversight of staff to ensure they are performing this verification.

Criminal history information reported by the Department to the Parole Board for making parole decisions was not always accurate. Although 13% of reports tested had errors, the errors did not have any consequences because the Parole Board corrected the information before using it to make its decisions. We also found the Department effectively resolved offenders' grievances related to their criminal history information. Some grievances were not resolved in accordance with time frames and other requirements in Department regulations, but the exceptions were infrequent and did not have any significant consequences on inmates. Finally, controls over access to NOTIS can be improved to reduce the risk of unauthorized changes to the information.

Key Findings

We found errors in about 4.5% of information tested regarding inmates' current offenses. This data includes offenses and sentences for inmates' most recent incarceration. Over 90% of the errors concerned a current offense date, which can potentially impact classification, eligibility for a parole hearing, and data provided to the Parole Board. However, errors in inmates' current offenses only impacted 3 of 300 (1%) inmates tested, resulting in 2 being released early and delaying 1 inmate's parole hearing for about 10 months. (page 6)

Information in NOTIS on inmates' prior offenses was not always complete. About 13% of prior offenses were not in NOTIS. Prior offenses are convictions prior to an inmates' most recent incarceration, which can affect classification and data provided to the Parole Board. However, no errors impacted inmates' classifications or data provided to the Parole Board, primarily because of similar offenses in their history. (page 9)

The Department identified one inmate was released about 14 months after his eligible release date (based on his maximum sentence less credits earned) because of an error resulting from the transfer of sentence information into NOTIS. The Department promptly took action to correct the problem before it could impact other inmates. Our audit procedures confirmed the problem was corrected. (page 10)

In 2012, testimony was provided at meetings of the Advisory Commission on the Administration of Justice that inmates' criminal history information had errors caused by a "computer glitch" in NOTIS. As evidence, a NOTIS report was shown for an inmate where there was an offense on June 5, 2007, that was stated to be in error. We determined this was not a computer error, but rather an intentional choice made by the Department to facilitate implementation of NOTIS. It did not cause offenses to be improperly added to inmates' criminal history or have other consequences. (page 11)

For the 300 randomly selected inmates tested, 27 of 213 (13%) reports provided to the Parole Board had errors related to criminal history. However, none of the errors had any consequences because the errors were corrected by the Parole Board. (page 16)

The Department took appropriate action to resolve inmate grievances related to the accuracy of criminal history. We found all but 1 of the 57 grievances tested were resolved fairly and appropriately, although the Department did not always respond within established timeframes. (page 20)

The Department needs to further restrict persons that can change criminal history in NOTIS. Almost 400 staff had the ability to alter data, including the offenses an inmate has been convicted of and the corresponding sentences. We also found some password and other security weaknesses over the Department's computer network, which NOTIS is within. (page 24)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: November 20, 2013

Subject: Legislative Audit of the Department of Corrections, Accuracy of Criminal History Information

On February 25, 2013, your office released an audit report on the Department of Corrections. The Department subsequently filed a corrective action plan on May 20, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

Develop written procedures for applicable staff on the need to verify the accuracy of inmates' information in NOTIS by comparing it to appropriate documents in inmates' files.

Status – Fully Implemented

Agency Actions – The Department developed written procedures for staff to verify the accuracy of inmates' information in NOTIS by comparing it to appropriate documents in the inmates' files.

Recommendation 2

Provide additional oversight of staff to ensure written procedures related to ensuring the accuracy of information in NOTIS are being followed.

Status – Fully Implemented

Agency Actions – The Department implemented 5 levels of review starting with the initial entering of inmates' information into NOTIS and then verified by various Department personnel to ensure the information in NOTIS is accurate. Discussions with staff and review of an inmate's NOTIS case printout disclosed that additional oversight is being made to ensure the accuracy of information entered in NOTIS as evident in the electronic signature notations of the employee performing the review of the inmate's case file.

Recommendation 3

Review the accuracy of inmates' criminal history information in reports provided to the Parole Board.

Status – Partially Implemented

Agency Comments – The Department implemented 3 levels of review to ensure the accuracy of inmates' criminal history information reports provided to the Parole Board.

Auditor Comments – Although the Department implemented 3 levels of review, we noted seven out of 54 (13 percent) reports provided to the Parole Board contained errors related to criminal history.

Recommendation 4

Monitor the grievance process to ensure timeframes for responding to grievances are followed.

Status – Fully Implemented

Agency Actions – The Department indicated they have procedures in place to ensure timeframes for responding to grievances are followed. Additionally, the Department has corrected NOTIS so that the reports are calculating time frames in accordance with the intent of the Inmate Grievance Procedures. We reviewed grievances to ensure timeframes for responding to grievances were followed. No exceptions were noted in our observation.

Recommendation 5

Review grievances to ensure documentation is complete, including required signatures and dates of applicable staff and inmates.

Status – Fully Implemented

Agency Actions – The Department indicated they have reminded staff that all responses must be accurate, signed, and dated appropriately. Additionally, the Deputy Director is flagging errors on 2nd level reviews and sending them back to the institution wardens so that additional training needs can be identified and facilitated at the institution level. We reviewed grievances for proper completion. No exceptions were noted in our observation.

Recommendation 6

Limit the ability to change criminal history and sentencing information in NOTIS to only those users requiring such access to perform their job duties.

Status – Partially Implemented

Agency Actions – The Department is still in the process of developing a new, enhanced sentence management system that will stand apart from the Offender Management System. When this system is implemented, all legal order and sentence information in NOTIS will be view only. The target date for this new system to be functional is approximately March 2014.

Recommendation 7

Implement controls to identify and disable computer network user accounts that are no longer authorized.

Status – Partially Implemented

Agency Comments – In March 2013, the Department implemented a new procedure in which the supervisor or human resources personnel must submit a DOC009 form (NDOC User Account Form) to MIS for any new hire, termed, or transferred employee. The form is used to notify MIS of all changes that are required to be made for the employee regarding computer access or removal of such access. The Department is also reviewing computer access reports every 6 months to ensure that termed employees are no longer in the system.

Auditor Comments – Although the Department implemented new controls, we noted 21 out of 504 (4 percent) termed employees were still on the current NOTIS access listings.

Recommendation 8

Set group policy settings to enforce complex user passwords on computers.

Status – Fully Implemented

Agency Actions – The Department implemented group policy settings to enforce complex user passwords. We reviewed the Department's group policy settings and determined the computers now have complex user passwords.

Recommendation 9

Enable the automatic session timeout function through group policy settings.

Status – Fully Implemented

Agency Actions – The Department has enabled the automatic session timeout function through group policy settings. We noted an employee's computer had timed out after 15 minutes.

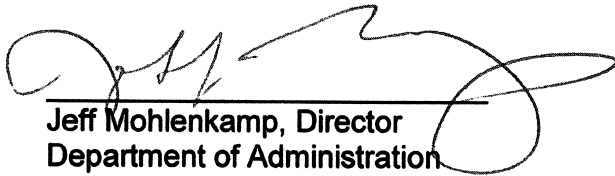
Recommendation 10

Implement a program to provide IT security awareness training at least annually to all employees.

Status – Partially Implemented

Agency Actions – The Department has sent a Department-wide email to all its employees requiring them to enroll in the IT security awareness training through NEATS. The Department also intends to review NEATS training records to identify and send a courtesy reminder to employees who have not taken the training. The Department is requiring all employees to complete the course by December 31, 2013.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
James G. Cox, Director, Department of Corrections
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Department of Corrections Information Technology Security issued on April 28, 2014. Report # LA14-14.

Background

The mission of the Nevada Department of Corrections is to protect the public by confining convicted felons according to the law, while keeping staff and inmates safe. The Department currently manages 18 adult correctional institutions located throughout the State, housing approximately 13,000 inmates. These institutions include seven correctional centers (prisons), nine conservation camps, one restitution center, and one transitional housing center.

The Department's Management Information Systems (MIS) unit's mission includes keeping the Department's technology infrastructure current, providing proficient IT support staff, and providing its statewide facilities with a network infrastructure.

The MIS unit has a current staff of 25 full-time employees and is organized into an MIS Chief's office and four subordinate sections that include: 1) Applications Support, 2) Infrastructure Support, 3) Help Desk, and 4) Telecommunications.

Purpose of Audit

The purpose of this audit was to determine if the Department's information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems.

This audit included a review of information technology systems and practices at the Department of Corrections during calendar year 2013. The scope of this audit did not include certain information system controls related to the Department's Nevada Offender Tracking Information System (NOTIS) which were part of LCB audit LA14-02, issued in February 2013.

Audit Recommendations

This audit report contains six recommendations to improve information security controls. These recommendations include three recommendations to improve installation of software security updates, one recommendation to improve virus protection, and two recommendations to improve protection of information stored on photocopier hard drives.

The Department accepted the six recommendations.

Recommendation Status

The Department's 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

Department of Corrections Information Technology Security

Summary

The Department needs to strengthen information system controls to ensure adequate protection of information systems and the data processed therein. Software security updates were missing in desktop computers as well as in the Department's mission critical database application software that supports its inmate information system. In addition, some Department computers did not have current virus protection. State security standards require virus protection software be installed on each computer to protect from computer viruses that typically come from the Internet or infected emails. Furthermore, controls were not in place to ensure sensitive data stored in Department photocopiers are erased. This information is stored when employees make copies, FAX, scan, or print documents on these machines. This data must be deleted prior to the photocopiers being replaced or there is a risk that sensitive information could remain on the copiers' hard drives when they leave agency control.

Key Findings

Many Department desktop computers were not receiving monthly operating system security updates. We found that 52 of the 211 desktop computers tested, or 25% of our sample, had not received their Windows updates in over three months or showed large gaps between prior update installations. State security standards require agencies to begin implementing critical security patches within three working days from the date the vendor releases the software patch. Computers without current software security patches represent weaknesses in a computer network that can be exploited by a malicious entity to gain unauthorized access to a computer or computer network. (page 3)

Several database applications from Oracle were missing security updates. Similar to desktop computer operating systems, computer applications such as database software also need to be updated when software vendors issue security patches. These updates had not been installed in over 6 months. These database applications needing security updates included those supporting the Department's offender sentence calculation databases, its data warehouse, its document management database, and its Nevada Offender Tracking Information System (NOTIS). Unpatched database application software increases the risk of unauthorized access to the system's confidential data. (page 4)

Some Department computers did not have current virus protection. Eleven of the 211 computers tested, or 5% of our sample, lacked adequate virus protection. State security standards require virus protection software be installed on each computer to protect from computer viruses that typically come from the Internet or infected emails. The software needs to be periodically updated with new virus definitions. These definitions allow the software to more easily identify and protect from current virus threats. Employees whose computers do become infected will lose productive time while their computers are purged of the infected files. In addition, some malware that infects computers is capable of gaining access to sensitive information that resides on the infected computer or elsewhere on the network. (page 6)

Controls were not in place to ensure sensitive information stored in Department photocopiers is erased. This information is stored when employees make copies, FAX, scan, or print documents on these machines. This data must be deleted prior to the photocopiers being replaced or there is a risk that sensitive information could remain on the copiers' hard drives when they leave agency control. The Department does not currently have a policy or procedure that addresses the data stored on these office photocopiers. Without a policy to educate and guide staff actions, there is increased risk that confidential information will remain on these devices after they leave agency control. (page 7)



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: January 23, 2015

Subject: Legislative Audit of the Department of Corrections Information Technology Security

On April 28, 2014, your office released an audit report on the Department of Corrections Information Technology Security, Management Information System (MIS unit). The department subsequently filed a corrective action plan on June 30, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the MIS unit to comply with audit findings.

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

Recommendation 1

Ensure critical updates to desktop computers are monitored for successful installation.

Status – Fully Implemented

Agency Actions – The MIS unit is ensuring critical updates to desktop computers are monitored for successful installation. The MIS unit reports all its desktop computers have been replaced with Windows 7 computers and that the computer configurations are set to automatically update the Windows software. Additionally, desktop computer updates are monitored from the Windows server. We reviewed the update logs on the Windows server for 21 randomly selected computers and noted more than ninety-nine percent of the updates had been completed. The uncompleted patches were non-critical patches for Windows 2003.

Recommendation 2

Ensure database software is kept current with vendor security update releases.

Status – Fully Implemented

Agency Actions – The MIS unit is ensuring database software is kept current with vendor security update releases. The MIS unit reports both of its database administrators are now registered with Oracle and receiving quarterly update notifications. On December 11, 2014 we observed the database update list and noted the last update occurred on November 8, 2014.

Recommendation 3

Upgrade to a more current Oracle database product when a compatible version of the NOTIS application is implemented on the Department's network.

Status – Fully Implemented

Agency Actions – The MIS unit upgraded the Nevada Offender Tracking Information System (NOTIS) to a newer tracking system called Elite which allowed upgrading the Oracle database from level 10G to level 11G. We observed the new upgrades are functioning as intended.

Recommendation 4

Implement a system to ensure all desktop computers have current virus protection.

Status – Fully Implemented

Agency Actions – The MIS unit implemented a system to ensure all desktop computers have current virus protection. The MIS unit reports installing Sophos endpoint software on all its desktop computers and that Sophos automatically updates virus protection software. We reviewed the update logs in the Sophos software management window for 21 randomly selected computers and noted all of the updates had been completed.

Recommendation 5

Train staff to be aware that photocopiers contain hard drives that store processed information and this information should be erased when a photocopier is replaced.

Status – Fully Implemented

Agency Actions – The MIS unit trained staff to be aware that photocopiers contain hard drives that store processed information and this information should be erased when a photocopier is replaced. The MIS unit reports emailing information technologies staff, facility Business Managers, and department purchasing staff new policies and procedures informing them of data removal requirements. We confirmed receipt of the email with the department's purchasing staff and obtained a copy of the new policies and procedures.

Recommendation 6

Implement procedures to ensure that photocopiers are configured to not store processed data as indicated in the state security standards.

Status – Fully Implemented

Agency Actions – The MIS unit implemented procedures to ensure that photocopiers are configured not to store processed data as indicated in the state security standards. Department staff reports that multi-functional devices, including those with copying ability, on the network have the ability to be configured to over write data immediately. MIS unit staff also reports that "On Demand Image Overwrite" procedures are used when machines are removed. Additionally, MIS unit staff reports that hard drives from off-network copiers that cannot be configured are removed and destroyed.

We reviewed administrative regulations dated December 17, 2013, and noted the requirement for data to be removed prior to shipping to a third party. We also observed multi-function configurations noting the "Immediate Job Overwrite" function was enabled. Additionally, we observed a destroyed hard drive that the MIS unit reported had been removed from a copier.

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



Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
James Cox, Director, Department of Corrections
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Department of Public Safety issued on December 2, 2014. Legislative Auditor report # LA14-24.

Background

The mission of the Department of Public Safety (DPS) is to provide services in support of protecting citizens and visitors by promoting safer communities through prevention, preparedness, response, recovery, education, and enforcement. The Office of Director (Office) is located in Carson City.

The Office provides leadership and establishes policy for the Department. The Office oversees the operations and administration of eight divisions and three offices of the Department. In addition, the Office is responsible for administering the Department's evidence vaults and forfeiture program.

The Office is funded primarily from cost allocation reimbursements from DPS divisions and forfeiture funds. During fiscal year 2014, cost allocation reimbursements totaled approximately \$4 million and forfeitures \$1.8 million. Expenditures for the same time period were approximately \$5.8 million. The 2013 legislative approved budget included 44 authorized full-time positions for the Office.

Purpose of Audit

The purpose of this audit was to (1) evaluate the accuracy of the evidence vault inventory, and assess the adequacy of the inventory system access controls; and (2) determine whether seized currency is processed timely in accordance with DPS policy and state requirements.

This audit focused on evidence vault activities as of March 2014, and included forfeiture activities for fiscal years 2011 to 2013.

Audit Recommendations

This audit report contains three recommendations to improve controls over the Office's evidence vault activities.

The Office accepted the three recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on March 2, 2015. In addition, the six-month report on the status of audit recommendations is due on September 2, 2015.

Office of Director

Department of Public Safety

Summary

The Office has made several improvements in recent years to ensure items submitted into the evidence vaults by enforcement officers are adequately tracked. Our testing of 450 items throughout the State verified adequate recordkeeping for items highly susceptible to theft. However, certain control activities for the evidence vault can be improved. For example, the Office does not have an adequate process to monitor changes to the vault inventory system to reduce the risk of fraud or errors. In addition, the Office needs to develop a plan to address all recommendations from an extensive review of the evidence vaults by a consultant. Lastly, most currency that was seized and subject to forfeiture was not processed timely in accordance with Department policy.

Key Findings

The Office has maintained sufficient inventory records to ensure items submitted into the evidence vaults by enforcement officers are adequately tracked. We traveled to Elko, Las Vegas, and Reno to verify the existence of items highly susceptible to theft. Our testing verified adequate recordkeeping for 448 of 450 items selected. Only two items did not have complete documentation to verify the location or proper destruction of the evidence. These missing items were relatively small quantities of drugs that were apparently checked out to a court in 2007. The Office has taken several steps to improve evidence vault controls. These steps include implementing a new inventory system in 2008, consolidating vaults in 2011, and hiring a vault manager. (page 4)

The Office does not have an adequate process to monitor changes made to the vault inventory system. Vault employees make frequent changes to the inventory system when evidence is received, moved, and destroyed. As of June 2014, 10 employees had the ability to modify all fields within the inventory system and could also access items in the vault. Since the inventory database fields can be modified at any time, there is an increased risk that errors or theft could occur and go undetected. Although it is common practice for vault employees to have access to both the inventory system and physical inventory, the Office should develop one or more compensating controls to improve vault oversight. For example, oversight can be accomplished by having management reports to monitor inventory changes. (page 5)

The Office needs to develop a plan to ensure all recommendations from an extensive evidence vault review are adequately addressed. In 2012, the Office hired a consultant for \$68,900 to identify areas of improvement and ensure its vaults met recognized best practices. In May 2013, the consultant made 147 recommendations to improve evidence vault controls and processes. However, the Office prepared a written response to only the 40 most critical recommendations identified by the consultant. After we inquired about the recommendations not addressed, the Office agreed with the majority of these recommendations. Without a plan to address the recommendations, it is unlikely the maximum benefit from the consultant's report will be realized. (page 7)

The Office needs to improve its efforts to ensure seized currency is processed timely. We reviewed 205 currency seizures and found that 124 (60%) were not deposited in the state forfeiture account or remitted to a federal enforcement agency within 48 hours. When seized currency is submitted into the vault, staff is responsible for depositing the currency or converting it into a cashier's check to be sent to the controlling federal agency. Although the DPS policy is to deposit or convert the seized currency within 48 hours, we found the average time to deposit or convert seized currency was 27 days for the exceptions identified. Some seized currency was held for long periods before deposit or conversion. For example, \$3,943 was held for almost 2 years. Timely processing is important because currency is highly susceptible to theft. During fiscal years 2011 to 2013, the DPS processed approximately \$3.5 million in currency seizures. (page 9)

Audit Highlights



Highlights of performance audit report on the Division of Emergency Management issued on January 7, 2014. Legislative Auditor Report # LA14-11.

Background

The mission of the Division of Emergency Management is to coordinate the efforts of the State and its political subdivisions in reducing the impact of disasters. The Division's primary responsibility is the administration of the emergency management program for the State. The Division works with federal, state, local, and tribal agencies, private entities, and the general public. It administers and issues federal homeland security and other grant funding for equipping, planning, training, and exercises for first responders such as law enforcement, fire, and emergency medical services. The Division monitors grant recipients to ensure compliance with federal requirements.

In fiscal year 2013, the Division had total funding of about \$23.7 million. The Division is funded primarily by federal grants. The funding consists of about \$23.2 million in federal grants and the remainder in general fund appropriations. The federal grants are received primarily from the U.S. Department of Homeland Security. For fiscal year 2013, the Division had 33 legislatively approved positions.

Purpose of Audit

The purpose of this audit was to determine if the Division: (1) properly tracks, safeguards, and disposes of its equipment, and (2) provides sufficient oversight of equipment purchased by its subgrantees with federal funds. Our audit focused on the Division's equipment activities from July 2011 through June 2013.

Audit Recommendations

This audit report contains three recommendations to enhance controls over the Division's equipment. In addition, there are five recommendations to improve oversight of equipment in the custody of subgrantees.

The Division accepted the eight recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Division of Emergency Management

Department of Public Safety

Summary

The Division of Emergency Management needs to strengthen controls over equipment in its custody. We found the Division did not perform an annual inventory or properly track its equipment. As a result, items could not be located and property records were not accurate. Controls in these areas are important to help ensure safeguarding of equipment, including many items with a high susceptibility to theft or loss, such as laptop computers. State property records indicate the total acquisition cost of items currently held by the Division is \$1.5 million.

The Division could improve its oversight of equipment purchased by subgrantees with federal funds. We found the Division did not implement a sound methodology for scheduling onsite visits, or perform sufficient testing of equipment while onsite. Although our testing of equipment in the possession of subgrantees found no major problems, certain controls could be implemented to help ensure equipment is properly safeguarded and readily available when needed.

Key Findings

The Division did not perform an annual inventory of equipment in its custody as required by state law. NRS 333.220 requires agencies to perform an annual physical inventory of their equipment and reconcile the results with the state's property records. According to the Division, its most recent inventory was performed in July 2011, which was over 2 years ago. The lack of an annual physical inventory of its equipment contributed to the Division not being able to locate 7 of 50 (14%) items we tested. The total cost of these seven items was about \$15,000. (page 5)

The Division did not always attach state identification (ID) tags to its equipment. For 9 of 42 (21%) items we tested, there was no state ID tag attached to the equipment. Attaching a state ID tag is important because it helps facilitate proper tracking of equipment. In addition, the Division's property records did not include all items in its custody. For example, audio-video equipment acquired in June 2012 for about \$257,000 for the Emergency Operations Center was not included in state property records. The newly-acquired equipment was purchased to replace components of an existing video wall. To facilitate proper tracking of the equipment acquired in 2012, it needs to be recorded in state property records. (page 6)

The Division's methodology for scheduling onsite visits of subgrantees has weaknesses. Specifically, the Division's risk assessment for scheduling onsite visits did not include all active subgrantees for the grant program under review. Also, staff did not document how it determined whether the subgrantee was high or low risk. Additionally, the Division did not always perform onsite visits of high-risk subgrantees, and the number of onsite visits was limited. Without a sound methodology for scheduling onsite visits, there is less assurance that high-risk subgrantees are adequately monitored. (page 9)

The Division's procedures for testing equipment during onsite visits of subgrantees can be enhanced. We found the Division did not always evaluate internal controls over equipment, perform physical observations of equipment, or verify the subgrantee conducted a physical inventory. Without an assessment of internal controls and adequate testing of equipment, there is an increased risk that an internal control weakness, missing equipment, or noncompliance with federal laws will not be detected. (page 11)

Overall, our testing did not find any major problems with subgrantees' accountability over equipment purchased with federal funds received from the Division. However, stronger controls could reduce the risk of theft or loss. For example, subgrantees are only required to track equipment that costs \$5,000 or more. Thus, commonly purchased equipment such as laptop computers, high-definition cameras, and night vision goggles costing less than \$5,000 are not required to have an asset tag or be listed in the property records. According to Division records, the combined total spent on equipment by subgrantees was about \$24 million for grants awarded in federal fiscal years 2008 to 2010. (page 12)



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: October 3, 2014

Subject: Legislative Audit of the Department of Public Safety, Division of Emergency Management

On January 7, 2014, your office released an audit report on the Department of Public Safety, Division of Emergency Management (division). The division subsequently filed a corrective action plan on April 4, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

Recommendation 1

Perform an annual physical count of equipment and reconcile the count with state property records.

Status – Fully Implemented

Agency Comments – In a response status report dated August 15, 2014, the division indicated the physical inventory for fiscal year 2015 was in the process of being finalized.

Auditor Comments – Our review of the fiscal year 2015 fixed asset inventory report dated August 18, 2014 revealed the division completed the annual physical count of equipment and the count was reconciled to the state property records.

Recommendation 2

Ensure all required equipment has a state ID tag attached and is recorded in state property records.

Status – Fully Implemented

Agency Actions – The division indicated all required equipment has a state ID tag attached and is recorded in state property records. We reviewed 12 equipment purchases done in fiscal year 2014 and verified the equipment had a state ID tag and was properly recorded in the state's property records.

Recommendation 3

Timely dispose of excess equipment and notify State Purchasing when equipment is lost or disposed.

Status – Partially Implemented

Agency Actions – The division indicated they have strengthened controls over the timely disposition of excess equipment and is notifying State Purchasing when equipment is lost or disposed. However, the division has equipment in its warehouse that should be disposed or excessed. The division states they are currently working on disposing this equipment.

Recommendation 4

Revise the risk-based approach for scheduling onsite visits to include all active subgrantees for the grant program under review, provide adequate coverage, and ensure management's review and approval is documented.

Status – Partially Implemented

Agency Actions – The division revised their risk based approach for scheduling onsite visits. We reviewed the division's methodology for scheduling onsite visits and noted the revisions were adequate. The division is currently in the process of developing a site visit schedule for fiscal year 2015 to ensure adequate coverage is provided on subgrantees and management's review and approval is documented on the schedule. The division anticipates onsite visits to begin in November 2014.

Recommendation 5

Revise procedures for onsite visits of subgrantees to include performing a physical observation of equipment, documenting an evaluation of internal controls over equipment, obtaining evidence a physical inventory was performed, and documenting a report date.

Status – Partially Implemented

Agency Actions – The division revised procedures for conducting onsite visits as it relates to property/equipment management. We reviewed the procedures and noted revisions to include performing a physical observation of equipment, reviewing system in place to safeguard property and equipment, obtaining evidence a physical inventory was performed, and documenting a report date. However, due to the division's limited resources, since the time of the LCB audit they have not been able to perform onsite visits of subgrantees. The division anticipates onsite visits to begin in November 2014.

Recommendation 6

Provide greater supervisory oversight of work performed during onsite visits of subgrantees to ensure Division policies and procedures are being followed.

Status – Partially Implemented

Agency Comments – The division indicated supervisory oversight consists of verbal and electronic correspondence and that such documentation will be maintained.

Auditor Comments – The division has not performed onsite visits since the conclusion of this audit. Therefore, we were unable to review subgrantee documentation to determine if greater supervisory oversight is being provided. The division anticipates onsite visits to begin in November 2014.

Recommendation 7

Encourage subgrantees to develop procedures for tracking high-risk items costing less than \$5,000 that are purchased with federal funds.

Status – Partially Implemented

Agency Actions – The division modified the "grant financial and program assurances" which will require subgrantees to track high-risk items costing less than \$5,000 that are purchased with federal funds. This new requirement will be in effect for the upcoming

federal fiscal year 2014 grants. In addition, the division will require the subgrantees to submit a high risk inventory plan by November 2014.

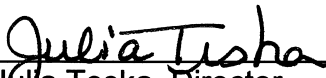
Recommendation 8

Require subgrantees to: (a) maintain a document in which it attests to performing a physical inventory of all federally-funded equipment in the last 2 years; (b) notify the Division when equipment has been transferred to a sub-subgrantee; and (c) develop procedures for monitoring equipment in the custody of a sub-subgrantee.

Status – Partially Implemented

Agency Actions – The division revised procedures for conducting onsite visits as it relates to property/equipment management. We reviewed the procedures and noted revisions to include obtaining evidence a physical inventory was performed of all equipment in the last 2 years. However, the procedures did not address notifying the division when equipment has been transferred to a sub-subgrantee or procedures for monitoring equipment in the custody of a sub-subgrantee. The division anticipates onsite visits to begin in November 2014 at which time they will inform the subgrantees of these requirements.

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


Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
James Wright, Director, Department of Public Safety
Christopher B. Smith, C.E.M., Chief, Division of Emergency Management
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the State Fire Marshal Division issued on January 7, 2014. Legislative Auditor Report # LA14-09.

Background

The State Fire Marshal Division was created within the Insurance Division of the Department of Commerce in 1965 and moved to the Department of Motor Vehicles and Public Safety in 1993. The Division's mission is to protect life, property, and the environment from fires and hazardous materials in the State of Nevada. This is accomplished through the development and application of fire codes and standards, fire prevention education, fire service training, fire protection engineering, licensing, and permitting. In addition, the Division performs investigative and enforcement services delivered directly or in coordination with the public safety community.

In fiscal year 2013, the Division had 21 employees located in its Carson City, Elko, and Las Vegas offices. The Division's operating account had over \$3 million in revenues, including \$676,000 in appropriations and over \$1.5 million in fees. Fiscal year 2013 expenditures totaled \$2.6 million.

The Division is responsible for permitting and regulating hazardous materials within the State. Hazardous material facilities permitted by the Division include businesses that store substances which could threaten the health and safety of the public. As of June 2013, the Division had 5,170 facilities with hazardous material permits.

Purpose of Audit

The purpose of this audit was to evaluate the Division's permitting and licensing processes, and controls over revenue collections. Our audit focused on the Division's activities for the 12-month period ending March 31, 2013, and included permitting activities up to June 2013.

Audit Recommendations

This audit report contains three recommendations to improve the hazardous materials program and internal controls over revenues.

The Division accepted the three recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

State Fire Marshal Division

Department of Public Safety

Summary

Many businesses that store hazardous materials have not been identified and permitted in accordance with program requirements. As a result, the Division has not been able to achieve equitable regulation of the hazardous materials program. With increased efforts by the Division to identify hazardous material facilities and enforcement assistance from local governments, we estimate the Division could collect an additional \$250,000 in annual permit fees. Identifying and permitting facilities that store hazardous materials is required by federal and state laws to help ensure public safety. Similar problems were identified during our audit in 2007; however, implementation of prior audit recommendations was not sustained. Therefore, the Division needs to develop efficient and effective procedures to identify and permit businesses storing hazardous materials, and improve guidance to help businesses understand reporting requirements.

The Division collected and deposited fees in accordance with state requirements. We tested about 40% of the Division's fee receipts and found payments were deposited timely, permit payments were properly recorded, and fee adjustments were proper. Although staff properly deposited and recorded the money collected, improvements can be made to the Division's internal controls regarding separation of duties.

Key Findings

The Division has not identified and permitted many businesses that are highly likely to store hazardous materials, resulting in inequitable regulation of the hazardous materials program. From our review of 16 types of businesses, 1,686 of 3,895 facilities (43%) did not have a required permit. With increased efforts by the Division to identify hazardous material facilities and enforcement assistance from local governments, we estimate the Division could collect an additional \$250,000 in annual permit fees. Collection of permit fees is used to fund programs to train firefighters and help protect the public. Similar weaknesses were identified during our audit in 2007; however, procedures developed in response to our audit were not currently in use. (page 7)

The Division needs to develop efficient and effective methods to help identify facilities storing hazardous materials. Our audit focused on reviewing types of facilities that were highly likely to need a hazardous materials permit. We researched the internet and obtained information available from state and local agencies to identify specific facilities. We also queried the Division's database to determine whether each facility had a permit. During our audit, the State Fire Marshal was very helpful and open to suggestions for improving the program. The Division is currently working on improving the permitting process using the state's business portal. (page 11)

Many businesses with a hazardous materials permit do not understand what types and quantities of hazardous materials should be reported. Some businesses report chemicals when not required, and other businesses underreport hazardous materials. As a result, hazardous materials information is not always correct and some facilities may waste resources reporting unnecessary information. Confusion regarding reporting requirements stems from three main issues: (1) International Fire Code requirements are difficult to understand, (2) guidance by the Division is not sufficient, and (3) some of the Division's information is inaccurate or outdated. (page 13)

The Division has licensed fire protection businesses as required by state law. This includes businesses which service, install, or sell fire extinguishers, fire alarm systems, or fire sprinkler systems. We tested 40 fire protection businesses identified from internet searches and found all 40 were licensed by the Division. Furthermore, we called five businesses with expired licenses and confirmed a license was no longer needed. During fiscal year 2013, the Division collected over \$550,000 in licensing fees. (page 17)

The Division has not adequately separated the duties of staff processing hazardous materials permit payments. The same employee records payments in the hazardous materials database and makes the bank deposit. In addition, reconciliations are not performed between permit payments received and amounts deposited by someone independent of the receipt and deposit process. Without adequate separation of duties, including periodic reconciliations of permit payments to deposits, the Division is at risk funds could be misappropriated. Internal controls are important in this area since the Division processed over \$1.4 million in hazardous material payments in fiscal year 2013. This amount includes approximately \$900,000 in hazardous material fees collected for the State Emergency Response Commission. (page 18)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Julia Teska, Director
Department of Administration

Date: October 3, 2014

Subject: Legislative Audit of the Department of Public Safety, State Fire Marshal Division

On January 7, 2014, your office released an audit report on the Department of Public Safety, State Fire Marshal Division (division). The division subsequently filed a corrective action plan on March 31, 2014. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the division to comply with audit findings.

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

Recommendation 1

Develop policies and procedures for efficiently and effectively identifying and permitting facilities requiring a hazardous materials permit.

Status – Partially Implemented

Agency Comments – The division revised existing policies and procedures for efficiently and effectively identifying and permitting facilities requiring a hazardous materials permit.

Auditor Comments – A list of 2,214 businesses requiring hazardous materials permitting was provided to the division by the auditors. Based on the listings, the division determined that only 249 businesses were under their jurisdiction and the rest were in counties with populations over 100,000 (outside their jurisdiction). The division provided the names and addresses of those businesses outside their jurisdiction to the

appropriate counties for follow-up and permitting purposes. However, the division is yet to follow-up on the 249 businesses within their jurisdiction.

Recommendation 2

Update the Division's website to provide more comprehensive information and user-friendly guidance on the hazardous materials permit requirements.

Status – Partially Implemented

Agency Actions – The division is currently in the process of implementing a new permit database software which will assist in providing more comprehensive information and user-friendly guidance on hazardous materials permit requirements. The division anticipates full implementation of this recommendation with an update of the permit software system by January 31, 2015.

Recommendation 3


Enhance policies and procedures to ensure duties over processing hazardous materials permit payments are segregated, including reconciling payments received to amounts deposited.

Status – Partially Implemented

Agency Comments – The division enhanced policies and procedures to ensure duties over processing hazardous materials permit payments are segregated, including reconciling payments received to amounts deposited.

Auditor Comments – Our examination of the cash receipt process revealed the employee that records payments in the hazardous materials database also makes the bank deposit. Additionally, the revised policies and procedures, do not address the segregation of these two functions.

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


Julia Teska, Director
Department of Administration

cc: Mike Willden, Chief of Staff, Office of the Governor
James Wright, Director, Department of Public Safety
Peter Mulvihill, P.E., Chief, State Fire Marshal Division
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of State Parks issued on May 15, 2013. Report # LA14-06.

Background

The Nevada Division of State Parks was established in 1963, within the Department of Conservation and Natural Resources. The Division's mission is to acquire, plan, develop, interpret, operate, and maintain a system of parks and recreational areas and to preserve areas of scenic, historic, and scientific significance for the use and enjoyment of residents and visitors.

The Division is organized into five sections: park operations; administration; construction and major maintenance; fiscal, personnel and payroll; and grants and planning. There are 22 parks in the State Parks system that serve over 3.3 million visitors per year.

The Division's main office is located in Carson City with regional offices in Las Vegas and Fallon. In fiscal year 2012, about 60% of the Division's 229 employees were seasonal. Of the 93 permanent positions, 29 were commissioned Nevada peace officers. The Division has eight budget accounts with total expenditures of \$12.5 million in fiscal year 2012.

Purpose of Audit

The purpose of this audit was to: (1) determine if retail outlets at state parks had sufficient controls and processes in place to ensure efficient and effective operations, (2) evaluate the Division's financial and administrative controls over concession contracts, and (3) determine if the Division had adequate inventory controls over firearms to ensure compliance with applicable state laws, regulations, and policies and procedures.

This audit focused on the Division's activities for the period from July 1, 2011, through November 30, 2012. In some instances our audit period included earlier dates back to 2007.

Audit Recommendations

This report includes 14 recommendations to strengthen controls over retail operations, improve monitoring of concession contracts at state parks, and enhance inventory controls over firearms.

The Division accepted the 14 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on August 9, 2013. In addition, the six-month report on the status of audit recommendations is due on February 10, 2014.

Division of State Parks

Department of Conservation and Natural Resources

Summary

Stronger controls are needed over the Division's retail outlets to help ensure successful operations. For example, problems with the point-of-sale (POS) system hindered the Division's ability to monitor sales at retail outlets. In addition, the POS system did not maintain records needed to track merchandise inventory. The Division can take steps to ensure the POS system provides accurate management information for proper monitoring of the retail operations. Furthermore, better oversight of the cashier function will reduce the Division's risk that theft could occur and go undetected.

The Division can improve its monitoring of concession contracts to ensure revenues from concessionaires are accurate and timely. For example, the Division did not properly adjust concession fees for annual Consumer Price Index (CPI) increases required by two contracts. In addition, the Division did not perform periodic audits of revenues reported by entities that pay fees based upon a percentage of revenues.

The Division needs to strengthen inventory controls over surplus firearms to ensure compliance with state requirements. For example, the Division conducted unauthorized sales of surplus firearms to state employees. Furthermore, controls were circumvented when the Division failed to ship surplus firearms removed from state accounting records that were designated for trade-in. The guns were found improperly secured at the Division 3 years after they were presumed traded-in.

Key Findings

Problems with the POS system hindered the Division's ability to monitor sales at retail outlets in state parks. Specifically, sales reports we examined for the two largest outlets for the quarter ended September 30, 2012, contained significant errors. For example, the report for the Valley of Fire outlet incorrectly showed total deposits were short by over \$3,000 for the quarter ended September 30, 2012. By changing some report parameters in the system, the difference between sales and total deposits was reduced to \$89 for the quarter. In addition, most of the sales reports for fiscal year 2012 were not submitted to management timely. As a result, management did not receive accurate or timely sales information important for evaluating results of operations and making operating decisions. (page 7)

The Division did not have adequate controls in place to properly monitor merchandise inventory at retail outlets. Significant problems with the quarterly inventory reports used by management were noted. In particular, the POS system did not maintain accurate inventory records that the Division needed to prepare the quarterly inventory reports. These errors affected the inventory variance calculations. When inventory variance information is not correct, management cannot determine the amount of inventory lost to damage, theft, or other irregularities. (page 9)

The Division did not have sufficient oversight of the cashier function to help prevent potential fraud. Areas with weak oversight included cash variances and certain non-revenue transactions conducted at the cash registers. Best business practices in fraud prevention include monitoring cash variances, looking for patterns, and investigating large or unusual discrepancies. (page 11)

The Division can improve its monitoring of concession contracts to help ensure revenues from concessionaires are accurate and timely. For both contracts with inflation adjustments, the Division did not properly adjust concession fees for CPI increases according to the terms of the agreements. First, the Division lost nearly \$7,700 in unbilled concession fees that the Lake Tahoe Shakespeare Festival at Sand Harbor should have paid from 2008 through 2010. Second, the Division did not adjust performance fees for a cultural arts concession at Spring Mountain Ranch State Park for CPI increases from 2007 through 2010. Additionally, the Division did not perform periodic audits of revenues reported by the three concessionaires that pay fees based upon a percentage of revenues. (page 15)

Controls over surplus firearms were not adequate to prevent unauthorized sales to state employees. In 2009, 61 surplus firearms, designated for trade-in to a firearms manufacturer, were instead offered for sale to state employees without involving the Purchasing Division. Of these, the Division sold 22 surplus firearms to state employees and failed to trade in the other 39 surplus firearms to the firearms manufacturer. Documentation submitted to Purchasing indicated the firearms would be shipped to the manufacturer to complete the trade-in for new pistols. However, in August 2012 we found instead of shipping the additional 39 surplus firearms, staff stored them improperly in cardboard boxes in an office. We reported this circumvention of controls over the 39 surplus firearms to management and verified none were missing. (page 18)



**STATE OF NEVADA
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: February 10, 2014

Subject: Legislative Audit of the Department of Conservation and Natural Resources, Division of State Parks

On May 15, 2013, your office released an audit report on the Department of Business and Industry, Division of State Parks (Division). The Division subsequently filed a corrective action plan on August 15, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There were 14 recommendations contained in the report. The extent of the Department's compliance with the audit recommendations is as follows:

Recommendation 1

Take steps to ensure the POS system provides complete and accurate sales and inventory information for proper oversight of retail operations at state parks.

Status – Fully Implemented

Agency Actions – The Division implemented a new POS system that provides complete and accurate sales and inventory information. We examined the 3rd quarter sales and inventory information for one of the retail outlets and noted no exceptions.

Recommendation 2

Follow procedures for timely submission of quarterly sales and inventory reports to the Division.

Status – Fully Implemented

Agency Actions – The Division indicated they received the 3rd quarter sales and inventory reports for calendar year 2013 in a timely manner. We examined one of the retail outlets and determined the sales and inventory reports were submitted to the Division timely.

Recommendation 3

Follow procedures for review of quarterly sales and inventory reports by an oversight committee.

Status – Fully Implemented

Agency Comments – The Division stated that procedures will be established in the “Management Summary” portion to include oversight committee meetings after the 15th day of the month following inventory. As a result, they deemed this recommendation partially implemented.

Auditor Comments – The Division’s oversight committee met on October 14, 2013 to review the 3rd quarter inventory and sales reports. The meeting minutes detail the committee’s review of each sales outlet. We reviewed the 3rd quarter minutes from the oversight committee meeting and noted the committee performed adequate review of all retail outlets’ sales and inventory reports.

Recommendation 4

Follow procedures for taking physical inventory at retail outlets by using two-person count teams.

Status – Partially Implemented

Agency Comments – The Division indicated they are using two-person count teams when taking physical inventory at the retail outlets.

Auditor Comments – The Division stated they followed procedures for using two-person count teams when taking physical inventory. We selected a sample of six

physical inventory count documents from the retail outlets for testing. We tested for signatures or initials on the count documents to determine if two-person count team members were used. Our testing revealed four out of the six documents tested did not have the required signatures or initials indicating the involvement of two-person count team members.

Recommendation 5

Provide for supervision of the physical inventory count at retail outlets.

Status – Partially Implemented

Agency Comments – The Division indicated they are providing for supervision when taking physical inventory at the retail outlets.

Auditor Comments – The Division stated they provide for supervision when taking physical inventory counts. We tested six physical inventory count documents from four retail outlets. Our testing revealed four of the six count documents tested had nothing to indicate that supervision was provided during the counts.

Recommendation 6

Monitor cash overages or shortages for retail outlets with appropriate follow-up when variances reach specified thresholds or show unusual patterns or trends.

Status – Partially Implemented

Agency Actions – The Division developed a cash variance report to document and monitor cash overages or shortages. However, procedures have not yet been implemented to track and review overages and shortages. The Division anticipates full implementation of this recommendation by January 31, 2014.

Recommendation 7

Establish procedures for handling cash variances at retail outlets. Revise work performance standards to address cash handling errors by employees.

Status – Partially Implemented

Agency Actions – The Division revised their work performance standards to address cash handling errors. However, the Division stated they are still in the process of establishing procedures for handling cash variances at retail outlets. The Division anticipates full implementation by January 31, 2014.

Recommendation 8

Establish procedures for outlet employees to follow when conducting non-revenue transactions such as voids and refunds.

Status – Partially Implemented

Agency Actions – The Division developed a non-revenue transaction log for employees to record non-revenue transactions such as voids and refunds at retail outlets. The Division stated they are in the process of establishing written procedures for handling non-revenue transactions. The Division anticipates full implementation by January 31, 2014.

Recommendation 9

Review non-revenue transactions conducted at retail outlets and investigate irregularities.

Status – Partially Implemented

Agency Actions – The Division developed a non-revenue transaction log for employees to record non-revenue transactions. However, the Division stated they have not implemented procedures to track and review such non-revenue transactions. The Division anticipates full implementation by January 31, 2014.

Recommendation 10

Develop procedures to ensure adjustments to concession fees for inflation are properly calculated and billed timely.

Status – Fully Implemented

Agency Actions – The Division developed procedures for concessions to ensure adjustments to concessions fees are properly calculated and billed timely. We examined the Division's documented procedures for calculating inflation

adjustments and they appear reasonable. Examination of the Division's current contract list revealed none of the contracts required inflation adjustment.

Recommendation 11

Refund the overpaid concession fees.

Status – Fully Implemented

Agency Actions – The Division refunded the overpaid concession fees. We verified the payment was made.

Recommendation 12

Develop written procedures for performing periodic audits of revenues reported by concessionaires that pay fees based upon a percentage of revenues.

Status – Fully Implemented

Agency Actions – The Division developed procedures for concessions to ensure proper audits are performed periodically. We reviewed an audit of a concessionaire and noted appropriate procedures were performed.

Recommendation 13

Take steps to ensure compliance with state requirements over the purchase and disposal of firearms inventory.

Status – Fully Implemented

Agency Actions – The Division is ensuring compliance with state requirements over the purchase and disposal of firearms inventory. We reviewed all purchases and disposals of firearms as of December 2013 and noted no exceptions.

Recommendation 14

Develop procedures to ensure at least two people participate in the annual physical inventory count and reconciliation of firearms.

Status – Fully Implemented

Agency Actions – The Division developed procedures to ensure at least two people participate in the annual inventory count of firearms. We reviewed the Division's written internal controls and noted appropriate safeguarding procedures. Additionally, we reviewed the 2013 annual inventory records and noted no exceptions. .

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation and Natural Resources
Eric Johnson, Administrator, Division of State Parks
Kirsten Strange, ASO, Division of State Parks
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of Water Resources issued on March 4, 2013. Report # LA14-03.

Background

The office of the State Engineer was created in 1903. The State Engineer is the executive head of the Division of Water Resources, which became a division of the Department of Conservation and Natural Resources in 1957. Its mission is to conserve, protect, manage, and enhance the state's water resources for Nevada's citizens through the appropriation and reallocation of public waters.

The Division's six main program areas include water rights, well drilling, dam safety, flood program, water planning, and adjudications.

As of July 2012, the Division had 81 employees located in its Carson City, Elko, Las Vegas, and Winnemucca offices. The Division has 61 budget accounts: 12 operating and 49 water system accounts. The Division's fiscal year 2012 revenues amounted to over \$11 million, including \$5 million in state appropriations. Fee collections amounted to \$3.5 million.

Purpose of Audit

The purpose of this audit was to: (1) determine whether dam safety inspections were performed timely and emergency action plans were submitted, (2) evaluate the reliability of performance measures used in the state's budget process, and (3) determine whether fees were collected and deposited in accordance with laws and regulations. Our audit focused on the Division's activities for fiscal year 2012, and included some inspections up to November 2012.

Audit Recommendations

This audit report contains eight recommendations to improve upon the inspection of dams, strengthen the reliability of performance measures, and enhance controls over the safeguarding of receipts.

The Division accepted the eight recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on May 28, 2013. In addition, the six-month report on the status of audit recommendations is due on December 2, 2013.

DIVISION OF WATER RESOURCES

Department of Conservation and Natural Resources

Summary

The Division can improve upon the inspection of dams throughout the State. Dam safety inspections were not always performed timely, and emergency action plans were not submitted to the State Engineer in accordance with state regulations. Stronger controls are also needed over the management of data used to track information about each dam. Since the failure of a dam could cause a loss of human life or extensive economic loss or disruption in a lifeline, inspecting dams is very important.

The Division can take steps to strengthen the reliability of its performance measures used in the state's budget process. Underlying records did not adequately support some of the reported measures. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations.

The Division has an effective process for the collection and deposit of fees. We found the Division collected and deposited fees in accordance with state laws and regulations. Although the Division's controls over fee collections and deposits are effective, improvements can be made over the safeguarding of fee receipts.

Key Findings

As of June 30, 2012, the Division reported 655 dams: 148 high, 119 significant, and 388 low hazard dams. Of 75 dams tested, 31 dam safety inspections were not performed timely in accordance with state regulations. The inspections were untimely by an average of 5.9 years. State law requires the Division to perform dam inspections for the purpose of determining their safety. Additionally, no inspection was documented in 4 of the dam files reviewed. Of the 71 dam inspections reviewed, the Division's inspection checklist was only prepared for 39 (55%) of the dams inspected. Inspections should be performed timely and adequately documented. (page 5)

Emergency Action Plans (EAPs) were not always submitted by dam owners. Of 60 high and significant hazard dams tested, 55 dams were granted an approval to impound and 17 (31%) had not submitted an EAP. NAC 535.320 requires all high and significant hazard dams to have an EAP prior to obtaining an approval to impound. This approval allows an owner to detain water or other fluid substance using a dam. (page 7)

Dam database information used to monitor dam inspections is inaccurate. We tested 30 dams with timely inspections (per the database) and 212 dams with untimely inspections (per the database) and found 7 and at least 73, respectively, in which the inspection date did not agree to the last inspection date in the dam file. Further, we found 7 of 90 dams' hazard classifications to be incorrect. Dam data maintained in the Division's database should be accurate for the proper monitoring of the state's dams. (page 8)

The Division included 16 performance measures in its budget documents for fiscal years 2014 and 2015, specifically, the Executive Budget and the Priorities and Performance Based Budget. We selected five measures and found three were not adequately supported. These measures were the number of high, significant, and low hazard dams inspected in fiscal year 2012. Since adequate documentation was not retained, we were unable to determine the accuracy of each measure. In addition, the database queried had inaccurate information and therefore generated inaccurate results. Furthermore, the numbers the Division reported to us were the number of dams, not the number of inspections. (page 10)

The Division lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures and insufficient review of the measurement computation for the five measures tested. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. (page 11)

During fiscal year 2012, the Division collected over \$3.5 million in fee revenue, of which \$1.6 million was made by check or cash and processed in its Carson City, Elko, or Las Vegas office. We tested 60 transactions totaling over \$390,000 and found fees were collected and deposited in accordance with state laws and regulations. Although controls are effective, safeguarding of receipts can be improved. Not securely storing fee receipts increases the risk that payments could become lost, stolen, or misappropriated. (page 13)



STATE OF NEVADA
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: December 2, 2013

Subject: Legislative Audit of the Division of Water Resources

On March 4, 2013, your office released an audit report on the Department of Conservation and Natural Resources, Division of Water Resources (Division). The Division subsequently filed a corrective action plan on May 22, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

Develop periodic reports (e.g. monthly, quarterly, annually) identifying dams inspected, due for an inspection, and past due.

Status – Fully Implemented

Agency Actions – The Division developed a new interface in its dam database to allow for the generation of monthly, quarterly, and annual periodic reports identifying dams inspected, due for inspection, and past due. We observed the division query the October monthly report from the dam database listing the dams inspected for the period and dams due for inspection. We also reviewed the quarterly summary reports. We did not note any dams identified as past due for inspection.

Recommendation 2

Ensure dam safety inspections are performed based on risk, and utilize qualified staff not primarily engaged in dam safety to perform inspections in conjunction with other assigned duties.

Status – Fully Implemented

Agency Actions – The Division conducted staff training to ensure dam safety inspections are performed based on risk, and utilize qualified staff not primarily engaged in dam safety to perform inspections in conjunction with other assigned duties. We examined sign in sheets for staff participation in training and noted staff not primarily engaged in dam safety scheduled to perform inspections with their other assigned duties. Additionally, we examined a recent dam inspection utilizing the enhanced standard inspection checklist and noted trained staff performed the inspection. Per discussion with the Chief of Engineering and Dam Safety, if there are not sufficient personnel on hand to inspect all dams timely, personnel will be utilized to perform all high hazard dams first to ensure dam safety inspections are performed based on risk.

Recommendation 3

Ensure staff utilize the Division's standard inspection checklist when performing dam safety inspections to ensure comprehensive inspections are consistently performed.

Status – Fully Implemented

Agency Actions – The Division has enhanced its standard inspection checklist to meet federal standards and conducted staff training on dam inspection to ensure comprehensive inspections are performed consistently. We examined a recent dam inspection utilizing the enhanced standard inspection checklist and noted trained staff performed the inspection. No exceptions were noted.

Recommendation 4

Continue to monitor Emergency Action Plans and work with dam owners to ensure plans are developed and submitted in accordance with state regulations.

Status – Fully Implemented

Agency Actions – The Division continues to monitor Emergency Action Plans (EAP) and works with dam owners to ensure plans are developed and submitted in accordance with state regulations. We examined and verified the EAP listing from the dam database for a sample dam without exception. The EAP listing is reviewed on a monthly, quarterly, and annual basis by supervisors and senior engineers to ensure plans are developed and submitted in accordance with state regulations.

Recommendation 5

Implement controls to ensure inspection data and hazard classifications in the Division's dam database are accurate and updated when needed.

Status – Fully Implemented

Agency Actions – The Division implemented controls to ensure inspection data and hazard classifications in the Division's dam database are accurate and updated when needed. We examined the Division's "Procedure for Reporting Performance Indicators and Maintaining Records," recent staff training documentation, and written instructions provided to staff for reporting requirements. These documents included the enhanced dam inspection checklist and improved database reports to ensure inspection data and hazard classifications in the dam database are accurate and updated.

Recommendation 6

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

Status – Fully Implemented

Agency Actions – The Division developed written procedures on how performance measures are computed, including the methodology and source documents used and retained. We examined the fiscal year 2014 quarterly reports and noted the Division was calculating performance measures in accordance with the newly written "Procedure for Reporting Performance Indicators and Maintaining Records".

Recommendation 7

Provide for review of calculations and methodology used to compute performance measures.

Status – Fully Implemented

Agency Actions – The Division provides for review of calculations and methodology used to compute performance measures as noted in its “Procedure for Reporting Performance Indicators and Maintaining Records”. We examined the Division’s review procedures and they appear reasonable. We also examined and the first quarter 2014 reports reviewed by the supervising engineer.

Recommendation 8

Revise policies and procedures to ensure revenue is adequately safeguarded before being deposited.

Status – Fully Implemented

Agency Actions – The Division revised existing policies and procedures to ensure revenue is adequately safeguarded before being deposited. We examined the Division’s written internal controls and noted appropriate safeguarding procedures. Additionally, we verified receipts and checks are locked in a locked box or drawer and noted those who had appropriate access to the key.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation and Natural Resources
Jason King, P.E., State Engineer, Division of Water Resources
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of Legislative Auditor report on the Division of Forestry issued on February 11, 2013. Report # LA14-01.

Background

The Division of Forestry provides professional natural resource and wildland fire management services to Nevada citizens and visitors to enhance, conserve and protect forest, rangeland and watershed values, endangered plants, and other native flora. NDF's core mission is to protect natural resources and property from wildfire.

Support for NDF's activities are recorded in five budget accounts. Total revenues for fiscal year 2012, including general fund appropriations amounted to over \$31 million. Expenditures for the same time period exceeded \$28 million. NDF operates from three offices with its headquarters located in Carson City and two regional offices in Elko and Las Vegas. NDF operates with approximately 180 employees, not counting seasonal hires.

NDF, in conjunction with the Nevada Department of Corrections, operates nine conservation camps throughout the state. The objectives of the program are to provide manpower for conservation, labor-intensive projects, community assistance, fuels and resource management, wildland fire suppression activities, and other emergency responses. NDF conservation camps received over \$3 million in project revenue and responded to 288 emergency incidents during fiscal year 2012.

Purpose of Audit

The purpose of our audit was to determine if adequate controls and processes were in place to ensure the efficient, effective and proper administration of conservation camp projects and billings.

This audit included a review of NDF's conservation camp project activities for the 18-month period ending June 30, 2012.

Audit Recommendations

This audit report contains six recommendations to improve oversight and control activities regarding conservation camp project work.

NDF accepted the six recommendations.

Recommendation Status

NDF's 60-day plan for corrective action is due on May 7, 2013. In addition, the six-month report on the status of audit recommendations is due on November 7, 2013.

Division of Forestry

Department of Conservation and Natural Resources

Summary

Overall, the Nevada Division of Forestry (NDF) billed and received funds from conservation camp projects timely and accurately; however, NDF can improve certain oversight and control activities regarding conservation camp project work. Specifically, project agreements should be executed for all projects and forwarded to the central office to ensure NDF management are knowledgeable about project work and the State is adequately protected from unforeseen liabilities. Additionally, NDF can better document and review circumstances related to free, reduced rate, and non-conservation related project work. Better controls and oversight will ensure project revenue is maximized and camp operations are consistent throughout the State.

Key Findings

NDF did not ensure project agreements were executed for all work projects. In several instances project agreements did not exist, work was performed outside the effective dates of the agreement, or agreements were written that did not contain effective dates. In all, our testing found 15 of 45 (33%) projects did not have executed agreements and 10 (22%) agreements were not current or complete. As a result, NDF did not collect over \$13,000 in project revenue. For the 18-month period ended June 30, 2012, NDF performed approximately 500 reimbursable and 90 non-reimbursable projects. Without properly executed agreements, the State may not be adequately protected from liability and all project revenue may not be recovered. (page 6)

NDF policies require reduced rate projects to be approved by central office personnel; however, documentation regarding such approval was not maintained. Reduced rate projects are negotiated and billed at less than standard rates determined by NDF and based on operating costs. Furthermore, free and reduced rate work can be better controlled with more documentation regarding rate reductions, prioritization of projects, and cost-benefit analyses. NDF conservation camp crews provide valuable services to communities throughout the State, but better control and review over projects will assist in ensuring work performed is the most beneficial for the State and the program is performing as anticipated by management. (page 7)

Work projects did not always comply with work objectives as stated in NDF camp policies. Our testing identified some (11 of 45) reimbursable and non-reimbursable projects where the work type did not meet stated camp objectives. Policies allow work to be performed outside of the stated objectives if objective related work is unavailable; however, we found no documentation regarding the necessity to perform such services. Work performed outside of stated objectives included reimbursable and non-reimbursable projects. (page 10)

Management reports were not always accurate or complete due to project cost calculation and compilation errors. Of the 45 projects tested, cost calculation errors were noted for 14 of the projects. Some projects resulted in project costs being overstated on monthly reports, but most errors resulted in costs being understated. Accurate monthly reports are important because NDF does not capture this information elsewhere and it is used to calculate certain performance measures and monitor camp project activity. (page 11)

Projects were not always billed in accordance with the terms specified in project agreements. Of 27 reimbursable projects tested, 2 were not billed according to the terms of the agreement and we could not determine the accuracy of 6 because project agreements were not executed. For example, one project invoice was billed as a flat rate of approximately \$6,000. Upon review of the agreement, a rate per acre was noted as the billing rate. Available documentation did not reflect the number of acres completed during the project month so we could not determine the accuracy of the invoiced amount. Differences went undetected because the central office does not review agreement terms when approving billing invoices. (page 12)



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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: November 7, 2013

Subject: Legislative Audit of the Division of Forestry

On February 11, 2013, your office released an audit report on the Department of Conservation and Natural Resources, Division of Forestry (Division). The Division subsequently filed a corrective action plan on May 2, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

Ensure existing policies and procedures are adhered to that require a project agreement be executed prior to project commencement and submit agreements to the central office.

Status – Fully Implemented

Agency Actions – The Division revised its existing policies and procedures for developing and finalizing project agreements to ensure agreements are in place prior to project commencement and submitted to the central office. We reviewed the Division's policies and procedures and noted these revisions. We also tested a sample of projects to verify agreements were in place prior to project commencement without exception.

Recommendation 2

Develop procedures to ensure the central office reviews and approves all nonstandard rate projects.

Status – Fully Implemented

Agency Actions – The Division developed procedures for proposed nonstandard rate projects to ensure they are reviewed and approved by management. Our sample showed nonstandard rate projects contained central office review and approval.

Recommendation 3

Develop written policies, procedures, and controls over nonstandard rate projects to include guidance for pricing a project, circumstances under which a rate reduction is appropriate, documenting reasoning for rate reductions, and analyzing the cost-benefit to the State.

Status – Fully Implemented

Agency Actions – The Division developed policies and procedures to address nonstandard rate project pricing and an associated justification. Our sample showed nonstandard rate projects contained guidance for pricing a project, circumstances under which a rate reduction is appropriate, documented reasoning for rate reductions, and analyzed cost-benefit to the State.

Recommendation 4

Enhance existing controls over nonconforming work projects including documenting circumstances under which such work projects are to be undertaken and the necessity to perform the work at less than full billing rates.

Status – Fully Implemented

Agency Actions – The Division revised existing policies and procedures to enhance clarity and guidance over nonconforming work projects. Our sample showed nonconforming work projects included documentation for circumstances which such work projects were undertaken and the necessity to perform the work at less than full billing rates.

Recommendation 5

Develop procedures to ensure monthly reports are accurate and complete, including the analysis and review by the central office of project cost allocations for less than full rate projects.

Status – Fully Implemented

Agency Actions – The Division revised existing policies and procedures for the compilation of monthly reports to ensure accuracy and completeness, including the analysis and review by the central office of project cost allocations for less than full rate projects. We reviewed fiscal year 2014 first quarter monthly reports. No exceptions were noted in our observation.

Recommendation 6

Enhance existing controls to ensure that projects are billed in accordance with agreement terms.

Status – Fully Implemented

Agency Actions – The Division revised existing procedures and identified control enhancements which have been incorporated. We sampled projects, corresponding agreements, and subsequent billing. No exceptions were noted.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation and Natural Resources
Dave Prather, Deputy Administrator, Division of Forestry
Steve Weinberger, Administrator, Division of Internal Audits

Audit Highlights



Highlights of performance audit report on the Department of Transportation Information Security issued on December 2, 2014. Legislative Auditor report # LA14-23.

Background

The mission of the Nevada Department of Transportation is to provide a better transportation system for Nevada through unified and dedicated efforts. The Department has numerous offices located throughout the State. These locations include administrative offices, maintenance stations, and construction offices. The primary administrative locations include the Department headquarters located in Carson City, and the three district offices located in Las Vegas (District 1), Reno/Sparks (District 2), and Elko (District 3).

For fiscal year 2014 the Department was authorized 1,782 full-time employees statewide. In addition, the Department had expenditures of over \$616 million for fiscal year 2014.

Purpose of Audit

The purpose of this audit was to determine 1) if the Department's information security controls were adequate to protect the confidentiality, integrity, and availability of sensitive information and information systems; and 2) if the controls on the use of procurement cards were adequate to reasonably mitigate the risks of fraudulent use.

The primary focus of our audit work included the systems and practices in place from January through September of 2014. However, our procurement card audit work included a review of selected procurement card transactions from prior to June of 2013.

Audit Recommendations

This audit report contains eight recommendations to improve the security of the Department's information systems and its procurement card procedures.

The Department of Transportation accepted the eight recommendations.

Recommendation Status

The Department of Transportation's 60-day plan for corrective action is due on March 2, 2015. In addition, the six-month report on the status of audit recommendations is due on September 2, 2015.

Information Security

Department of Transportation

Summary

Weaknesses exist in managing network computer users. These weaknesses include not disabling former employee and contractor computer accounts when these persons leave Department employment. In addition, the Department did not conduct criminal background investigations on all staff occupying sensitive positions with access to confidential information or systems.

The Department needs to provide better protection for important computer and radio hardware. For example, some server rooms lacked adequate temperature monitoring and alerting capabilities. In addition, some telecommunications and radio equipment is not secured in locked rooms. As a result, sensitive equipment is at risk of being damaged or stolen.

Weaknesses in Department procurement card controls enabled a stock room employee to commit fraudulent procurement card purchases over a four year period. Although procurement card procedures have been revised to lessen the risk of similar fraud, the revisions have not yet been formalized in the Department's corresponding Transportation Policy. Furthermore, the proposed procedure revisions are not being followed by all purchase card holders throughout the Department.

Key Findings

Former employee and contractor computer accounts were not disabled when these persons left the Department. We identified 34 former staff whose network credentials (login identification and passwords) had not been disabled. These included 28 former Nevada Department of Transportation (NDOT) employee and 6 NDOT contractor computer accounts. Sixteen of these had left the Department over 1 year ago. Untimely disabling of former employees' or contractors' computer accounts increases the risk someone could gain unauthorized access to the NDOT network and the information systems therein. (page 4)

The Department did not conduct criminal background investigations on staff occupying sensitive positions. State security standards require criminal background investigations be conducted on all persons in sensitive positions. Those standards define "sensitive" positions as those employees with access to confidential information or important information systems. We identified at least 66 positions, primarily in the Information Technology Division, that should be defined as sensitive. Conducting these fingerprint-based criminal history background investigations reduces the likelihood that a person with an unsuitable criminal background will be hired into a position where they are granted access to the state's confidential information or important information systems. (page 4)

Two server rooms lacked adequate temperature monitoring and alerting systems. One was in the Department's primary server room located in Carson City. State security standards require computer networking equipment be operated within a temperature controlled environment to reduce the risk of equipment failure due to overheating. In addition, temperature monitoring and alerting systems which were operational in other server rooms around the State were not configured to alert staff of overheating events after normal business hours. Also, we identified two rooms containing telecommunications and radio equipment that were not locked. Security standards indicate access to such equipment should be controlled by locked doors. (page 7)

Weak controls over procurement cards allowed fraud to occur. For example, purchases did not require supervisory review and often the purchaser was also the person receiving the merchandise. As a result, over a 4-year period a stockroom employee made over \$250,000 in fraudulent purchases. The Department has proposed changes to the procurement card procedures. However these changes have not been formally incorporated into the Department's policy 11 months after the fraud occurred. (page 9)

Audit Highlights



Highlights of performance audit report on the Fiscal Costs of the Death Penalty issued on December 2, 2014. Legislative Auditor report # LA14-25.

Background

The death penalty in the United States is applied almost exclusively for the crime of murder. As of August 2014, 32 states have laws allowing death as a sentencing option although governors in Washington and Oregon have issued moratoriums on executions.

Two U.S. Supreme Court cases significantly impacted states' laws regarding the death penalty. *Furman v. Georgia* in 1972 invalidated death penalty laws because the legal system, as it was then structured, allowed for the death penalty to be imposed in an arbitrary manner. The 1976 case of *Gregg v. Georgia* upheld newly crafted statutes that ensured death penalty sentences were rationally imposed and objectively reviewable. Senate Bill 220 of the 1977 Legislative Session brought Nevada's death penalty laws into compliance with U.S. Supreme Court guidelines.

Since the death penalty was reinstated in Nevada in 1977, 153 people have been sentenced to death. Twelve inmates have been executed since that time with 11 effectively "volunteering" by giving up their right to continue appealing their conviction. Eighty-two inmates are currently sentenced to the death penalty as of September 2014. Of the remaining 59 inmates, 16 died while in prison and 43 had their sentence and/or conviction reduced.

Nevada law requires executions to be performed by lethal injection. This method of execution has become an issue nationally as historically used drugs have become difficult to obtain.

Purpose of Audit

This audit was required by Chapter 469, Statutes of Nevada, 2013 (A.B. 444). The purpose of the audit was to determine (1) the fiscal costs of prosecuting death penalty cases versus non-death penalty cases and (2) the potential savings attributable to the death penalty through plea bargaining and strategic litigation choices. Our audit focused on murder cases in Washoe and Clark counties between 2000 and 2012. We used December 31, 2013, as the cut-off date for cost accumulation.

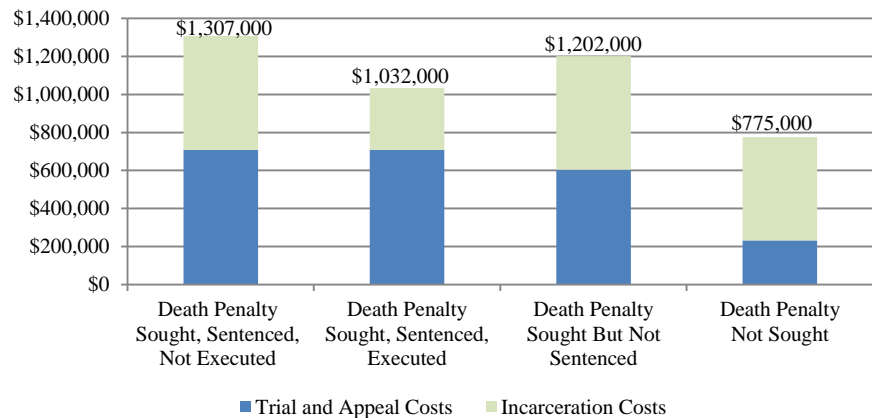
The audit was subject to certain limitations as many agencies with significant roles could not provide actual staff time and were hesitant to provide estimates. Furthermore, much of the information was based on unverifiable estimates provided by various entities. See additional discussion regarding limitations on page 8.

Fiscal Costs of the Death Penalty

Summary

Adjudicating death penalty cases takes more time and resources compared to murder cases where the death penalty sentence is not pursued as an option. These cases are more costly because there are procedural safeguards in place to ensure the sentence is just and free from error. Based on our sample of 28 cases and average costs we were able to accumulate, we estimate the death penalty, from arrest through the end of incarceration, costs about \$532,000 more than other murder cases where the death penalty is not sought. (page 10)

Cost Differential of the Death Penalty



Cost estimates are based on a sample of 28 cases, 15 for trial and 13 for appeal. We also calculated incarceration and medical costs from first degree murder sentence subgroups from data provided by the Nevada Department of Corrections. Trial and appeal costs are incomplete because certain court and prosecution costs could not be obtained. Specifically, court and prosecution costs primarily include the cost of in-court activities and exclude costs incurred outside of the courtroom. Furthermore, appeal costs do not fully represent the entirety of the appeal process since many of the sample cases are still being adjudicated. The incarceration costs for the death penalty sought, sentenced, and executed subgroup is based on the one individual who was "involuntarily" executed having exhausted available appeals. (page 11)

Case costs, incorporating the trial and appeal phases, averaged about three times more for death penalty versus non-death penalty cases. Almost every cost center we were able to accumulate cost information for was higher for death penalty cases, regardless of whether the cost was an estimate or based on actual verifiable data, mainly because of enhanced procedural requirements related to death penalty trials and related appeals. Costs of death penalty cases are similar regardless of whether the death penalty is sentenced or not. In these cases, trial costs are generally the same, but appeals costs are less when the death penalty is not sentenced. (page 16)

For incarceration costs, the death penalty is the most expensive sentence for those convicted of first degree murder, but only slightly higher when compared to those sentenced to life without the possibility of parole. Costs for these two sentences largely mirror one another because incarceration periods are similar considering "involuntary" executions are extremely infrequent. Incarceration costs are higher for the death penalty subgroup, since they are typically housed at a higher cost facility, but costs were similar to those sentenced to life without the possibility of parole because inmates in this subgroup are incarcerated slightly longer due to a higher age of natural death. Further, medical costs increase as inmates age with costs nearly doubling every decade once an inmate reaches the age of 35. (page 53)

Potential cost savings due to the existence of the death penalty could not be quantified. Prosecutors strongly suggested the death penalty is not used as a strategic litigation choice to reduce or avoid a trial and its associated cost through plea bargaining. Nevertheless, plea bargains are made with defendants who are facing the possibility of death; however, they occur about 14% less often than in non-death penalty cases. Savings generated from plea bargaining are dependent upon where in the trial phase the plea bargain is finalized since any savings that may be realized are largely due to trial and appeal costs. (page 73)