

STATE OF NEVADA

Legislative Counsel Bureau Audit Division

Audit Report Summaries 2023–2024



Eighty-Third
Nevada Legislature

STATE OF NEVADA
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MEMORANDUM

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

FROM: Daniel L. Crossman, CPA, Legislative Auditor, Audit Division, 
Legislative Counsel Bureau

DATE: February 5, 2025

SUBJECT: **Audit Report Summaries**

This document contains summaries of audits issued by the Legislative Auditor during the past biennium. The table of contents references the audit's summary page. The executive budget reference guide lists the agency's corresponding page in the Executive Budget. Each section contains one-page highlights of the audits performed, followed by additional information regarding agency action on recommendations. The complete audit reports are available on the Audit Division's website at www.leg.state.nv.us/audit/. After an audit report has been issued, the following steps help ensure our audit recommendations are adequately implemented:

- Agencies are required to prepare a plan of corrective action 60 days after an audit report is issued detailing the anticipated steps to implement the audit recommendations.
- A status report is prepared by the Governor's Office of Finance, Internal Audit Division, after it reviews the status of the audit recommendations 6 months after the 60-day plan of corrective action. The Audit Division presents its assessment of the 6-month report to the Audit Subcommittee of the Legislative Commission.
- The Audit Subcommittee may also require agencies to attend meetings of the Subcommittee to discuss progress towards successful implementation of recommendations.

The involvement of the Legislature is an important part of the audit follow-up process that helps ensure corrective action is taken. Consequently, this involvement has contributed to continuing financial benefits. The audit report summaries in this document identify millions in monetary benefits, cost savings, and revenue enhancements. Including measurable financial benefits from these reports and prior years' recommendations that impact the current biennium, we estimate financial benefits totaling more than \$339 million were realized over the past biennium. These savings would not have been possible without the support and involvement of the Legislature.

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Audit Highlights



Highlights of performance audit report on the Governor's Office of Economic Development, Pandemic Relief and State Small Business Credit Initiative Assistance Programs issued on September 10, 2024.

Legislative Auditor report # LA24-16.

Background

The Governor's Office of Economic Development's (GOED) role is to provide a robust, diversified, and prosperous economy in Nevada by stimulating business expansion and retention, encouraging entrepreneurial enterprise, attracting new businesses, and facilitating community development. Our audit reviewed two pandemic-related small business programs and two programs associated with the federal State Small Business Credit Initiative (SSBCI).

GOED and the State Treasurer's Office jointly managed two programs to assist small businesses affected by the COVID-19 pandemic shutdowns. The Commercial Rental Assistance Program (CRAG) provided awards of up to \$10,000 to assist qualified small businesses with rent expenses due during the shutdown. The Pandemic Emergency Technical Support Program (PETS) provided payments of \$10,000 or \$20,000 directly to businesses to cover various operating expenditures, protective equipment, and retrofits due to the pandemic.

The federal government allocated \$13.8 million to Nevada in 2010 and Nevada's SSBCI was established in 2011. In 2021, the federal government infused additional funding into SSBCI. Nevada expects to receive over \$100 million in additional funds over the next few years. SSBCI currently consists of two components overseen by GOED. The Collateral Support Program provides cash collateral to accounts in Nevada financial institutions to enhance the collateral coverage of borrowers. The Battle Born Venture Capital Program provides equity and equity-like investments in start-up and growing Nevada companies.

Purpose of Audit

The purpose of the audit was to evaluate the adequacy of GOED's administration of certain economic investment and stimulus funding. This audit focused on program activities from January 1, 2020, to June 30, 2022.

Audit Recommendations

This audit report contains 14 recommendations to improve the administration and equitability of certain economic, investment, and stimulus funding.

The Governor's Office of Economic Development accepted the 14 recommendations.

Recommendation Status

The Governor's Office of Economic Development's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Pandemic Relief and State Small Business Credit Initiative Assistance Programs

Governor's Office of Economic Development

Summary

GOED did not provide sufficient oversight to ensure businesses were appropriately awarded funds from the coronavirus relief programs it oversaw. While these programs provided important fiscal relief to businesses, proper oversight is necessary to ensure funds are distributed equitably and used in accordance with federal requirements. Our audit identified that the eligibility was questionable for more than 10% of the awardees that received funds from the PETS and CRAG programs. Specifically, businesses were awarded funds from the two programs while owing taxes and other debts to the State. Additionally, some awardees were late filing required tax returns or did not have an active Nevada state business license. Funds were provided to these businesses despite demand for awards exceeding available funding in one of the programs. Furthermore, monitoring of program recipients to ensure businesses spent funds appropriately did not occur.

GOED can improve fiscal oversight practices for administering and safeguarding financial assistance to small businesses. Additionally, information necessary to monitor and evaluate the SSBCI's performance was not collected, and program performance evaluations were not performed. Further, reports submitted to the Legislature did not contain all required information for proper oversight. Finally, legislative consideration is needed to ensure planned program restructuring maintains intended legislative oversight and transparency to the public about use of taxpayer funds.

Key Findings

For PETS, a total of 494 award recipients owed the State about \$5.6 million as of the March 1, 2020, program eligibility cutoff date. About \$704,000 was owed by 108 awardees on the State Controller's outstanding debt list. From the Department of Taxation's outstanding debt list, we identified 386 awardees owing about \$4.9 million. (page 7)

CRAG had a total of 69 award recipients owing approximately \$669,000 to the State, as of March 1, 2020. Most of debt owed came from 58 CRAG awardees, owing about \$660,000, on the Department of Taxation's debt list. There were also 11 CRAG awardees owing about \$9,000 who appeared on the Controller's outstanding debt list. (page 8)

GOED awarded funds to some businesses that had not filed timely tax returns with the State. A total of 623 PETS awardees appeared on the Department of Taxation's list having at least one late tax return as of March 1, 2020. A total of 66 CRAG awardees appeared on the Department of Taxation's late tax return list as of March 1, 2020. (page 9)

GOED provided proper oversight to ensure awardees for CRAG had a proper business license. However, for PETS, we identified 57 awardees who were given an award based on a state business license issued after the March 1, 2020, program eligibility cutoff date. (page 10)

In total, approximately \$10.7 million of Coronavirus Relief Funds were awarded to businesses whose eligibility under program requirements was questionable while other applicants received no funds. (page 10)

Applications for PETS were not processed timely. On average it took 144 days (or about 5 months) to process these applications. Per contract requirements, funds should have been awarded by the contractor within 60 days of the application submission date. (page 11)

Post-award monitoring was not performed to ensure program funds were spent as required. (page 12)

GOED has not established sufficient fiscal oversight practices for administering and safeguarding financial assistance to small businesses. GOED did not ensure required independent financial statement audits were performed by the Nevada Battle Born Growth Escalator, Inc. (NBBGEI) or ensure its bank accounts were properly safeguarded. (page 14)

GOED needs to improve monitoring activities over SSBCI and NBBGEI. NBBGEI held SSBCI cash and equity investments costing approximately \$3.6 million on behalf of the State. NBBGEI's holdings are expected to increase with the infusion of approximately \$100 million into the SSBCI by the federal government over the next few years. (page 16)

GOED did not have sufficient controls to ensure required information regarding the performance of NBBGEI was reported to the Legislature and posted on the internet. Insufficient reporting inhibits SSBCI program transparency and legislative oversight. (page 19)

During our audit, one contracted entity, providing services for NBBGEI, became unresponsive to our requests for meetings and documentation. While the limitations to records did not warrant modification of our audit conclusions, we believe they were significant enough to be disclosed in our report. (page 21)

Audit Highlights



Highlights of performance audit report on the Public Utilities Commission of Nevada, Performance Measures issued on September 10, 2024.

Legislative Auditor report # LA24-09.

Background

The Public Utilities Commission of Nevada (PUCN) was established in 1911. It regulates approximately 400 investor-owned utilities engaged in electric, natural gas, telecommunications, water and wastewater services, gas and electric “master meter” service at mobile home parks, and some propane systems. In addition, it monitors gas pipeline, rail safety, and underground excavation near subsurface installations.

The PUCN’s mission is to protect the public interest by ensuring fair and reasonable utility rates, and regulating the delivery of utility services to benefit the economy, the environment, and all Nevadans. This mission is accomplished through eight program activity areas.

The PUCN maintains offices in Carson City and Las Vegas. As of June 30, 2022, there were 103 authorized positions. The PUCN is self-funded with two budget accounts. During fiscal year 2022, over \$12.2 million was collected in regulatory assessments. Additionally, nearly \$84,500 in administrative fines was collected and transferred to the General Fund in accordance with Nevada Revised Statutes 703.380.

Purpose of Audit

The purpose of the audit was to evaluate the PUCN’s internal controls over the reliability and relevance of its performance measures.

The audit focused on a review of performance measures for fiscal year 2022, and prior years for certain external reporting.

Audit Recommendations

This audit report contains three recommendations to strengthen controls over the usefulness and reliability of performance measures.

The PUCN accepted the three recommendations.

Recommendation Status

The PUCN’s 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Performance Measures

Public Utilities Commission of Nevada

Summary

Stronger controls are needed over the administration of performance measures to improve usefulness and reliability. We analyzed the PUCN’s performance measures and found only 27% of its 33 measures were outcome based. Increasing the number of outcome measures would provide useful information to management and oversight bodies such as the Governor and Legislature in making budget and policy decisions. We also found reported results for measures were not always accurate. Additional guidance and oversight can improve the reliability of the agency’s measures. Useful and reliable performance measures are important to facilitate accountability and evaluate success in achieving goals.

Key Findings

The PUCN reported a total of 33 performance measures in the 2023 – 2025 Nevada Executive Budget System. We analyzed these measures and found only 9 (27%) were outcome based. The Budget Building Manual of the Governor’s Finance Office recommends outcome measures that demonstrate the impact the agency is having on Nevada. Additionally, the Budget Division and the Legislature encourage outcome based measures to get a sense of how an agency is operating. (page 4)

Steps can be taken to improve the reliability of the PUCN’s performance measures used in the state’s budget process. We found mathematical errors led to inaccurate data. Our review found three 2021 and five 2022 measures to be inaccurate. These measures existed within the program activity areas of the Safety Programs, Constituent Services, and Agency Human Resource Services. Accuracy and reliability are critical for assessing performance and determining whether agency objectives are being achieved. (page 7)

The PUCN policies and procedures do not provide adequate guidance to assist staff with measuring performance. During our testing, we found that the agency documents the methodology used for calculating each performance measure in a spreadsheet used by fiscal staff for inputting performance data into the state budget system. Additionally, some staff maintain informal procedures and handwritten notes for preparing their performance measures. Formal written policies and procedures demonstrate a commitment to reliable performance measures by providing agency staff clear instructions for collecting applicable information. (page 8)

Performance data is collected and compiled by individuals within each program activity area with little or no supervisory or management review. We found all fiscal year 2022 measures lacked an adequate review of measurement calculations and detailed support. For 24 of the 33 measures, staff indicated the measure was reviewed by program staff. However, no documentation existed to support this review. (page 9)

The PUCN’s current process for developing, maintaining, and monitoring performance data does not emphasize its use in managing operations. We found two of the agency’s eight program activity areas do not utilize performance data to manage their activity area: Fiscal and Financial Operations, Management, and Reporting; and Agency Human Resource Services. Staff indicated that their performance measures are only calculated as part of the state budget process; therefore, the measurement results are not used to monitor internal performance. (page 9)

Elected Officials

Audit Highlights



Highlights of performance audit report on the Office of the Governor, Office of the Chief Information Officer issued on September 10, 2024.

Legislative Auditor report # LA24-15.

Background

With legislation in 2023, the Division of Enterprise Information Technology Services name was changed to the Office of the Chief Information Officer (Office) and was transferred from the Department of Administration to the Office of the Governor. The mission of the Office is to provide services to effectively support the technology needs of state agencies and the residents they serve, while ensuring the State's technology infrastructure and security are continually evolving.

The Office consists of the following units: Client Services, Computing Services, Network Services, and Office of Information Security. The Client Services Unit provides information technology support, application development, database administration, and more. Computing Services manages the State Computer Facility. Network Services handles SilverNet, virtual private network, and other wireless technologies. The Office of Information Security provides leadership and oversight for a comprehensive state information security program.

For fiscal year 2023, the Office employed 165 full-time employees statewide.

Purpose of Audit

The purpose of the audit was to evaluate the Office's controls over the development of customer rates, and the monitoring and solicitation of contracts and lease agreements.

The scope of the audit focused on the Office's activities for fiscal years 2022 and 2023.

Audit Recommendations

This audit report contains seven recommendations to improve controls over rate development and contract solicitation and monitoring practices.

The Office accepted the seven recommendations.

Recommendation Status

The Office's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Customer Rate Development and Contracting Practices

Office of the Chief Information Officer

Summary

The Office lacks adequate controls to properly track its employee labor distribution and to monitor customer utilization of its services in calculating customer rates. Specifically, the Office does not track employee time related to some services and for other services employee time tracking is not accurate. In addition, the Office did not always properly identify customers using its services. Operating as an enterprise fund, the Office is responsible for ensuring its operations are self-supporting through the customer rates it charges using entities. Rates are calculated based on the costs to produce the service and the number of entities using the service. Accurate labor distribution and customer utilization information is needed to ensure proper rate development so the costs of providing services are funded and so appropriate rates are charged to the appropriate users.

The Office did not always use competitive solicitation practices to procure millions of dollars in services. Instead, some procurements were completed as sole source procurements, or contracts were extended for years through amendments. In addition, effective contract monitoring did not take place, resulting in work being performed without appropriate contracts. State laws and policies govern the contracting process for services. When services are procured without competition or written contracts, there is an increased risk the State could overpay for services, fail to procure the best value, or be unable to enforce desired scopes of work.

Key Findings

The Office does not have an established, formalized process for tracking employee time and forecasting labor distribution. Our examination of cost pools revealed substantial deficiencies in labor distribution tracking, with 7 of 10 (70%) lacking thorough tracking of employee time allocation. Information technology services provided by the Office are divided into cost pools for budgetary purposes. A cost pool is a grouping of costs by service activity, and includes costs like direct labor, materials, overhead, and other costs associated with providing a specific service. In most cases, the majority of the expense associated with these cost pools is employee salaries and benefits. Therefore, the proper tracking of employee time associated with cost pools is important. (page 5)

The Office lacks effective controls to monitor customer utilization. For five of eight (63%) cost pools tested, information supporting customer utilization was inaccurate or undocumented. For example, the virtual server cost pool did not include on its 2022 and 2023 utilization list five customers that started using the services in fiscal year 2021. In addition, we observed some customers reported their own utilizations and non-paying customers were utilizing services. Tracking customer utilization is essential for generating accurate service rates and making informed decisions about resource allocation. (page 8)

We tested contracts that were in effect during fiscal years 2022 and 2023, and observed instances where the Office procured services through the questionable use of sole source waivers. For three of the eight (38%) sole source procurements tested, the services procured were offered by more than one vendor. State law, regulation, and policy require agencies to competitively procure goods and services. (page 11)

In some cases, contract amendments were used to expand contract maximums instead of seeking competitive bids. For 2 of 14 contracts tested, \$16.8 million in contract price was added through contract amendments. We found that one vendor's contract increased by \$12.1 million without any solicitation. Another vendor's contract, which began in 2013, was amended four times, with the scope of the contract evolving over the years. However, no solicitations were conducted for these changes. (page 13)

Inadequate contract monitoring resulted in transactions occurring outside the protections of a contract. We tested 15 expense contracts in fiscal year 2022 and 11 in fiscal year 2023. We found two payments totaling \$187,000 were made to vendors without active contracts in place. We also found a lapse in two revenue contracts for billing and payments pertaining to site space (rack rentals), microwave, and digital signal channels. In addition, we found two vendors were not billed for services rendered by the State. When products or services are not procured through a contract, or the contract expires, the State could be subjected to arbitrary price increases, unacceptable changes in products, delays, lack of services, or incorrect payments. (page 14)

Audit Highlights



Highlights of performance audit report on the Department of Administration, Mail Services Division, Operations and Billing Processes issued on January 16, 2025.

Legislative Auditor report # LA26-03.

Background

The Mail Services Division (Division) is part of the Department of Administration. The Division provides mail services to participating state and local government agencies in the Carson City, Reno, and Las Vegas areas. Services provided include pickup, processing, and delivery of outgoing mail.

The Division operates its primary mailroom and administrative headquarters in Carson City, as well as a second mailroom in Las Vegas. As of June 30, 2023, the Division had 21 filled positions, with 15 staff located in Carson City and 6 in Las Vegas.

The Division administers two budget accounts. Funding is primarily derived from postage revenue received from customer agencies. In fiscal year 2023, the Division's revenues and expenditures amounted to over \$8 million.

Purpose of Audit

The purpose of the audit was to determine whether the Division's controls protect against improper transactions, including fraud, and ensure accurate billing of agencies for mail services.

The audit focused on the Division's activities from January 1, 2022, to June 30, 2023; and certain postage activity through May 2024.

Audit Recommendations

This audit report contains 15 recommendations to reduce the risk of improper transactions and improve the process of billing for the Division's services.

The Mail Services Division accepted the 15 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Operations and Billing Processes

Mail Services Division

Summary

The Division's lack of controls for certain mail processes increases the risk that fraud and waste have occurred or will occur in the future. Although we did not specifically identify instances of fraud, we were unable to conclude that it did not occur because of limitations to available information discussed throughout this report. A lack of controls led to suspicious metering transactions, unsecured metered envelopes, uncollected and inaccurate refunds, and unknown parties accessing Division funds. In addition, the Division did not perform background checks for individuals with access to sensitive information. With some metered transactions worth tens of thousands of dollars and the Division paying millions of dollars in metered postage costs each year, the opportunity to defraud the State is significant.

The Division does not have a sufficient process to ensure it accurately bills customer agencies. System errors caused the Division to over and underbill customer agencies for services provided. Unusually large, suspicious transactions and remote meters also created additional billing inaccuracies. Furthermore, insufficient review of billings led the Division to underbill for certain production work. This also created waste because the Division had to absorb the cost of some work as a loss. Inadequately trained staff and a lack of formalized policies and procedures contributed to these billing issues. Ensuring billings are accurate and adequately supported is essential to safeguarding state resources.

Key Findings

The Division did not identify or prevent unusually large, suspicious metering transactions. We found about 6,200 overpaid envelopes totaling more than \$22,000. The 10 largest of these envelopes amounted to over \$8,400 when they should have cost no more than \$6. Clerk credentials for metering transactions were also missing and inaccurate. Clerk credential omissions and inaccuracies occurred in over 406,000 pieces of mail costing over \$168,000. The Division did not document nearly \$273,000 in metering activity that was billed to customers. Because of this limitation, we cannot determine if there were additional suspicious transactions or transactions with missing or inaccurate clerk credentials. Strong controls over metered transactions are imperative to reduce the Division's vulnerability to fraud and waste. (page 9)

The Division's controls over metered envelopes were weak. Metered envelopes with errors were kept unsecured. Additionally, postage refunds were not promptly collected, resulting in reduced refund amounts. Similarly, the Division lacked controls to ensure that postage metering refunds were accurately distributed to customer agencies. Such processes are vital to protecting the Division from fraud and waste of state resources. (page 11)

The Division did not properly monitor activity on remote meters with access to its postage accounts. For example, the Division was only aware of half of the meters connected to its accounts and did not know the other remote meters were in operation and drawing funds from its accounts. Moreover, unknown parties used remote meters to improperly access Division funds without proper authorization. Stronger controls over remote meters can reduce the likelihood of fraud and waste. (page 13)

Postage metering data used by the Division to generate billings contained significant system errors. Moving postage meters resulted in duplicated charges and flawed counts of the amount of mail processed. Transactions amounting to over \$756,000 were incorrectly recorded shortly after midnight and led to billing inaccuracies. This caused the Division to absorb some of these transactions as a loss. The Division billed customer agencies for the remainder of these transactions. Lastly, the Division gave inaccurate billing data to the Administrative Services Division. This caused \$83,000 in underbillings and \$59,000 in overbillings. This also led the Division to bill for nearly \$178,000 of work that it could not provide any documentation for. (page 19)

Suspicious transactions created additional billing inaccuracies. Some of these inaccuracies caused customer agencies to overpay, while others led to underbilling. For instance, 6 of 10 unusually large, suspicious metering transactions described above were double-billed. On the other hand, the Division did not bill for 2 of 11 tested remote meter transactions. (page 21)

The formula the Division used to calculate its production charges contained an error that caused the Division to systematically undercharge for production work. This caused the Division to undercharge for any production job larger than 1,000 pieces of mail. (page 22)

Audit Highlights



Highlights of performance audit report on the Department of Administration, State Public Works Division issued on January 16, 2025.

Legislative Auditor report # LA26-01.

Background

The State Public Works Division's (Division) mission is to provide well-planned, efficient, and safe facilities to state agencies so they can effectively administer their programs. In 2011, the Division was created from the State Public Works Board (Board) and the Buildings and Grounds Division.

The Board provides the Governor of Nevada with recommendations regarding the priority for the construction of Nevada's projects for capital improvements. It is also responsible for adopting regulations and presiding over appeals regarding the qualifications of contractors and contract disputes.

The Division is primarily funded by assessments paid by state agencies for its services, but also received almost \$400,000 in General Fund appropriations in fiscal year 2023. Administrative expenditures for fiscal year 2023 were about \$7.5 million.

In 2023, the number of state facilities overseen by the Division was about 2,400 and comprised 10.1 million square feet. As of May 2024, the Division had 146 authorized positions, with 120 of those positions filled, an 18% vacancy rate. The Division has offices in Carson City and Las Vegas.

Purpose of Audit

The purpose of the audit was to determine whether the Division had adequate controls to identify, complete, and report on construction projects. The scope of our audit focused on the Division's activities from July 1, 2020, through June 30, 2023, and included Capital Improvement Program projects approved in 2019.

Audit Recommendations

This audit report contains five recommendations to help identify and use capital improvement funding timely and improve the accuracy of information reported to key decision-makers about the cost of maintenance needed for state facilities in the near future. The Division accepted the five recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Project Identification, Cost Estimation, and Reporting

State Public Works Division

Summary

By reallocating unused funds from completed projects to other projects, the Division has opportunities to complete additional capital improvement projects more timely. We identified over \$18 million in savings from recently completed projects that were not submitted to the Interim Finance Committee (IFC) for approval to be used on other projects. Furthermore, the Division can expand the use of an alternative budgeting method to more agencies to improve the timely completion of maintenance projects. Completing projects more timely can reduce project costs and improve conditions at state facilities.

The Division can enhance use of its facility condition assessment reports to benefit the Capital Improvement Program (CIP) development process. Specifically, project managers often did not coordinate with the facilities group or use the facility condition assessment reports to assist with identifying CIP needs. Better coordination would help ensure project recommendations from the facility condition assessment reports are completed more timely.

Information reported biennially to the Legislature by the Division about the costs of recommended maintenance for state buildings has some inaccuracies. Specifically, the report included tens of millions of dollars in cost for projects already completed and outdated cost information. The Legislature, Office of the Governor, and State Public Works Board need accurate information when deciding the amount of funds required to keep state facilities in good condition.

Based on a comparison of estimated costs in the CIP to actual project costs, the Division has an effective process for estimating project costs. However, the Division needs to retain documentation of information it uses to develop cost estimates for projects included in the CIP, to allow for greater oversight and to improve the process.

Key Findings

We identified over \$18 million in savings from the 13 closed projects we tested in our sample of 20 projects from the 2019 CIP. The Division did not present these savings to the IFC to request the projects' expenditure authority be transferred to other approved projects. The Division can enhance policies and procedures to address the reallocation of funds from project savings. (page 5)

The Division has another opportunity to reallocate unused funds to other projects as savings are realized from maintenance projects. This involves including additional maintenance projects in the CIP portion of the State of Nevada Executive Budget so project savings can be reallocated to other deferred maintenance projects without the need for IFC approval. In the 2023 CIP, this method was used for two state departments. Expanding the approach to more departments will result in more maintenance projects being completed more timely. (page 6)

The Division is not fully utilizing its Facility Condition Assessment (FCA) reports as intended in the CIP process. FCA reports include projects that are recommended based on periodic assessments of state facilities. Four of five CIP projects tested did not have evidence that project managers coordinated with the FCA team and used the reports in developing CIP projects. As a result, projects recommended based on assessments of state facilities may not be completed timely. (page 8)

Information reported biennially to the Legislature by the Division about the cost of recommended maintenance for state buildings has some inaccuracies. We identified costs for 732 projects already completed, which resulted in an error of about \$51 million. Another inaccuracy is the result of using outdated costs for projects. Based on a 5-year estimate, we predict this understated the cost of recommended maintenance in 2023 by as much as \$220 million. (pages 10 and 11)

Our testing found the Division often did not have documents to support the estimated project costs used in the CIP. In instances where it had documentation, there were frequently significant differences between the amounts in the documents and the CIP estimate. This lack of documentation of how estimates were developed makes it more difficult for the Division to evaluate and enhance its process for estimating costs on projects included in the CIP. This increases the risk of inaccurate cost estimates in the CIP. (page 13)

Audit Division
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Legislative Commission
Legislative Building
Carson City, Nevada

This report addendum LA18-23A contains supplemental findings, conclusions, and recommendations from our performance audit of the Department of Taxation, Information Security (LA18-23). We issued that report on October 29, 2018. The audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to provisions of NRS 218G.010 and 218G.350.

An addendum to report LA18-23 was necessary because security vulnerabilities existed in certain information systems within the Department of Taxation (Department). Providing details regarding those vulnerabilities, at the time we made the original report public, would have unnecessarily exposed those information security weaknesses. Since the Department has performed sufficient corrective actions to mitigate the security vulnerabilities, we are issuing this addendum as a supplement to our original report. Readers are encouraged to refer to report LA18-23 and this report addendum to gain a complete and comprehensive understanding of the audit's scope and objective, findings, recommendations, and methodology.

This addendum includes one additional recommendation to improve the security of the Department's servers. We are available to discuss this recommendation or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

April 26, 2023
Carson City, Nevada



STATE OF NEVADA
GOVERNOR'S FINANCE OFFICE
Division of Internal Audits

209 E. Musser Street, Suite 302 | Carson City, NV 89701-4298
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MEMORANDUM

To: Daniel L. Crossman, CPA, Legislative Auditor
Legislative Counsel Bureau

From: Amy Stephenson, Director *AS*
Governor's Finance Office

Date: February 1, 2024

Subject: Legislative Audit of the Department of Taxation

On May 4, 2023, your office released an audit report addendum (LA18-23A) on the Department of Taxation (Department). The Department subsequently filed a corrective action plan on July 17, 2023. NRS 218G.270 requires the Director of the Governor's Finance Office to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

There was one recommendation contained in the addendum. The extent of the Department's compliance with the audit recommendation is as follows:

Recommendation 1

Prioritize operating system and database software upgrades to ensure upgrades to current supported versions are completed timely.

Status – Partially Implemented

Agency Actions – The Department has taken action to prioritize operating system and database software upgrades to ensure upgrades to current supported versions are completed timely. The Department established a quarterly process to track vendor support end-of-life dates for all operating system and database software. The Department maintains 120 servers, 10 of which are unsupported. The Department reduced the number of unsupported servers by 17 and has a plan to upgrade or update the unsupported servers.

The degree of ongoing compliance with the recommendation is the responsibility of the Department.

cc: Ryan Cherry, Chief of Staff, Office of the Governor
Shellie Hughes, Executive Director, Department of Taxation
Craig Stevenson, Administrator, Division of Internal Audits

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August 28, 2024

Members of the Audit Subcommittee
of the Legislative Commission
Legislative Building
Carson City, Nevada 89701-4747

In May 2023, we issued an audit report addendum on the Department of Taxation (Department), Information Security – Servers, Operating System and Database Application Software (LA18-23A). The Department filed its plan for corrective action in July 2023. Nevada Revised Statutes 218G.270 requires the Office of Finance, Office of the Governor, to issue a report within 6 months after the plan for corrective action is due, outlining the implementation status of the audit recommendations.

Enclosed is the 6-month report prepared by the Office of Finance on the status of the one recommendation contained in the audit report addendum. As of February 1, 2024, the Office of Finance indicated the one recommendation was partially implemented. The recommendation and its status is shown below.

Recommendation		Status
Recommendation No. 1	Prioritize operating system and database software upgrades to insure upgrades to current supported versions are completed timely.	Partially Implemented

In February 2024, we discussed the status of the one partially implemented recommendation with Department management and reviewed relevant documentation. Our review indicated the Department has now fully implemented the one recommendation. Therefore, we do not have any questions for agency officials.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Daniel Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

DLC:da

cc: Ryan Cherry, Chief of Staff, Office of the Governor
Amy Stephenson, Director, Office of Finance, Office of the Governor
Craig Stevenson, Administrator, Division of Internal Audits, Office of Finance, Office of the Governor
Shellie Hughes, Executive Director, Department of Taxation
Joe Bernardy, Deputy Executive Director, Information Technology, Department of Taxation

Report Highlights



Highlights of Legislative Auditor report on the Governmental and Private Facilities for Children – Inspections issued on September 10, 2024.

Legislative Auditor Report # LA24-13.

Background

Nevada Revised Statutes (NRS) 218G.570 through 218G.595 authorize the Legislative Auditor to conduct audits of governmental facilities for children and inspections, reviews, and surveys of governmental and private facilities for children.

As of June 30, 2023, we had identified 53 governmental and private facilities that met the requirements of NRS 218G. In addition, 101 Nevada children were placed in 18 different out-of-state facilities across 10 different states as of June 30, 2023.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the period from July 1, 2022, through June 30, 2023, we received 1,261 complaints from 34 facilities in Nevada. Nineteen Nevada facilities reported that no complaints were filed during this time.

Purpose

Inspections were conducted pursuant to the provisions of NRS 218G.570 through 218G.595. This report includes the results of our inspections of 29 children's facilities. As inspections are not audits, these activities were not conducted in accordance with generally accepted government auditing standards.

The purpose of our inspections was to determine if the facilities adequately protected the health, safety, and welfare of the children in the facilities, and whether the facilities respected the civil and other rights of the children in their care.

Inspections included discussions with management, a review of personnel and child files, and observations. Child and employee interviews occurred as applicable. Discussions with facility management included the following topics: medication administration, treatment plan process, abuse or neglect reporting, face sheet creation, complaint process, employee background checks and training, Prison Rape Elimination Act (PREA), and related policies and procedures as applicable. In addition, we judgmentally selected files to review which included: personnel files for evidence of employee background checks and required training; and child files for evidence of children's acknowledgment of their right to file a complaint, medication administered, treatment plans, and face sheet information as applicable.

Governmental and Private Facilities for Children – Inspections

January 2024

Summary

In 22 of 29 children's facilities inspected, we did not note significant issues that caused us to question the health, safety, welfare, or protection of the rights of the children. However, at the seven facilities listed below we identified multiple issues that caused us to question whether the facilities adequately protected the children in their care. Based on our observations, we contacted the facilities' licensing agencies and/or placement agencies and communicated our concerns.

Nevada Homes for Youth

We noted health, safety, welfare, and civil and other rights issues at Nevada Homes for Youth.

- Health issues included: children self-administering medication, missing medication, incomplete and missing medication records, and untimely and missing treatment plans.
- Safety issues included: missing statutorily required personnel records, a cracked windowpane and broken glass, damage to the facility, unsecured laundry supplies, face sheets were not readily available to employees, expired fire extinguishers, and missing fire drill records.
- Welfare issues included: substance use and contraband, lack of regular programming, unmonitored electronic use, inappropriate content, and unsanitary living conditions.
- Civil and other rights issues included: child rights and the complaint process were not posted, incomplete personnel records, incomplete child records, and policies and procedures were weak. (page 4)

Aurora Center for Healing

We noted health, safety, welfare, and civil and other rights issues at Aurora Center for Healing.

- Health issues included: incomplete and missing medication records and untimely treatment plans.
- Safety issues included: items that created strangulation and self-harm risks, unsecured utility storage, missing statutorily required personnel records, missing fire extinguishers, unsecured laundry supplies, and a cracked windowpane.
- Welfare issue included: inappropriate television content.
- Civil and other rights issues included: child rights and the complaint process were not posted, personnel discipline records for holds, and policies and procedures were weak. (page 12)

Advanced Foster Care Homes

We noted health, safety, and civil and other rights issues at four Advanced Foster Care Homes.

- Health issues included: incomplete and missing medication records, a medication error and medication error notification issues, untimely and missing treatment plans, and unsecured records.
- Safety issues included: missing statutorily required personnel records; debris that posed safety risks; missing fire drill records and fire escape routes were not posted; and expired first-aid kits.
- Civil and other rights issues included: child rights were not posted, incomplete personnel records, and policies and procedures were weak. (page 14)

HELP of Southern Nevada – Shannon West Homeless Youth Center

We noted health, safety, and civil and other rights issues at HELP of Southern Nevada – Shannon West Homeless Youth Center.

- Health issues included: children self-administering medication and incomplete and missing medication records.
- Safety issues included: lack of implementation of PREA standards, missing statutorily required personnel records, missing fire drill records, and expired first-aid kits.
- Civil and other rights issues included: child rights and the complaint process were not posted, incomplete personnel records, and policies and procedures were weak. (page 17)

For Possible Action by the Legislature

This report contains three recommendations the Legislature may want to consider that would help certain facilities improve the health, safety, welfare, and protection of the rights of the children in their care. (pages 25 and 26)

Report Highlights



Highlights of Legislative Auditor report on the Governmental and Private Facilities for Children – Inspections issued on January 16, 2025.

Legislative Auditor Report # LA26-05.

Background

Nevada Revised Statutes (NRS) 218G.570 through 218G.595 authorize the Legislative Auditor to conduct audits of governmental facilities for children and inspections, reviews, and surveys of governmental and private facilities for children.

As of June 30, 2024, we had identified 102 governmental and private facilities that met the requirements of NRS 218G. In addition, 59 Nevada children were placed in 15 different out-of-state facilities across 6 different states as of June 30, 2024.

NRS 218G requires facilities to forward to the Legislative Auditor copies of any complaint filed by a child under their custody or by any other person on behalf of such a child concerning the health, safety, welfare, and civil and other rights of the child. During the fiscal year ended June 30, 2024, we received 2,039 complaints from 45 facilities in Nevada. Fifty-seven Nevada facilities reported that no complaints were filed during this time.

Purpose

Inspections were conducted pursuant to the provisions of NRS 218G.570 through 218G.595. This report includes the results of our inspections of 36 children's facilities. As inspections are not audits, these activities were not conducted in accordance with generally accepted government auditing standards.

The purpose of our inspections was to determine if the facilities adequately protected the health, safety, and welfare of the children in the facilities, and whether the facilities respected the civil and other rights of the children in their care.

Inspections included discussions with management, a review of personnel and child files, and observations. Child and employee interviews occurred as applicable. Discussions with facility management included the following topics: medication administration, treatment plan process, abuse and neglect reporting, complaint process, employee background checks and training, Prison Rape Elimination Act, and related policies and procedures as applicable. In addition, we judgmentally selected files to review which included: personnel files for evidence of employee background checks and required training; and child files for evidence of children's acknowledgment of their right to file a complaint, medication administered, and treatment plans as applicable.

Governmental and Private Facilities for Children – Inspections

December 2024

Summary

In 29 of 36 children's facilities inspected, we did not note significant issues that caused us to question the health, safety, welfare, or protection of the rights of the children. However, at seven facilities we identified multiple issues that caused us to question whether the facilities adequately protected the children in their care. Based on our observations, we contacted the facilities' licensing agencies to communicate our concerns.

Ignite Teen Treatment, LLC

We noted health, safety, welfare, and civil and other rights issues at the Lone Mesa and Romo facilities managed by Ignite Teen Treatment, LLC. Issues by type included:

- **Health:** incomplete, inaccurate, and missing medication records; and missing documentation of medical assistance after noting a child's injury.
- **Safety:** broken windows and glass shards; boarded-up windows preventing emergency egress; restraints resulting in injuries; items posed self-harm risks; unsecured tools, chemicals, and laundry supplies; missing documentation of mandatory reporting; and missing background check records.
- **Welfare:** uncontrolled children's behaviors; hidden nicotine vapes; nine children using one bathroom; untreated pools; an unsecured pool and hot tub; a child climbing on the roof; damage to rooms; and unsecured second-story windows and balcony.
- **Civil and other rights:** weak recordkeeping; missing denial of rights reporting documentation; the complaint process was not posted and management was unable to determine if any complaints were filed; incomplete personnel records; and policies and procedures were weak. (page 5)

Clark County Family Services Advanced Foster Care Homes

We noted health, safety, and civil and other rights issues at four Clark County Family Services advanced foster care homes. Issues by type included:

- **Health:** untimely treatment plans and unsecured records.
- **Safety:** unsecured ammunition; fire escape routes were not posted; missing fire drills; unsecured medications, alcohol, knives, chemicals, and laundry supplies; and inadequate and missing first-aid kits.
- **Civil and other rights:** child rights were not posted; incomplete personnel records; and policies and procedures were weak. (page 12)

Aurora Center for Healing

We noted health, safety, and civil and other rights issues at Aurora Center for Healing. Issues by type included:

- **Health:** incomplete, inaccurate, and missing medication records; incorrectly administered medications; and unavailable medications.
- **Safety:** lack of increased supervision after suicidal ideation; glass shards; items posed self-harm risks; and fire escape routes were not posted.
- **Civil and other rights:** the complaint process was not posted and management discovered complaints missing resolutions filed 18 months prior; incomplete personnel records; and policies and procedures were weak. (page 15)

Other General Concerns

During our inspections, we noted concerns at 18 facilities related to fire safety, 11 facilities related to denial of rights reporting, 7 facilities related to mandatory reporting requirements, and 6 facilities related to fingerprint submission documentation. The frequency of these concerns suggests more attention is needed to improve the care of children in select areas. (page 17)

Areas for Legislative Consideration

This report contains one new and two prior report recommendations the Legislature may want to consider related to enacting legislation. The new recommendation addresses the need for clarification of the complaint reporting process. The prior report recommendations aim to require health facilities to complete certain employee training, and initial and ongoing child abuse and neglect screening for employees. These recommendations would help certain facilities improve the health, safety, welfare, and protection of the rights of the children in their care. (page 21)

Audit Highlights



Highlights of performance audit report on the Colorado River Commission of Nevada issued on September 10, 2024.

Legislative Auditor report # LA24-10.

Background

The Colorado River Commission of Nevada (CRC) is responsible for establishing policy and overseeing the management of Nevada's allocation of water resources and electrical power from the Colorado River. CRC is composed of a body of seven commissioners and its staff.

CRC operations fall into four principal areas which include oversight of hydropower, power delivery, natural resources, and administration. Administration oversees information technology, accounting, budgeting, and other functions like fiscal and performance measures reporting.

CRC operates and maintains 17 high-voltage substations along with overhead and underground transmission lines in Southern Nevada. CRC also oversees the tracking of Nevada's Colorado River water usage, and supports federal conservation programs relating to the Colorado River. As part of their water usage tracking responsibilities, CRC personnel calculate Nevada's annual consumptive use of its allocation of Colorado River water.

In fiscal year 2022, CRC had \$42.6 million in expenditures. As of June 30, 2022, CRC had 8 vacant positions out of 46 approved positions, which reflects a 17% vacancy rate.

Purpose of Audit

The purpose of the audit was to determine if CRC was adequately managing certain activities related to its power delivery, hydroelectric power billing, water usage tracking and to assess the security of power delivery information technology (IT) systems and CRC IT risk management processes. Our audit focused on CRC activities from January 1, 2021, through December 31, 2022, and prior years in select testing areas.

Audit Recommendations

This audit report contains 13 recommendations to improve CRC's oversight of its power delivery, water usage tracking, and IT and security processes.

CRC accepted the 13 recommendations.

Recommendation Status

CRC's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Resource and Technology Administration

Colorado River Commission of Nevada

Summary

CRC can improve its recordkeeping, policies and procedures, and oversight of its operational processes including power delivery, water usage tracking, and performance measures reporting. For example, records used to document electrical switching and inspections were not always complete and sometimes lacked evidence of required review, although our inspections did not identify any major safety or security concerns. CRC reporting of Nevada's Colorado River water usage was materially accurate, although there were minor reporting errors and internal review processes were lacking. Improved oversight of these CRC processes will enhance reporting accuracy and formalize efforts to maintain safe and secure facilities.

CRC can strengthen its oversight of information technology (IT) assessments and planning, and certain security processes. CRC has not completed an IT risk assessment or important plans to respond to risk-related incidents and disasters. The lack of a documented IT risk assessment and planning increases the risk CRC has not appropriately identified, assessed, and taken steps to reduce IT risks to an acceptable level. In addition, certain security processes can be improved to protect sensitive IT and electrical systems.

Key Findings

Records used to document safety procedures performed when taking high voltage electrical systems in and out of service were not always complete and sometimes lacked evidence of management review. For 10 out of 29 (34%) CRC switching records reviewed, certain switching fields relating to required review and switching procedures were not completed. (page 3)

Of the total required monthly inspections for 33 substations overseen by CRC, there was no evidence 36 out of 396 (9%) inspections were performed. Monthly inspections are the primary means to help ensure critical electrical equipment is working properly and safely. (page 5)

For the 13 of 14 substations with maintenance issues, CRC did not have a documented corrective action plan to help ensure issues were corrected. CRC also had not documented prioritization of issues in terms of risk or evidence that management reviewed inspection results. (page 6)

CRC's reporting of Nevada's Colorado River water usage to federal and state officials was materially accurate. However, the 2021 report contained an informational table with minor miscalculations comparing the 2021 water usage to the previous year. After we identified the errors, CRC made corrections to the table and resubmitted the report. The minor error in the informational table did not impact the overall reporting or accounting of Nevada's net water usage. (page 7)

CRC did not ensure one of its hydropower performance measures was accurately reported and published in the State of Nevada 2021 – 2023 Executive Budget. Accurate reporting of performance measures provides agency managers, the Legislature, and the public with information to evaluate the performance of CRC. (page 8)

CRC does not have a documented IT risk assessment and continuity of operations, disaster recovery, and incident response plans for their administrative network and the supervisory control and data acquisition system (SCADA). (page 10)

Logs are not utilized to record visitor access to areas that contain sensitive IT equipment. State IT security standards require records of these visits be maintained for a minimum of 1 year. Proper oversight helps ensure organizational resources are protected. (page 12)

Two IT employees did not have a fingerprint-based background check as required by state IT security standards. Additionally, two employees working with critical infrastructure did not receive background checks for 3 years after their hire dates. (page 12)

Audit Highlights



Highlights of performance audit report on the Nevada Division of Forestry, Forest Fire Suppression Budget Account issued on January 16, 2025.

Legislative Auditor report # LA26-04.

Background

The Nevada Division of Forestry (NDF) is responsible for the supervision and coordination of all forestry and watershed work on state and private lands in Nevada, including fire control. The Forest Fire Suppression program covers expenses necessary for the protection of life, property, and natural resources from fire, flood, and other disasters and emergencies.

Different types of fire suppression activities incur costs for the State; however, some of those costs are reimbursable depending on the incident type. The Forest Fire Suppression budget account is funded with a combination of General Fund appropriations, county receipts, and reimbursements. The budget account currently comingles the accounting activities associated with fire suppression on Nevada lands and where Nevada provides fire suppression assistance to others on lands outside of the State's financial responsibility.

In fiscal year 2023, NDF had five budget accounts with revenues and expenditures of over \$49.2 million. The Forest Fire Suppression budget account represented about 45% of NDF's total expenditures. As of June 30, 2024, NDF had 205 filled positions. NDF's Incident Business Unit's (IBU) fiscal staff includes six full-time positions and is responsible for processing fire incident billings and invoices for reimbursements.

Purpose of Audit

This audit was required by Senate Bill 480 (Chapter 334, Statutes of Nevada 2023). The purpose of the audit was to evaluate the impact of the Division's billing, collection, and payment practices for the Forest Fire Suppression budget account.

Audit Recommendations

This audit report contains 13 recommendations to ensure forest fire suppression expenditures are tracked and reimbursed timely, budgeting practices improve and cooperator payments are accurate.

NDF accepted the 13 recommendations.

Recommendation Status

NDF's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Forest Fire Suppression Budget Account

Nevada Division of Forestry

Summary

A lack of proper oversight resulted in the Nevada Division of Forestry (NDF) requesting more supplemental funding than was necessary to support fire suppression activities in the Forest Fire Suppression budget account. Specifically, millions of dollars in fully reimbursable out-of-state fire incident expenditures were not billed. NDF has started seeking reimbursement for some of these unbilled incidents. When NDF fails to submit reimbursement requests, money due the State is not collected and supplemental funding must be requested. In addition, accounts receivable amounts were not accurately recorded which impact the State's financial statements. NDF does not have an effective process to identify, track, invoice, and collect amounts due the State. Increased oversight of the fire suppression accounting functions will help ensure appropriate funding and help improve state budgeting decisions.

Improvements are needed over accounting and budgeting for NDF's emergency fire expenditures. Current budgeting and accounting methods comingle Nevada's in-state fire suppression costs with costs incurred by Nevada resources assisting with out-of-state fires. Furthermore, the current budgeting formula, established by the Legislature to better understand NDF's funding needs, also comingles Nevada's in-state fire costs with costs of assisting in out-of-state jurisdictions. Finally, the 5-year budgeting formula is not consistently calculated by agencies who help prepare the budget and supporting documentation was not maintained by NDF. An effective budgeting process is necessary to ensure sufficient funds are available to respond to emergencies and efficiently allocate General Fund dollars.

NDF did not sufficiently review WFPP cooperator and other state agency invoices to detect billing errors. In addition, NDF's data on fire incidents was inaccurate and incomplete. Error free invoicing and data is necessary to ensure the accurate accounting of fire costs, to help ensure Nevada is fully reimbursed for its costs to fight fires in out-of-state jurisdictions, and only paying its share of cost-share fire expenditures.

Key Findings

NDF did not bill reimbursable fire suppression expenditures for out-of-state fires. We calculated over \$32 million in reimbursable expenditures that were not billed from responding to other state fire incidents between 2020 and 2024. Specifically, NDF paid WFPP cooperators, but did not bill over \$22.8 million for reimbursements related to 166 fully reimbursable incidents that occurred between fiscal years 2020 and 2023. We calculated another \$1.2 million in NDF personnel and equipment costs were not billed for the same incidents. Finally, over \$7.3 million in additional reimbursable expenditures paid to WFPP cooperators in fiscal year 2024 was not billed for reimbursement. (pages 7 - 8)

For some out-of-state fire incidents that NDF billed, we observed the invoices contained errors or did not include all allowable costs. Specifically, 3 of 15 (20%) invoices sampled were not billed accurately, resulting in an underpayment of over \$542,000 to NDF. Over the 4-year audit period, NDF submitted 11 separate requests for IFC contingency funds, totaling over \$44 million. (pages 9 - 10)

NDF did not accurately record accounts receivable for reporting purposes in the State's financial statements. Accounts receivables were not properly recorded because NDF has not developed a proper aging schedule to track amounts due. We estimate NDF should have reported over \$20 million of additional receivables for fiscal year 2023. This would have had an impact on the State's annual financial statements had our audit not identified the error. (page 11)

The current budget formula used to calculate NDF's biennial authority to pay fire suppression expenditures combines in-state fire costs for Nevada with out-of-state fire suppression costs. Comingling these fire suppression costs does not provide a clear understanding of NDF's funding needs to suppress fires within Nevada. (page 14)

The review of cooperator invoices was inadequate. Our testing identified undetected errors resulting in NDF overpaying cooperators and a partnering state agency about \$285,000. (page 19)

Cost-share fire documentation was not properly reviewed to ensure NDF paid the appropriate costs. We identified four of nine (44%) final adjudicated cost-share amounts billed by NDF were incorrectly calculated, resulting in NDF underbilling other jurisdictions by approximately \$614,000. (page 21)

Audit Highlights



Highlights of performance audit report on the Nevada Department of Transportation, Stockroom Purchases, Material Stockpile Management, and Mechanic Productivity issued on January 16, 2025.

Legislative Auditor report # LA26-02.

Background

The Nevada Department of Transportation (NDOT) oversees the planning, construction, operation, and maintenance of 5,400 miles of highway and over 1,000 bridges. Additionally, NDOT maintains a fleet of over 2,000 pieces of heavy equipment and 700 vehicles.

The mission of NDOT is to provide, operate, and preserve a transportation system that enhances safety, quality of life, and economic development through innovation, environmental stewardship, and a dedicated workforce.

NDOT is comprised of four primary divisions: Administration, Engineering, Operations, and Planning.

NDOT has equipment repair shops and stockrooms in each district. Equipment repair shops maintain NDOT's fleet by performing preventative maintenance, repairs, and services for heavy equipment and vehicles.

The stockrooms have purchasing authority and act as a supply center for the district equipment repair shops, maintenance crews, and other NDOT divisions operating in the district.

Purpose of Audit

The purpose of the audit was to determine whether NDOT has effective controls over stockroom purchases, equipment repair shop work, and material stockpiles. Additionally, we determined if management's use of state vehicles is appropriate.

The audit focused on NDOT's activities between January 2022 and June 2023, and through calendar year 2023 for certain activities.

Audit Recommendations

This audit report contains 10 recommendations to improve controls over NDOT assets and resources.

NDOT accepted the 10 recommendations.

Recommendation Status

NDOT's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Stockroom Purchases, Material Stockpile Management and Mechanic Productivity

Nevada Department of Transportation

Summary

NDOT continues to experience problems developing and implementing controls to safeguard assets and deter or detect fraud. Specifically, we observed purchasing controls designed to ensure the proper approval and accounting for vehicle and equipment parts were often circumvented and not effective. The proper recording and tracking of parts can also improve. In addition, deficiencies persist in how NDOT safeguards material stockpiles. Although we did not identify fraud during our audit work, given NDOT's history of fraud incidents, strong controls are needed in these areas as millions of dollars in parts and materials are purchased every year.

Low productivity rates at some equipment repair shops highlighted procedural inefficiencies. Specifically, we observed significant variations in productivity between equipment repair shops, with low productivity recorded for several shops. For example, an analysis of shop records found mechanics at one location recorded an average of 2 hours a day working on NDOT vehicles. Furthermore, we observed the inappropriate use of state resources as unnecessary modifications were made to a vehicle and another vehicle was driven almost entirely for personal use. Low productivity and improper use of state resources results in waste and increased costs to the State as mechanics are being paid for duties they are not performing. In addition, fleet costs will increase if vehicle repairs or routine maintenance are not performed timely and routine maintenance is outsourced to vendors.

Key Findings

Controls designed to detect and deter fraud are not fully implemented or enforced. Of the 150 transactions tested, 57 (38%) did not have documentation demonstrating appropriate approvals, or proper separation of duties. In addition, many requisition signatures by NDOT staff were not legible and purchases were made before proper authorization occurred. Furthermore, stockroom staff split purchases to avoid purchasing limits. For 8 of 20 (40%) purchases tested, the same items were procured from the same vendor on the same day, using different invoices. (page 8)

Testing of 41 tire invoices, totaling \$25,000, found they were not accounted for in NDOT's asset management system. Sixteen tires were not on the vehicles identified on the invoices. For example, one invoice contained a purchase for two semitrailer tires, but the unit referenced on the invoice was a passenger car. (page 10)

Equipment repair shop supervisors do not consistently perform quality assurance program inspections of vehicles, which are designed specifically to detect and deter fraud. Four of nine equipment repair shops did not perform any inspections in calendar year 2022. Inspections are designed to ensure parts purchased are installed on a vehicle, and to ensure the quality of work. (page 10)

NDOT has weak controls over material stockpiles and related data, which lead to significant discrepancies between physical inventory counts and records. There were nearly \$25 million in discrepancies between NDOT's records and physical inventory records in fiscal year 2023. Stockpile records are not accurate due to weaknesses in recording purchases and the use of materials. For five of six (83%) material stockpile purchases tested, the correct quantities were not entered into NDOT's material tracking system. In addition, different methods are used to calculate the use of materials and the quantity remaining. Furthermore, NDOT does not properly control the use of stockpile materials by non-state entities. These issues have contributed to qualified opinions in the State of Nevada Single Audit Report for fiscal years 2020, 2021, and 2022. (page 12)

Productivity at equipment repair shops varied significantly between locations and in many cases was below NDOT's standard. For example, one shop recorded less than 27% of work hours, or 2 hours a day to work orders. According to NDOT audit reports, the standard is that 80% of hours should be applied directly to work orders. Low productivity results in waste and increased costs to the State as mechanics are being paid for duties they are not performing and routine maintenance is not performed or is outsourced to vendors. (page 15)

During our audit, we observed instances where the use of NDOT resources benefited the employees more than the interests of the State. Specifically, state vehicles were modified or used for the benefit of state employees. Based on our review of available documentation, we estimate the benefits to the employees to be about \$25,000. (page 17)

Audit Highlights



Highlights of performance audit report on the Division of Health Care Financing and Policy, Hospice Care Claims and Fiscal Agent Contract issued on September 10, 2024.

Legislative Auditor report # LA24-12.

Background

The mission of the Division of Health Care Financing and Policy (Division) is to: 1) purchase and provide quality health care services to low-income Nevadans in the most efficient manner; 2) promote equal access to health care at an affordable cost to the taxpayers of Nevada; 3) restrain the growth of health care costs; and 4) review Medicaid and other state health care programs to maximize potential federal revenue. The Division administers both Nevada Medicaid and Check Up programs.

The hospice services program is designed to provide support and comfort for Medicaid eligible recipients who have a terminal illness and are expected to live 6 months or less and have decided to receive end-of-life care.

The Medicaid Management Information System (MMIS) is a computerized claims processing and information retrieval system the Nevada Medicaid program must have to be eligible for federal funding. The MMIS is managed by a contractor known as a fiscal agent.

In fiscal year 2023, the Division was primarily funded with federal grants totaling \$4.5 billion and state appropriations of about \$1.2 billion. As of November 3, 2023, the Division had 338 positions authorized, of which 261 positions were filled (23% vacancy rate). The Division has offices located in Carson City, Elko, Las Vegas, and Reno.

Purpose of Audit

The purpose of the audit was to determine if the Division of Health Care Financing and Policy has adequate controls over hospice care to limit improper provider payments and if the solicitation and oversight of the current fiscal agent contracts complied with applicable laws, policies, contract terms, and best practices.

Audit Recommendations

This audit report contains 10 recommendations to reduce improper hospice care payments and improve the fiscal agent contracting process.

The Division accepted the 10 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Hospice Care Claims and Fiscal Agent Contract

Division of Health Care Financing and Policy

Summary

The Division lacks adequate controls to ensure hospice care provider payments comply with federal and state Medicaid policies. Specifically, we found hospice providers billed and received payment for duplicate services for room and board charges. Additionally, providers billed and received payment for higher home care rates than allowed and did not properly bill the service intensity add-on rate. Furthermore, the Division paid claims with service dates after a recipient's date of death. We estimate over \$386,000 in improper payments for hospice claims paid during calendar years 2020 – 2022. These improper payments occurred because the Division's MMIS lacks critical system controls regarding these services, and the Division has not developed additional compensating controls. Without proper controls, improper hospice payments will continue.

After performing an analysis of overpayments by providers and service type, we observed no significant patterns. Therefore, we were unable to determine if the overpayments were provider errors or possible fraud.

Better oversight and contracting practices for fiscal agent services will help ensure state contracting laws and policies are followed. The Division's current fiscal agent contract has been in effect since January 2011, over 12 years, and the Division has frequently modified the scope of work, amount, and duration of the fiscal agent contract over its administration of the MMIS. The initial contract maximum was \$176 million and is currently at \$803 million (354% increase). By not regularly soliciting competitive bids for fiscal agent services, other vendors are denied the opportunity to compete and offer different solutions and pricing.

Key Findings

The Division overpaid hospice providers who improperly billed for duplicate room and board services. Hospice care providers improperly billed and were paid for 115 duplicate dates of services during calendar years 2020 – 2022. These overpayments occurred because the MMIS did not have the proper system controls in place to prevent hospice providers from billing and receiving payment for duplicate room and board services. We conservatively estimate over \$155,000 in improper payments for hospice claims were paid during this period. (page 7)

The Division overpaid hospice providers who improperly billed for the higher routine home care rate. For 13 of 20 recipients randomly selected and tested, we found hospice providers used the higher routine rate for more than the recipient's initial 60 days in hospice care. We conservatively estimate about \$114,000 was improperly paid to providers during the 3-year period. (page 9)

The Division overpaid hospice providers who improperly billed the service intensity add-on rate. We found providers improperly charged for the service intensity add-on for 668 (38%) out of the 1,755 service intensity add-on dates paid. For 376 (56%) dates of services, the recipient had no death date based on Division of Public and Behavioral Health, Office of Vital Records data. The remaining 292 (44%) dates of services improperly paid were found to have dates of death, but providers billed the service intensity add-on before the recipient's last 7 days of life. We also found hospice providers were paid beyond the daily limits established for the service intensity add-on. We estimate over \$117,000 in improper payments were made during calendar years 2020 – 2022. (page 10)

The Division overpaid hospice providers who improperly billed for services claimed to be rendered after a recipient's date of death. We identified four dates of services where providers received payment for services claimed to be rendered after the recipient's date of death during calendar years 2020 – 2022. For fee-for-service claims, proper controls are not in place to retroactively identify improper payment of services dated after a recipient's date of death. While the amount of improper payments for hospice services were immaterial, the potential effect could be significant for all fee-for-service claims. (page 12)

The Division's current fiscal agent contract has been in effect since January 2011 but frequent modifications to the scope of work, amount, and contract duration have occurred. By not regularly soliciting competitive bids for fiscal agent services, interested vendors are denied the opportunity to compete and offer different solutions and pricing. (page 15)

Audit Highlights



Highlights of performance audit report on the Silver State Health Insurance Exchange, Information Security issued on September 10, 2024.

Legislative Auditor report # LA24-14.

Background

The Silver State Health Insurance Exchange (Exchange) is the state agency that operates the online marketplace known as Nevada Health Link where eligible Nevada consumers can shop for, compare, and purchase quality and affordable health insurance plans. The Exchange facilitates and connects eligible Nevadans who are not insured by their employer, Medicaid, or Medicare to health insurance options. Individuals can purchase Affordable Care Act certified qualified health plans through the state-based exchange platform and, if eligible, can receive subsidy assistance to help offset their monthly premiums and out-of-pocket costs.

Established in 2011, the Exchange was created to function as a state-based health insurance exchange. However, from calendar year 2015 to the beginning of 2019, the Exchange utilized a federal platform called HealthCare.gov for the enrollment of Nevada residents. At the end of 2019, the Exchange transitioned to a state-based marketplace, NevadaHealthLink.com. The Exchange has contracted the enrollment, eligibility, and call center functions of the state-based exchange platform to a contractor.

Purpose of Audit

The purpose of the audit was to determine if the Exchange has adequate information security controls in place to protect the confidentiality, integrity, and availability of its information and information processing systems. Our audit focused on the systems and practices in place during fiscal years 2023 and 2024.

Audit Recommendations

This audit report contains 11 recommendations to improve information security controls of the Exchange's systems.

The Exchange accepted the 11 recommendations.

Recommendation Status

The Exchange's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Information Security

Silver State Health Insurance Exchange

Summary

Improvements can be made to enhance information security controls meant to protect the confidentiality, integrity, and availability of the Exchange's systems. The Exchange's user access requests, authorizations, and monitoring practices were incomplete and undocumented. In addition, the Exchange does not verify that all users with access to the state-based exchange platform have completed a pre-access background check before granting system access. Furthermore, signed user access agreements have not been properly maintained or documented for all state-based exchange platform users. The Exchange's mandatory quarterly user access reviews have not been documented. In addition, security awareness training procedures and training policies have not been created or implemented. Finally, multiple users with state-based exchange platform access had not completed the assigned security awareness training, and the process to ensure completion was not effective.

The Exchange's key information security processes can be strengthened. In addition, the asset inventory process used at the Exchange needs to be further developed. Finally, the process for ensuring local administrator accounts are disabled needs to be implemented. Inadequate information security processes increase the risk of data loss, productivity loss, noncompliance, and reputational damage.

Our review of physical and environmental security controls concluded the Exchange can improve its key control process which includes physical and digital keycard management. Further, while the Exchange has a server room containing limited essential equipment and requires keycard access, the server room door provides minimal physical security. Physical security controls have a direct impact on the Exchange's ability to mitigate loss, disclosure, or inappropriate use of assets and protected data.

Key Findings

While we noted various opportunities for improvement, our work did not identify any critical security vulnerabilities at the Exchange within our testing areas. (page 4)

The Exchange's user access request practices lack consistency and documentation across the various user types accessing the state-based exchange platform. For 29 of the 30 users tested, the Exchange was unable to produce evidence of access request forms or other records of access approval. (page 4)

The Exchange's process for ensuring background checks are completed does not verify all users receive them. For the 30 users tested, the Exchange was unable to produce evidence it verified that a background check had been completed before granting or allowing access to the state-based exchange platform. (page 5)

The Exchange does not have a process in place to ensure all users accessing the state-based exchange platform, which contains Nevada citizens' personally identifiable information have read and signed the required acceptable use agreement. For the 30 state-based exchange platform users tested, the Exchange was unable to produce any documentation of a signed acceptable use agreement. (page 6)

The Exchange does not have any documentation to verify that quarterly user access reviews are being conducted. Exchange management explained to the auditors that a quarterly review is occurring; however, the review has never been documented and there is no formal process to perform or document quarterly reviews. (page 7)

Better oversight of the Exchange's security awareness training program for employees and contractors is needed. We identified 22 of 30 users tested did not complete their annual refresher security awareness training, or the Exchange was unable to produce evidence of its completion. (page 7)

The risk management process can be further developed to include an assessment of internal information technology (IT) systems. During discussions with management, it was confirmed that no risk assessment is completed for IT on the local Exchange network including servers and workstations. (page 9)

The Exchange's asset inventory practices are weak and need improvement as they relate to computer hardware used by the agency. After reviewing different reports of the Exchange's computer hardware assets, we observed significant discrepancies in physical inventory reconciliation. (page 10)

The Exchange does not adequately manage digital keycards and physical key access. While the Exchange utilizes the state's keycard access system, keycard accounts were not reviewed regularly to ensure the continued need for access to secure areas. (page 12)

Audit Highlights



Highlights of performance audit report on the Department of Motor Vehicles, Information Security issued on September 10, 2024.

Legislative Auditor report # LA24-08.

Background

The mission of the Department of Motor Vehicles (DMV) is to become a vehicle services national leader by providing efficient motor vehicle solutions for the identification, licensure, and protection of those they serve. The DMV was founded in 1957 and at the time of this audit had more than 1,100 employees of which 65 were information technology employees.

Currently the DMV licenses over 2.3 million Nevada drivers and identification card holders and registers more than 2.7 million vehicles while maintaining the integrity and privacy of DMV records.

The DMV processes approximately 10 million transactions and collects \$1.6 billion in revenue each year. The DMV is comprised of seven operational divisions, each orchestrated under the authority of the Director's Office.

The DMV is currently in the early stages of a digital transformation effort. Over the next few years, the DMV will move many of its services online in an effort to rebuild its customer service delivery and information technology platforms.

Purpose of Audit

The purpose of the audit was to determine if the DMV has adequate information security controls in place to protect its information processing systems. The audit included the systems and practices in place during fiscal years 2022 and 2023. We also reviewed information back to 2020 for user access and 2021 for asset inventory.

Audit Recommendations

This audit report contains 17 recommendations to improve information security controls over data security, inventory, risk assessments, critical policies, and user access for systems and applications.

The DMV accepted the 17 recommendations.

Recommendation Status

The DMV's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Department of Motor Vehicles

Information Security

Summary

The DMV has not adequately prioritized critical information technology (IT) functions to mitigate service disruptions, ensure timely recovery, and safeguard data. For instance, policies and plans governing IT operations, including an IT operation risk assessment, continuity of operations, disaster recovery, incident response plans, and general IT-related policies were either not completed or not followed when necessary. Furthermore, DMV's data is vulnerable since the data destruction and patch management processes do not track or monitor hard drives needing data sanitization or necessary software updates. The DMV does not monitor the data extraction process used for data sales or review audit logs when changes are made to sensitive information in its primary application. Adequate IT policies protect entities from unnecessary security exposure and prolonged system failure recovery.

In addition, the DMV has not fully implemented controls over user access to ensure systems and applications are protected from unauthorized access. For instance, Information Technology Security (ITSEC) forms are not always updated with relevant information. Some users in the same position have more access than others without any record of why that is, including local administrator access. In addition, the DMV is not regularly reviewing current user access or permissions as required by state security standards. Furthermore, the DMV is not reconciling its IT assets, including hardware and software, leaving many discrepancies across inventory systems and compliance issues with software utilization.

Key Findings

The DMV is not routinely completing an annual risk assessment of its information systems and does not have monitoring controls in place. Additionally, the DMV does not have fully documented plans related to critical IT operations and functions and did not follow the documented plans they do have when issues arose. (page 4)

There is no process or policy to track and monitor hard drives from receipt to disposal to ensure devices are thoroughly cleaned or destroyed when the hard drive is retired. In addition, hard drives in leased equipment may not be recovered and data destroyed since the DMV does not have an effective process to collect hard drives before equipment is removed from the premises. (page 5)

During our review of the systems patch management process, we found servers, computers, and other devices that were not receiving updates consistently. By not updating these devices routinely, the DMV is increasing the potential for a data breach or malware infection. (page 7)

The DMV does not have a change management procedure with which to track the request, approval, and implementation of hardware changes. During our review of the DMV's change management process, IT staff were unable to provide documentation of any kind related to the configuration of 25 selected devices which included servers, computers, and switches. (page 8)

The DMV does not monitor data extractions performed for third-party entities or review logs for changes to sensitive information. Consequently, we could not determine if information provided to third parties was appropriate and matched original data requests. (page 8)

User access management is weak for DMV systems. Specifically, the DMV's user access management and ITSEC form process should be timelier and more accurate. Additionally, the DMV is not reviewing user access regularly, including local administrator permissions, or ensuring that user accounts with domain administrator rights are not used for daily operations such as internet browsing, email, or similar activities. (page 11)

The DMV's ITSEC forms lack approved access consistency. The two top-level primary application users have full access to the application; however, the ITSEC forms do not reflect their administrative access or their updated positions. Additionally, the DMV does not ensure permissions for routine positions are appropriate. (page 12)

The DMV did not consistently remove former or inactive employees' network access in a timely manner. Additionally, third-party users with significant periods of inactivity were not monitored or reviewed for the need for continued access. (page 13)

The DMV's computer hardware management process can be improved. Our review found the DMV's asset inventory is not accurate, showing IT assets missing from inventory records and other discrepancies between internal listings and state inventory records. In addition, the DMV does not currently have a software reconciliation policy and software is not included in the DMV's annual inventory process. (page 14)

