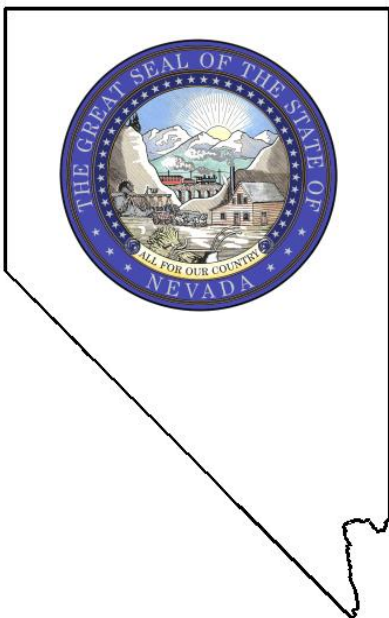


# STATE OF NEVADA

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## Biennial Report of the Legislative Auditor



December 31, 2014  
Carson City, Nevada

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December 30, 2014

Members of the Nevada Legislature:

I am pleased to report on the activities of the Audit Division for the biennium ended December 31, 2014. This report includes a comprehensive summary of audits issued during the biennium and also a brief overview of the Audit Division.

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

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

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

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

Respectfully,

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

Paul V. Townsend, CPA  
Legislative Auditor

cc: Governor Brian Sandoval

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## INTRODUCTION

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

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

### TYPES OF AUDITS CONDUCTED

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

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

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

### REPORTING AUDIT RESULTS

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

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

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## **BENEFITS OF LEGISLATIVE AUDITS**

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

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

Legislative audits have contributed significantly over the years to saving millions of dollars for Nevada's taxpayers. In the past two years alone, measurable financial benefits of more than \$83 million have been realized by implementing our recommendations. In many cases, these benefits are based upon work we did in past years, because it often takes agencies time to implement our recommendations or because the financial benefits of the recommended course of action were felt over more than one biennium. For instance, based upon a prior audit we estimate the Division of Health Care Financing and Policy realized savings of about \$59 million by recovering Medicaid claims overpayments and controlling costs related to medical services.

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

In addition to measurable financial benefits, our work has led to improvements in programs to better serve Nevadans. By increasing program effectiveness, improved levels of service can be provided thus ensuring Nevada's citizens and visitors get the most for their money. For example, the Department of Education needed to strengthen its processes for revoking educator licenses, issuing provisional licenses, and tracking and reviewing criminal history reports. Recommendations to improve these processes will help ensure timely action for criminal cases involving licensees. In another example, the Division of Water Resources' dam safety inspections were untimely by an average of 5.9 years. 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. Furthermore, our reviews of Governmental and Private Facilities for Children found stronger medication administration processes and procedures were needed at all 13 facilities for children we reviewed. Some youths' files were missing key documentation, such as physicians' orders and pharmacies' instructions. Moreover, some youths' files contained errors, such

as documentation of an incorrect dosage of medication and, at one facility, youths' files showed some did not receive their medication for up to 22 days after it was prescribed. Finally, recommendations made in our audit of the Taxicab Authority to improve its oversight of the taxicab industry in Clark County could result in potential savings to the public of about \$15 million.

### FOCUS IS ON IMPROVING ACCOUNTABILITY

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

The quality of audits conducted by the Audit Division has been recognized on a national level. In 2014, the Audit Division received the National State Auditors Association's Excellence in Accountability Award in the small performance audit category. (See Appendix D, page 49)

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## 2013 – 2014 BIENNIUM IN REVIEW

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### AUDIT HIGHLIGHTS

Over the biennium the Audit Division issued 34 audit and other reports relating to the operations of state government and other governmental agencies. Many audits completed during the biennium contributed to legislative and executive branch actions resulting in significant benefits to state government and Nevada citizens. Benefits directly attributable to or notably influenced by the audit work include elimination of waste, increased collection of revenues, and more effective government programs. While it is not the sole purpose of audits to identify ways to save money or increase revenues, many audit recommendations did, in fact, have a cost-savings impact. Consequently, we have worked closely with agency management to provide constructive recommendations which should, if properly implemented, save millions of dollars.

The following summarizes the results of the audits and reports issued in the 2013 – 2014 biennium. The full text of each report and audit highlights including the significant findings can be found at: [www.leg.state.nv.us/audit](http://www.leg.state.nv.us/audit).

### AUDITS REQUIRED THROUGH LEGISLATION

#### A.B. 255 OF THE 2013 SESSION

##### DEPARTMENT OF HEALTH AND HUMAN SERVICES, USE OF CERTAIN ASSESSMENTS PAID BY COUNTIES (A.B. 255)

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.

- 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.



- 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.
- 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.
- 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.

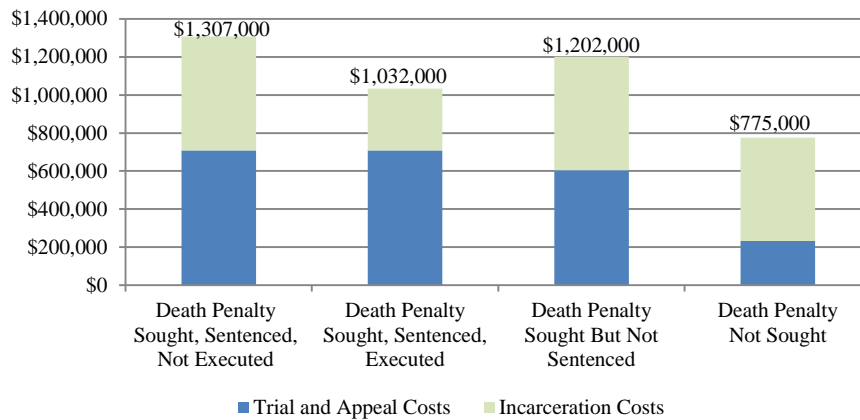
## A.B. 444 OF THE 2013 SESSION

### FISCAL COSTS OF THE DEATH PENALTY (A.B. 444)

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.

### 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.

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.

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.

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.

## AGENCY AUDITS

### OFFICE OF THE GOVERNOR

#### AGENCY FOR NUCLEAR PROJECTS

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.

### DEPARTMENT OF ADMINISTRATION

#### NEVADA STATE LIBRARY AND ARCHIVES, MAIL SERVICES

Generally, Mail Services' billing process is reasonably accurate and complete; however, minor control weaknesses at Mail Services and the Administrative Services Division 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.

### DEPARTMENT OF ADMINISTRATION

#### RISK MANAGEMENT DIVISION

Overall, the Risk Management 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.

- 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.
- 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.

## DEPARTMENT OF BUSINESS AND INDUSTRY

### NEVADA STATE ATHLETIC COMMISSION

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 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.

- 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.
- 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.
- 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 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.

## DEPARTMENT OF BUSINESS AND INDUSTRY

### NEVADA TRANSPORTATION AUTHORITY

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.

- 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.
- 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.

## DEPARTMENT OF BUSINESS AND INDUSTRY

### TAXICAB AUTHORITY

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.

- 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.

- 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.
- 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.

## DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

### DIVISION OF FORESTRY

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.

- 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.
- 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.

## DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

### DIVISION OF STATE PARKS

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.

- 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.
- 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.

- 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.
- 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.

## DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

### DIVISION OF WATER RESOURCES

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.

- 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 four 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.

- 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.
- 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.

## DEPARTMENT OF CORRECTIONS

### ACCURACY OF CRIMINAL HISTORY INFORMATION

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.

- 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.
- 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.
- 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.
- 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.

## DEPARTMENT OF EDUCATION

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.

- 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.

- 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.
- 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.
- 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.
- 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.
- 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.

## DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION

### REHABILITATION DIVISION

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.

- 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.
- 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.
- 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.

## DEPARTMENT OF PUBLIC SAFETY

### DIVISION OF EMERGENCY MANAGEMENT

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.

- 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.
- 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.
- 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.

## DEPARTMENT OF PUBLIC SAFETY

### OFFICE OF DIRECTOR

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.

- 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.
- 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.
- 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.

## DEPARTMENT OF PUBLIC SAFETY

### STATE FIRE MARSHAL DIVISION

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.

- 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.
- 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.
- 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.

## DEPARTMENT OF TOURISM AND CULTURAL AFFAIRS

### DIVISION OF TOURISM

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.

- 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.
- 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.

- 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.
- 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.

## JUDICIAL BRANCH OF GOVERNMENT

### SUPREME COURT OF NEVADA

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.

- 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.

- 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.
- 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.

## COMMISSION ON MINERAL RESOURCES

### DIVISION OF MINERALS

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.

- 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.

- 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.
- 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.

## INFORMATION SECURITY AUDITS

### DEPARTMENT OF CORRECTIONS

#### INFORMATION SECURITY

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.

- 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.

## DEPARTMENT OF TRANSPORTATION

### INFORMATION SECURITY

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.

- 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.
- 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.
- 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.

## REVIEWS REQUIRED BY STATUTES

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

#### REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN, APRIL 2014

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.

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

### REVIEW OF GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN, OCTOBER 2014

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.

- 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.
- 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.

- 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.



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## **RECOMMENDATIONS TO IMPROVE STATE GOVERNMENT**

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Audit reports issued over the biennium contained 157 recommendations to improve the operations of state government, and 155 of those recommendations were accepted by agency officials. Many of the recommendations address ways to eliminate waste, increase collection of revenues, enhance program effectiveness, improve accountability, and ensure compliance with state laws and regulations.

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

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

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

For the biennium ended December 2014, we received 19 six-month status reports containing 148 recommendations. Our analysis of these status reports and additional information provided to the Audit Subcommittee through the follow-up process indicates that 133 recommendations processed during the biennium were fully implemented. Eight of the six-month reports, containing 14 partially implemented recommendations and 1 recommendation with no action, remained in the follow-up process at the end of the biennium.

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## **AUDIT LEGISLATION**

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The statutory duties of the Legislative Auditor include recommending the enactment or amendment of statutes based upon the results of audits. During the 2013 Legislative Session, bills were introduced requesting the performance of audits directed towards improving state government. Three pieces of legislation were passed by the Legislature and subsequently signed into law by the Governor. The description and disposition of this legislation is as follows.

		STATUTES OF NEVADA	
		BILL NUMBER	CHAPTER NUMBER
SCOPE			
AN ACT	relating to state financial administration; requiring the Legislative Auditor to conduct an audit concerning the use by the Department of Health and Human Services of certain assessments paid by counties to the Department; and providing other matters properly relating thereto.	A.B. 255	198
AN ACT	relating to governmental administration; authorizing the Sunset Subcommittee of the Legislative Commission to recommend the auditing of certain boards or commissions; providing that certain members of the Sunset Subcommittee are nonvoting members; decreasing the number of boards and commissions that the Sunset Subcommittee is required to review; removing the requirement that the Sunset Subcommittee submit a written assessment to a board or commission setting forth the costs of a review; and providing other matters properly relating thereto.  Section 1 of this bill provides that at any time during a legislative interim, if the Sunset Subcommittee determines that a board or commission should be audited, the Sunset Subcommittee must make a recommendation to the Legislative Commission, and the Legislative Commission must determine whether to direct the Legislative Auditor to perform an audit. The Legislative Auditor is prohibited from performing more than four such audits during a legislative interim.	A.B. 383	208
AN ACT	relating to the death penalty; providing for an audit of the fiscal costs of the death penalty; and providing other matters properly relating thereto.  This bill requires the Legislative Auditor to conduct an audit of the fiscal costs of the death penalty in Nevada. The audit must include, without limitation, an examination and analysis of the costs of prosecuting and adjudicating capital cases compared to noncapital cases. The Legislative Auditor is required to present a final written report of the audit to the Audit Subcommittee of the Legislative Commission on or before January 31, 2015.	A.B. 444	469

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## UNIFORM SYSTEM OF INTERNAL CONTROL

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The Department of Administration, in accordance with Chapter 774, Statutes of Nevada, 1987 (S.B. 341), issued regulations in January 1988 requiring each state agency to develop a uniform system of internal accounting and administrative control. Chapter 774 also provides that we include in our biennial report a list of those agencies audited that have not developed internal control systems. The agencies identified as not having developed appropriate internal accounting and administrative control systems in audits issued between January 1, 2013, and December 31, 2014, are:

DEPARTMENT OF ADMINISTRATION, RISK MANAGEMENT DIVISION

DEPARTMENT OF BUSINESS AND INDUSTRY, NEVADA STATE ATHLETIC COMMISSION

DEPARTMENT OF BUSINESS AND INDUSTRY, TAXICAB AUTHORITY

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF STATE PARKS

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES, DIVISION OF WATER  
RESOURCES

DEPARTMENT OF CORRECTIONS, INFORMATION TECHNOLOGY SECURITY

DEPARTMENT OF EDUCATION

DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION, REHABILITATION  
DIVISION

DEPARTMENT OF HEALTH AND HUMAN SERVICES, USE OF CERTAIN ASSESSMENTS PAID BY  
COUNTIES (A.B. 255)

DEPARTMENT OF PUBLIC SAFETY, DIVISION OF EMERGENCY MANAGEMENT

DEPARTMENT OF PUBLIC SAFETY, STATE FIRE MARSHAL DIVISION

DEPARTMENT OF TOURISM AND CULTURAL AFFAIRS, DIVISION OF TOURISM

DEPARTMENT OF TRANSPORTATION, INFORMATION SECURITY

## COUNT OF MONEY IN STATE TREASURY

NRS 353.060 requires the Legislative Auditor to count the money in the State Treasury at least annually. During this biennium, we conducted the money count on June 28, 2013, and June 30, 2014. Money count reports are filed with the Secretary of State and presented to the Audit Subcommittee. The following schedule summarizes the money and securities in custody of the State Treasurer as of the close of business, June 30, 2014.

Custodian	On Deposit With Financial Institutions (A)	State Owned Securities (B)	Securities Held For Safekeeping
State Treasurer	\$ --	\$2,698,261,492.40	\$ --
State Treasurer	--	--	1,026,517,152.32
Wells Fargo	142,831,841.19	--	--
Nevada State Bank	125,577.05	--	--
Washington Federal	283,552.93	--	--
JP Morgan Chase	4,192,622.32	--	--
	<u>\$147,433,593.49</u>	<u>\$2,698,261,492.40</u>	<u>\$1,026,517,152.32</u>

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

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

## ACTIVITIES THAT SUPPORT AND ENHANCE THE AUDIT FUNCTION

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### PROFESSIONAL DEVELOPMENT

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

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

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

### QUALITY ASSURANCE

Every three years the Legislative Auditor contracts with an external organization to perform a quality control review of the Audit Division's operations. The most recent review was completed in August 2012. We are pleased to report the office received an unqualified opinion on the review, (Appendix A) indicating that our system of quality control is appropriately comprehensive and suitably designed to ensure reasonable compliance with professional audit standards.

### INFORMATION TECHNOLOGY

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

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## OTHER SIGNIFICANT RESPONSIBILITIES

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### FEDERAL AUDIT REQUIREMENTS

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

The Audit Subcommittee has authorized the Legislative Auditor to contract with public accounting firms to audit these federal programs. The financing of contract audits is provided through the Department of Administration and the Audit Division's budget. During the fiscal year ended June 30, 2013, federal financial assistance expenditures totaled about \$4.1 billion.

### SCHOOL DISTRICT REVIEWS

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

### CHILD WELFARE RESPONSIBILITIES

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

Chapter 2, Statutes of Nevada 2009, requires the Legislative Auditor to conduct reviews, audits, and unannounced site visits of residential children's facilities. These facilities include both governmental and private facilities which have physical custody of children pursuant to the order of a court. The purpose of the reviews is to determine if the facilities adequately protect the health, safety, and welfare of the children in the facilities and whether the facilities respect the civil and other rights of the children in their care.

## SPECIAL LICENSE PLATE REVIEWS

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

## AUDITS OF CERTAIN STATE BOARDS

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

# APPENDICES





## APPENDIX A

# EXTERNAL QUALITY CONTROL REVIEW



## National State Auditors Association

August 17, 2012

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

Dear Mr. Townsend:

We have reviewed the system of quality control of the State of Nevada's Legislative Counsel Bureau - Audit Division (the office) in effect for the period July 1, 2011 through June 30, 2012. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

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

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

In our opinion, the system of quality control of State of Nevada's Legislative Counsel Bureau - Audit Division in effect for the period July 1, 2011 through June 30, 2012 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

L. Scott Owens, CIA, CGAP  
Team Leader  
National State Auditors Association  
External Peer Review Team

Cole Hickland, CPA, CMA  
Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

## **APPENDIX B**

### **STATUTORY CITATIONS – LEGISLATIVE AUDITOR**

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#### NRS

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

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

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

## APPENDIX B

### STATUTORY CITATIONS – LEGISLATIVE AUDITOR (CONTINUED)

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#### NRS

353.080	Failure of Legislative Auditor to perform duties: Penalties.
353.325	Distribution of audit report of state agency.
353A.020	System of accounting and control for agencies: Adoption; elements; modification; development of procedures.
353A.045	Duties of Chief of Division of Internal Audit. Consult with Legislative Auditor.
354.6135	Governing body authorized to loan or transfer money from enterprise fund. (Chapter 461, 2013 Statutes of Nevada, Audit Division review of report submitted by the governing body)
387.613	Selection of school districts for financial management review and selection of consultants to conduct reviews.
387.639	Review of school district's report concerning progress on corrective action plan.
387.644	School district's reporting when exempt from review.
463.1593	Regulations concerning financial practices licensees: Duties of Legislative Auditor. (Gaming)
482.38277	Certain charitable organizations to prepare and file certain documents with Commission on Special License Plates; Commission to provide documents to Legislative Auditor; duties of Legislative Auditor with respect to forms and information.
482.38278	Legislative Auditor to present final written report to Commission on Special License Plates; distribution of report; contents of report.
514A.100	Mining Oversight and Accountability Commission can request special audit or investigation.
630.127	Performance audits of Board. (Board of Medical Examiners)
645A.050	Duties of commissioner. (Escrow Agencies and Agents)
645B.060	Duties of commissioner. (Mortgage Brokers and Mortgage Agents)
645E.300	Duties of commissioner. (Mortgage Bankers)
692A.117	Confidential Records. (Title Insurance)

## APPENDIX C

### 2014 – 2016 BASIC AUDIT PROGRAM

STATE OF NEVADA  
LEGISLATIVE COUNSEL BUREAU  
LEGISLATIVE BUILDING  
401 S. CARSON STREET  
CARSON CITY, NEVADA 89701-4747  
~~Phone: (775) 684-6600~~

RICK COMBS, Director  
(775) 684-6800



LEGISLATIVE COMMISSION (775) 684-6800  
MARILYN K. KIRKPATRICK, Assemblywoman, Chairman  
Rick Combs, Director, Secretary

INTERIM FINANCE COMMITTEE (775) 684-6821  
DEBBIE SMITH, Senator, Chairman  
Mark Krmpotic, Fiscal Analyst  
Cindy Jones, Fiscal Analyst

BRENDA J. ERDOES, Legislative Counsel (775) 684-6830  
PAUL V. TOWNSEND, Legislative Auditor (775) 684-6815  
DONALD O. WILLIAMS, Research Director (775) 684-6825

June 6, 2014

Members of the Legislative Commission  
Legislative Building  
Carson City, Nevada

Schedule 1 lists the audits we currently have in progress. In accordance with NRS 218E.205, we are requesting your approval to continue these audits as we may not be able to present all of them to the Audit Subcommittee of the Legislative Commission by the start of the 2015 session.

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

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

Respectfully requested,

Paul V. Townsend, CPA  
Legislative Auditor

PVT:dw  
Enclosures

APPROVED AT THE LEGISLATIVE COMMISSION MEETING ON JUNE 23, 2014

## APPENDIX C

### 2014 – 2016 BASIC AUDIT PROGRAM (CONTINUED)

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Legislative Counsel Bureau  
Audit Division  
Audits in Progress  
June 6, 2014

Schedule 1

- Department of Health and Human Services, Use of Certain County Assessments (A.B. 255)
- Fiscal Costs of the Death Penalty (A.B. 444)
- Department of Education
- Division of Health Care Financing and Policy
- Department of Public Safety – Director's Office
- Rehabilitation Division
- Report on Count of Money in State Treasury
- Review of Governmental and Private Facilities for Children
- Statewide Single Audit
- Supreme Court
- Department of Transportation



## APPENDIX C

### 2014 – 2016 BASIC AUDIT PROGRAM (CONTINUED)

Legislative Counsel Bureau  
Audit Division  
Proposed Audits  
July 2014 through December 2016

Schedule 2

Department of Administration

- Hearings Division
- Division of Human Resource Management

Department of Business and Industry

- Manufactured Housing Division
- Division of Mortgage Lending

Department of Conservation and Natural Resources

- State Historic Preservation Office

Department of Health and Human Services

- Aging and Disability Services Division
- Division of Child and Family Services
- Director's Office
- Division of Public and Behavioral Health
- Division of Welfare and Supportive Services

Department of Motor Vehicles

Department of Public Safety

- Capitol Police Division
- General Services Division
- Investigation Division
- Nevada Highway Patrol
- Division of Parole and Probation

Department of Taxation

Department of Tourism and Cultural Affairs

- Division of Museums and History
- Nevada Arts Council

Department of Wildlife

Office of Attorney General

Colorado River Commission

Office of the Military

Silver State Health Insurance Exchange

State Treasurer

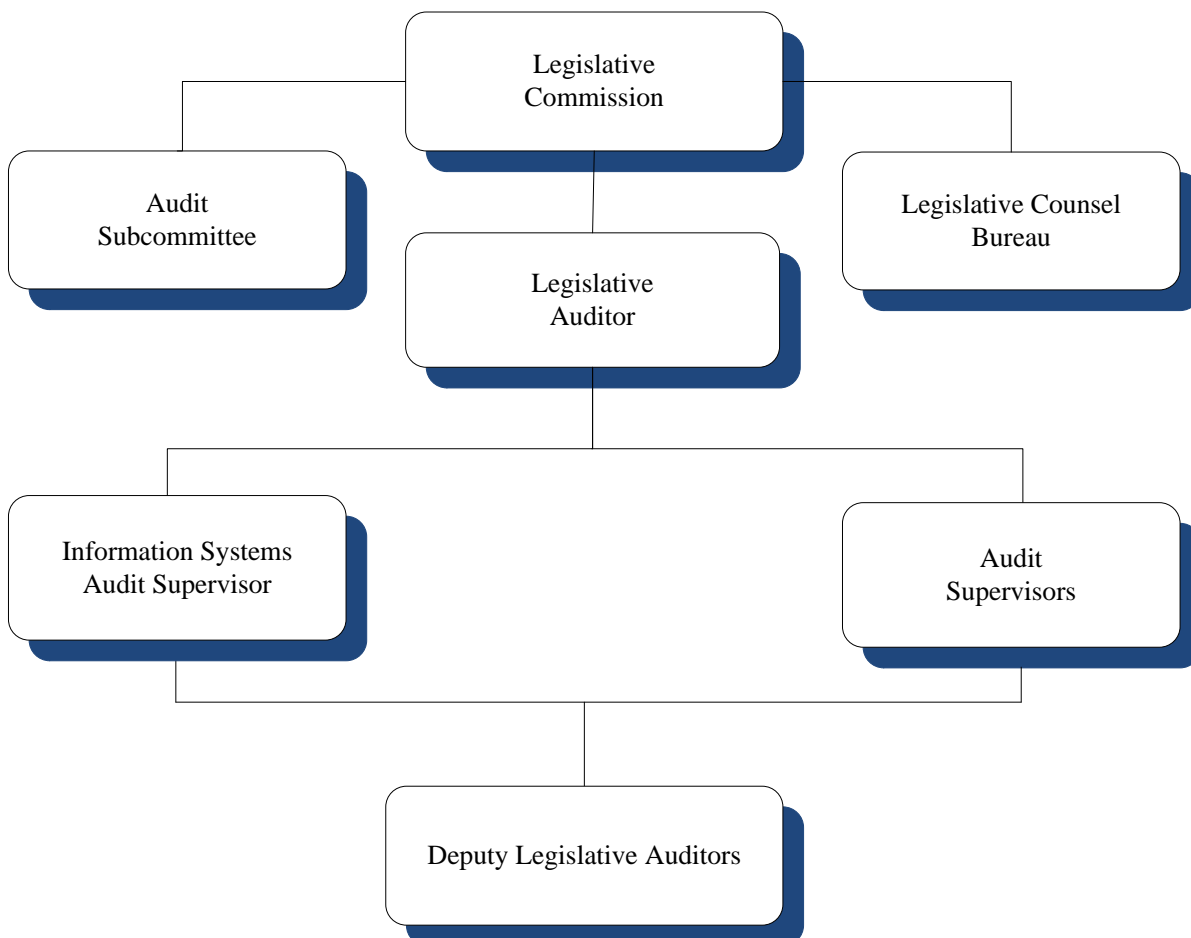
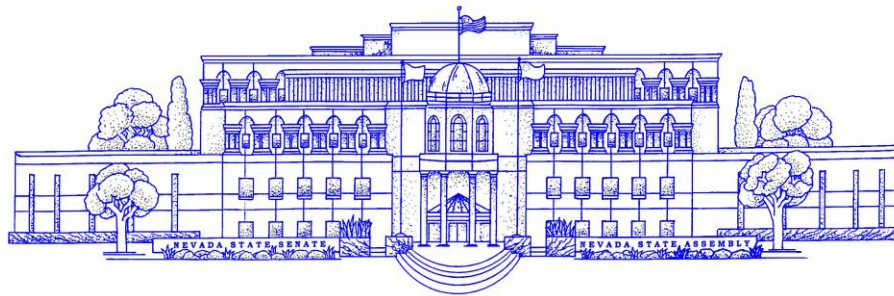
## APPENDIX D

### AUDIT DIVISION

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## ORGANIZATIONAL CHART

### LEGISLATURE



**APPENDIX D****AUDIT DIVISION** (CONTINUED)

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**HISTORICAL LISTING OF LEGISLATIVE AUDITORS**

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

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

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

**APPENDIX D****AUDIT DIVISION** (CONTINUED)

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**AUDIT DIVISION STAFF****PAUL V. TOWNSEND, CPA, CIA****LEGISLATIVE AUDITOR**

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JANE E. BAILEY, MS	AUDIT SUPERVISOR
ROCKY J. COOPER, CPA, MBA	AUDIT SUPERVISOR
RICHARD A. NEIL, CPA	AUDIT SUPERVISOR
SHANNON RYAN, CPA	AUDIT SUPERVISOR
S. DOUGLAS PETERSON, CISA, MPA	INFORMATION SYSTEMS AUDIT SUPERVISOR
EUGENE ALLARA, CPA	DEPUTY LEGISLATIVE AUDITOR
BRIANNE BERRY, CPA	DEPUTY LEGISLATIVE AUDITOR
JENNIFER M. BRITO, MPA	DEPUTY LEGISLATIVE AUDITOR
A. LILLIANA CAMACHO-POLKOW, MBA	DEPUTY LEGISLATIVE AUDITOR
DEBRA CLARK, CPA	DEPUTY LEGISLATIVE AUDITOR
DANIEL L. CROSSMAN, CPA	DEPUTY LEGISLATIVE AUDITOR
DIANA GIOVANNONI, CPA	DEPUTY LEGISLATIVE AUDITOR
TAMMY A. GOETZE, CPA	DEPUTY LEGISLATIVE AUDITOR
MICHAEL HERENICK, MPA	DEPUTY LEGISLATIVE AUDITOR
SHAWN P. HEUSSER, CIA, MPA	DEPUTY LEGISLATIVE AUDITOR
DENNIS KLENCZAR, CPA	DEPUTY LEGISLATIVE AUDITOR
YETTE M. DE LUCA, MBA	DEPUTY LEGISLATIVE AUDITOR
SANDRA T. MCGUIRK, CPA	DEPUTY LEGISLATIVE AUDITOR
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JELENA WILLIAMS, CPA	DEPUTY LEGISLATIVE AUDITOR
DEBORAH ANDERSON	AUDIT SECRETARY

## APPENDIX D

### AUDIT DIVISION (CONTINUED)

## EXCELLENCE IN ACCOUNTABILITY AWARD



National State  
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*An Affiliate of NASACT*

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#### FOR IMMEDIATE RELEASE

#### **Nevada Legislative Counsel Bureau, Audit Division, Wins Excellence in Accountability Award**

Saint Paul, MN – Thursday, June 12 – Today the Nevada Legislative Counsel Bureau, Audit Division (Audit Division), was awarded an Excellence in Accountability Award by the National State Auditors Association (NSAA).

The Excellence in Accountability Awards are presented annually by NSAA to recognize government auditing excellence. There are four award categories – large performance audit, small performance audit, special project and forensic report. The Audit Division received the "small performance audit" award for the audit "Department of Business and Industry – Taxicab Authority."

The award was presented on Thursday, June 12, at a lunch during NSAA's annual conference in Saint Paul, Minn. Nevada Legislative Auditor Paul Townsend accepted the award. Staff from the Audit Division will also share an overview of the audit with the other state auditors during a conference session.

#### ***Audit Overview and Impact***

The Taxicab Authority was created by the Nevada Legislature to regulate the taxicab industry in Clark County, which includes Las Vegas. There are 16 taxicab companies in Clark County; employing 9,000 drivers, operating a taxicab fleet of 3,100 vehicles, and providing about 27 million trips per year.

Tourism is vital to Nevada. Therefore, this audit primarily focused on the Taxicab Authority's activities to help ensure proper oversight of taxicab company operations. The audit found:

- Weaknesses with the Taxicab Authority's actions to prevent and detect long hauling. Long hauling occurs when a driver takes a longer route than necessary to increase the fare amount. The audit concluded that tourists were overcharged millions of dollars for taxicab trips, resulting in a negative experience while vacationing in Las Vegas.
- Weaknesses with the way taxicab medallion allocations were determined and tracked. (Medallions are the small metal plates affixed to taxicabs authorizing them to operate.) As a result, decision makers did not have sufficient information to ensure the appropriate number of taxicabs was operating in Las Vegas.

The audit report received nationwide coverage in the media, and strong agreement from the public. The audit was released during the Nevada Legislature's 2013 session and was instrumental in the passage of legislation that requires the Taxicab Authority to collect and use a technology fee to develop computer systems that will help it regulate taxicab trips. Most notably the audit resulted in the posting of information for passengers to inform them about the most common routes to resorts, the time required to travel each route, and the average fare for each route.

## APPENDIX D

### AUDIT DIVISION (CONTINUED)

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#### EXCELLENCE IN ACCOUNTABILITY AWARD (CONTINUED)



National State  
Auditors Association  
*An Affiliate of NASACT*

**Award Criteria**

Winners of NSAA's Excellence in Accountability Awards are chosen based upon criteria including:

- Usefulness to the customer.
- Major service impact and or significant financial outcome.
- Success of project or action produced.
- Progressive, forward-thinking perspective.
- Innovative process.
- Creative presentation.

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The National State Auditors Association (NSAA) is an organization dedicated to improving state government by providing opportunities for the free exchange of information and ideas and promoting accountability, transparency and the observance of professional audit standards. For more information about NSAA, call (859) 276-1147 or visit [www.nasact.org](http://www.nasact.org).

## APPENDIX E

### SCHEDULE OF REPORTS RELEASED 2013 – 2014

NUMBER	REPORT
14-01	Department of Conservation and Natural Resources, Division of Forestry
14-02	Department of Corrections, Accuracy of Criminal History Information
14-03	Department of Conservation and Natural Resources, Division of Water Resources
14-04	Department of Business and Industry, Taxicab Authority
14-05	Department of Administration, Risk Management Division
14-06	Department of Conservation and Natural Resources, Division of State Parks
14-07	Department of Business and Industry, Nevada Transportation Authority
14-08	Office of the Governor, Agency for Nuclear Projects
14-09	Department of Public Safety, State Fire Marshal Division
14-10	Department of Administration, Nevada State Library and Archives, Mail Services
14-11	Department of Public Safety, Division of Emergency Management
14-12	Commission on Mineral Resources, Division of Minerals
14-13	Report on Count of Money in State Treasury
14-14	Department of Corrections, Information Technology Security
14-15	Department of Tourism and Cultural Affairs, Division of Tourism
14-16	Review of Governmental and Private Facilities for Children, April 2014
14-17	Department of Business and Industry, Nevada State Athletic Commission
14-18	Department of Employment, Training and Rehabilitation, Rehabilitation Division
14-19	Department of Health and Human Services, Use of Certain Assessments Paid by Counties (A.B. 255)
14-20	Judicial Branch of Government, Supreme Court of Nevada
14-21	Review of Governmental and Private Facilities for Children, October 2014
14-22	Department of Education
14-23	Department of Transportation, Information Security
14-24	Department of Public Safety, Office of Director
14-25	Fiscal Costs of the Death Penalty (A.B. 444)
14-26	Report on Count of Money in State Treasury