

**MEETING OF THE AUDIT SUBCOMMITTEE
OF THE LEGISLATIVE COMMISSION**

Legislative Building - Room 4100

Carson City, Nevada

Grant Sawyer State Office Building – Room 4412

Las Vegas, Nevada

Tuesday, January 7, 2014, 1:00 p.m.



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MEETING NOTICE AND AGENDA

Name of Organization: Legislative Commission's Audit Subcommittee
Date and Time of Meeting: January 7, 2014 - 1:00 p.m.
Place of Meeting: Legislative Building
401 S. Carson Street - Room 4100 - Carson City, Nevada

Note: Some members of the Committee may be attending the meeting and other persons may observe the meeting and provide testimony, through a simultaneous videoconference conducted at the following location:

Grant Sawyer State Office Building,
555 East Washington Avenue - Room 4412 - Las Vegas, Nevada

If you cannot attend the meeting, you can listen to it live over the Internet. The address for the legislative website is <http://www.leg.state.nv.us>. Click on the link "Live Meetings – Listen or View".

AGENDA

Note: Items on this agenda may be taken in a different order than listed. Two or more agenda items may be combined for consideration. An item may be removed from this agenda or discussion relating to an item on this agenda may be delayed at any time.

1. Public Comment

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).

*For
Possible
Action*

2. Approval of minutes from December 13, 2012

*For
Possible
Action*

3. Selection of Vice-Chair of Audit Subcommittee of the Legislative Commission

*For
Possible
Action*

4. Presentation of audit reports (NRS 218G.240)

– Paul Townsend, Legislative Auditor

a. Office of the Governor, Agency for Nuclear Projects

– Diana Giovannoni, Deputy Legislative Auditor; Rocky Cooper, Audit Supervisor

b. Report on Count of Money in State Treasury

– Janz Nino Pena, Deputy Legislative Auditor; Shannon Ryan, Audit Supervisor

c. Department of Administration, Nevada State Library and Archives – Mail Services

– Shannon Ryan, Audit Supervisor

d. Department of Business and Industry, Nevada Transportation Authority

– Lee Pierson, Deputy Legislative Auditor; Doug Peterson, Information Systems Audit Supervisor

e. Department of Public Safety, State Fire Marshal Division

– Tammy Goetze, Deputy Legislative Auditor; Rocky Cooper, Audit Supervisor

f. Commission on Mineral Resources, Division of Minerals

– Yette M. De Luca, Deputy Legislative Auditor; Rick Neil, Audit Supervisor

g. Department of Public Safety, Division of Emergency Management

– Dennis Klenczar, Deputy Legislative Auditor; Rick Neil, Audit Supervisor



Legislative Commission's Audit Subcommittee

AGENDA (continued)

*For
Possible
Action*

5. Presentation of six-month reports (NRS 218G.270)

- Paul Townsend, Legislative Auditor
- a. Department of Business and Industry, Division of Insurance
– Doug Peterson, Information Systems Audit Supervisor
- b. Department of Conservation and Natural Resources, Division of Forestry
– Shannon Ryan, Audit Supervisor
- c. Department of Business and Industry, Housing Division
– Rocky Cooper, Audit Supervisor
- d. Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency
– Rick Neil, Audit Supervisor
- e. Department of Conservation and Natural Resources, Division of State Lands
– Rick Neil, Audit Supervisor
- f. Department of Conservation and Natural Resources, Division of Water Resources
– Rick Neil, Audit Supervisor
- g. Department of Corrections, Accuracy of Criminal History Information
– Rick Neil, Audit Supervisor
- h. Department of Health and Human Services, Division of Welfare and Supportive Services
– Jane Bailey, Audit Supervisor
- i. Department of Employment, Training and Rehabilitation, Employment Security Division
– Shannon Ryan, Audit Supervisor
- j. Public Employees' Benefits Program
– Rocky Cooper, Audit Supervisor
- k. Department of Business and Industry, Division of Industrial Relations
– Doug Peterson, Information Systems Audit Supervisor

*For
Possible
Action*

6. Follow-up on six-month report from a prior meeting (NRS 218G.270)

- Paul Townsend, Legislative Auditor
- a. Department of Administration, Division of Enterprise Information Technology Services
– Doug Peterson, Information Systems Audit Supervisor

7. Public Comment

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers).

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Audit Division of the Legislative Counsel Bureau, in writing, at 401 S. Carson Street, Carson City, Nevada 89701-4747, or call Donna Wynott at (775) 684-6815, as soon as possible.

Notice of this meeting was posted in the following Carson City, Nevada locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps; Capitol Building; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street.

Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Clark County Office, 500 South Grand Central Parkway, and Grant Sawyer State Office Building, 555 E. Washington Avenue.

Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

Supporting public material provided to Committee members for this meeting may be requested from the Audit Division of the Legislative Counsel Bureau at (775) 684-6815 and is/will be available at the following locations: Meeting locations and the Nevada Legislature's website at www.leg.state.nv.us.

AUDIT SUBCOMMITTEE MINUTES
December 13, 2012

MINUTES OF THE MEETING OF THE
AUDIT SUBCOMMITTEE OF THE LEGISLATIVE COMMISSION
December 13, 2012

This is the fourth meeting of 2012.
This is the fifth meeting of the 2011-2012 Interim.

A meeting of the Audit Subcommittee of the Legislative Commission (NRS 218E.240) was called to order by Senator David Parks, Chair, at 9:37 a.m., Thursday, December 13, 2012, in room 4412 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada, with a simultaneous video conference to room 4100 of the Legislative Building, Carson City, Nevada.

AUDIT SUBCOMMITTEE MEMBERS PRESENT:

Las Vegas:

Senator David Parks, Chair
Assemblywoman Maggie Carlton
Assemblyman Pat Hickey

Carson City:

Assemblyman Tom Grady, Vice-Chair

Subcommittee Member Excused:

Senator Mo Denis

LEGISLATIVE COUNSEL BUREAU STAFF PRESENT:

Paul Townsend, Legislative Auditor
Donna Wynott, Office Manager
Deborah Anderson, Audit Secretary
Eugene Allara, Deputy Legislative Auditor
Jane Bailey, Audit Supervisor
Daniel Crossman, Deputy Legislative Auditor
Rocky Cooper, Audit Supervisor
Sandra McGuirk, Deputy Legislative Auditor
Mike Herenick, Deputy Legislative Auditor
Doug Peterson, Information Systems Audit Supervisor
Lee Pierson, Deputy Legislative Auditor
Shannon Ryan, Audit Supervisor

The roll was taken. A quorum was present.

Item 1— Public comment

Chair Parks called for public comment. There was none.

Item 2— Approval of minutes of the meeting held on September 19, 2012

Chair Parks called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO APPROVE THE AUDIT SUBCOMMITTEE MINUTES OF SEPTEMBER 19, 2012. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

Item 3— Presentation of audit reports (NRS 218G.240)

– Paul Townsend, Legislative Auditor

Mr. Townsend stated there are several audit reports, a review of children's facilities and four six-month reports.

A. Report on Count of Money in State Treasury

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, and Eugene Allara, Deputy Legislative Auditor, to present the report.

Mr. Allara stated in accordance with NRS 353.060, the auditors counted the monies and securities in the State Treasury on Friday, June 29, 2012 and prepared Ex. A with supporting schedules one through three in the report. The Money Count included actual and physical examination, direct confirmation with financial institutions, and other procedures considered necessary to fulfill the statutory requirements.

Mr. Allara stated in accordance with NRS 353.075, the report was filed with the Secretary of State on November 26, 2012.

Mr. Allara continued his presentation stating the count of monies and securities on June 29, 2012, showed \$166 million on deposit with financial institutions, \$2.2 billion of state owned securities, and \$1 billion of securities held for safe keeping for a grand total of \$3.5 billion. Details are shown in Schedules 1-3 of the report.

Chair Parks called for questions from the Committee.

Assemblyman Grady asked if the State borrowed against the Local Government Investment Pool amounts shown in Schedule 2 of the report.

Mr. Allara replied that he did not believe the State borrowed any funds at this time.

Chair Parks asked if there were further questions, none being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE COUNT OF MONEY IN STATE TREASURY. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

B. Public Employees' Benefits Program 2012

Mr. Townsend introduced Rocky Cooper, Audit Supervisor, and Lee Pierson, Deputy Legislative Auditor, to present the report.

Mr. Pierson stated the Public Employees' Benefits Program (PEBP) was established in 1999 to manage the state's group health insurance program. The program has a nine-member board that oversees operations. The board appoints an executive officer to direct day-to-day activities. There were about 41,000 PEBP participants in fiscal year 2012 consisting of state employees, state non-Medicare, Medicare retirees, and local government.

Mr. Pierson stated fiscal year 2012 reserves consisted of nearly \$129 million, which included \$77 million in planned reserves to cover claims and unforeseen expenses and \$52 million were unallocated or excess reserves. In March 2012, the PEBP Board made a program change to spend \$29 million in excess reserves and the remaining \$23 million is to be included in PEBP's budget request for fiscal years 2014 and 2015.

Mr. Pierson stated during the budget request process for the current biennium the Governor instructed PEBP to keep its state subsidy levels flat or at the same level as fiscal year 2011. PEBP estimated maintaining the same level of benefits as fiscal year 2011 would cost an additional \$85 million in state funding. To address this shortfall, the Board approved several changes including replacing the self-funded PPO Plan with a consumer driven high deductible health plan (the Plan).

The audit objectives were to determine whether PEBP could provide additional information on the costs of healthcare procedures to assist participants with healthcare decisions; whether there are adequate controls over contract management; if information technology controls are sufficient to protect the confidentiality, integrity, and availability of participant information; and whether accounting policies and procedures are complete and up to date.

Mr. Pierson stated auditors found a wide range in costs for some healthcare procedures, by comparing costs for procedures in Nevada and reviewing fiscal year 2012 claims processed by the Plan in Elko, Carson City, Reno, and Las Vegas. As a result, the amount participants and PEBP pays for the same procedures can vary significantly. Costs can vary widely because providers charge different amounts and negotiate varying discounts with insurance providers. When planning nonemergency procedures participants should consider comparison-shopping. This could save the participants and the Plan money.

Mr. Pierson stated PEBP is taking steps to provide participants with information on costs. PEBP has made several pricing tools available to assist participants with pricing prescription drugs and healthcare costs on its website. In addition, PEBP is working with its third party administrator (TPA) to provide participants with a pricing tool based on PEBP claims data. Although PEBP is taking steps to provide participants with additional tools to price costs, more needs to be done. PEBP should periodically inform participants of the wide range in healthcare costs, tools available, and the best methods to compare prices.

Mr. Pierson expressed additional information would help participants verify that billing statements are correct. Explanation of Benefits (EOB) statements provided to participants after a claim is processed do not provide clear descriptions of services billed or medical billing codes. After processing the claim, PEBP's TPA sends participants an EOB statement through the mail that identifies the patient, provider, services billed, discounts, deductibles, amount paid by the Plan, and the patient's responsibility. EOBs currently use broad descriptions such as professional services, radiology, or laboratory to describe billed services. These general descriptions do not provide enough information for participants to verify services were billed correctly. Ex. 4 shows a comparison between procedures billed by the provider and the information provided to the participant. Based on the limited information provided, it is difficult for the participant to verify billings are correct.

Mr. Pierson stated Current Procedural Terminology (CPT) codes are not provided to participants. CPT codes were developed and are maintained by the American Medical Association, and define medical, surgical, and diagnostic services. All healthcare procedures and services have a corresponding CPT code. Although CPT codes were provided in the past on EOB statements, codes are currently excluded from EOBs. PEBP is concerned that disclosing CPT codes and clear descriptions on EOBs sent through the mail could result in improper disclosure of medical information and violate HIPAA privacy requirements. However, PEBP's TPA could provide participants with clear descriptions of healthcare services billed and CPT codes through its secure website. This would address privacy concerns and provide participants with additional information to verify services were billed correctly. Three recommendations were made to provide participants with additional cost information when making healthcare decisions.

Mr. Pierson expressed contract management can be improved. Audit staff found monitoring of vendor performance can be strengthened in three areas. One way to strengthen vendor performance is by ensuring all contracts include performance standards, as required by policy. Seven of 13 contracts did not include performance standards. These seven contracts could include performance standards addressing items such as timeliness and accuracy. Vendor performance can further be strengthened by requiring vendors to submit performance results in quarterly reports and ensuring required annual audits and evaluations of vendors are done.

Mr. Pierson further expressed contract weaknesses make it difficult to assess the wellness vendor's performance. First, the contract did not include deadlines to report performance results. Although Year 1 for the Wellness Program ended on June 30, 2011, performance results were not reported until March 2012. Therefore, results were not available timely for PEBP to monitor performance and consider program changes. Second, the dates for implementing the Wellness Program each year were not included in the contract. Third, program information was not consistently reported.

Mr. Pierson stated PEBP's contracting policies and procedures do not reflect current practice and need updating. Five recommendations were made to improve contract management.

Mr. Pierson expressed information technology controls need strengthening. PEPB has good information technology controls over participant information. However, access to credit cards and other sensitive information could be further restricted. Five of PEBP's staff had access to credit card information even though their job functions did not require access. Several old files containing credit card numbers no longer needed should have been deleted. Additional steps should also be taken to limit access to sensitive participant and dependent information. Eight vendors and PEBP staff could view sensitive information even though this information was not needed to perform their jobs.

Mr. Pierson further expressed background investigations were not conducted on staff. During the audit, PEBP implemented a policy to conduct Nevada Department of Public Safety Civil Name Check background investigations on new hires and existing employees every 3 years. The Civil Name Check was designed for employment screening purposes and searches Nevada criminal history. However, PEBP's practice does not follow state requirements to conduct FBI or nationwide fingerprint based investigations on new hires. To comply with state requirements, PEBP should implement state security standards requiring FBI fingerprint background checks of new employees and conduct civil name checks of existing employees at least every 3 years. Five recommendations were made to strengthen information security controls.

Mr. Pierson expressed accounting policies and procedures have not been updated in more than 7 years despite changes to accounting functions, and the policies and procedures should be revised to reflect current practice. One recommendation was made to update accounting policies and procedures.

Mr. Pierson concluded his presentation stating Appendix A shows reserves and plan adjustments to reserves in fiscal year 2012. Appendix B lists PEBP vendors and payments made to these vendors during fiscal years 2011 and 2012. Appendix C is the audit methodology. The agency's response shows that all 14 recommendations were accepted.

Chair Parks called for questions from the Committee.

Assemblyman Hickey asked if the changes made during PEBP's workshops were in the purview of the Audit.

Mr. Pierson explained the PEBP process to change the plan was not specifically audited. The Plan changes were included in the background section as information for the reader.

Assemblywoman Carlton stated the audit methodology had a reference to healthcare utilization; however, a specific response on utilization was not in the report. She asked after the recent changes, are participants still utilizing PEBP's benefits to maintain

wellness at a desired rate. In addition, she asked if the auditors looked at utilization rates with the new program or if that was outside the purview of the Audit.

Mr. Pierson replied the audit methodology describes the information used to begin the audit and to gain an understanding of the program. A decision was made on specific areas to address which are the four sections in the report, but the auditors did not specifically audit utilization or changes in utilization.

Assemblywoman Carlton expressed her concern of making sure the participants understand the EOB statements. She understood that the recommendation on the EOBs was accepted but asked when PEBP was expected to address the issue.

Mr. Pierson replied that PEBP will be making changes through the TPA's website that will provide participants with electronic access to EOB statements with a log-in name and password. The electronic EOBs will include clear descriptions of services billed and CPT codes. The agency could better explain where it is at in that process.

Chair Parks thanked the audit staff and asked the representatives of PEBP to come forward and comment.

Jim Wells, Executive Officer, Public Employees' Benefits Program, on behalf of his staff, thanked Mr. Townsend for the report and audit recommendations. The Program has begun implementing the recommendations, specifically the electronic EOBs. The TPA has committed to setting up the website and a prototype has been viewed. The EOBs will be completed in the first quarter of 2013.

Assemblywoman Carlton asked how members of the plan who do not have computer access will be able to check their EOBs for accuracy. Her concern was the senior population without computers and then access getting their health plan information.

Mr. Wells replied those members of the plan who do not have computer access can call the TPA and get the details for their EOB. Sending private medical information through the mail is against HIPAA privacy policies as it is too easy for others to access private information. Generic EOBs will be sent through the mail and further explanations can be obtained online or by phone.

Assemblywoman Carlton reconfirmed the generic EOB will still be mailed to the participants and if further information is needed they can call the TPA or go online.

Mr. Wells replied that is correct.

Assemblywoman Carlton asked for further explanation why a generic EOB statement can be mailed and the full EOB statement cannot be mailed. Why the change from previous EOB mailings to only generic mailings, and was this due to the cost of more pages being mailed?

Mr. Wells replied that as of July 2011, there was a change in the TPA. The old TPA was in the process of making this change when the new TPA claims system came in to place. It is inappropriate according to HIPAA regulations to include certain medical language in mail that could be compromised if opened by a person other than the

intended recipient. Therefore, the current TPA suggested mailing generic medical information to the insured and if additional detail is needed it is obtained in a secure manner by phone with verification or by the webpage with log-in name and password.

Assemblywoman Carlton stated participants pay premium dollars for healthcare and are now given more responsibility in managing their care. She wanted to make sure participants are getting the information needed.

Assemblywoman Carlton stated that she especially did not want to see Medicare participants going through a different vendor. It seems there are more hoops to go through when the goal is to incentivize people to manage their own care and understand it. She asked if the plan is making it more difficult for participants to get the information in order to be able to manage their care.

Mr. Wells replied while HIPAA has been around for a long time, amendments have been made to include the High Tech Act with additional privacy and security requirements. The penalties for improper disclosure of information have increased. Therefore, more caution is taken in providing medical information.

Assemblywoman Carlton noted the Civil Name Checks started after the audit but she was disturbed background checks had not been previously done on employees. She asked where PEBP was in the process, if there are any areas of caution or warnings that need to be made, if everyone passed the background investigations, and what are the future systems in place for the investigation.

Mr. Wells responded he agreed with the exposure to PEBP participants' personal health information and data is of utmost importance and should not be disclosed or accessible to inappropriate personnel. Several years ago when Mr. Wells started with PEBP, background checks were not done. PEBP does not have authority to do background checks. Civil Name Checks are in place for all new hires effective January 2012 and there have been no criminal findings for newly hired employees. Now, PEBP is working with the Division of Human Resource Management to implement the complete fingerprint background checks for all new employees and it will begin sometime next year. We are also in the process of creating a waiver form to be approved for all current employees to fill out and get Civil Name Checks in the first quarter of next year.

Assemblywoman Carlton asked if PEBP established the criteria for those background checks and will PEBP go through the state central repository or will they be forwarded to the FBI.

Mr. Wells responded PEBP has established the criteria for background checks in PEBP's internal policy. Current employees' Civil Name Checks are statewide checks. Newly hired employees' background checks are through the FBI.

Assemblywoman Carlton stated existing employees will not be going through an FBI background check.

Mr. Wells confirmed her statement.

Assemblywoman Carlton asked if there are concerns about that.

Mr. Wells responded there has always been a concern of no background checks. Administrative personnel have access to private data. Unfortunately, the current statutes do not allow PEBP to do an FBI background check on current employees, a specific provision allowing current employee background checks needs to be written into statutes.

Assemblywoman Carlton stated this is something that needs to be addressed next session.

Chair Parks stated after his review of the report, he noticed his personal experiences are similar though he is not a PEBP member. Persons having elective surgeries may have issues when the TPAs change. EOBs were very different. Thus asking if PEBP has a program where participants can look at what the costs are and what the insurance will cover before they elect to have a medical procedure is important. Personally, from his experiences this is lacking.

Mr. Wells agreed there is a lack of transparency in the medical community. PEBP is working towards putting information on its website so participants can access the most common procedures and get a range of top and bottom end pricing for the location of services. Members who do not have computer access can obtain the same information by calling the TPA number located on the ID cards. In TPAs, there are disruptions. The current EOBs are not as detailed as the old ones they are better than July's EOBs. The EOBs will become more user friendly in 6 to 12 months. The contracted price and out of pocket price for pharmacy is now on the website and can be obtained by a phone call.

Chair Parks expressed most participants want to know what a procedure is going to cost them out of pocket, after the copay and minimums have been met.

Assemblyman Grady asked if PEBP will be putting in a bill draft request to change the law so background checks can be done.

Mr. Wells responded it was not included in PEBP's bill draft requests for 2013 submitted to the Governor's Office in May 2012. However, PEBP will continue to look at it.

Assemblyman Grady expressed his concern stating the PEBP and everyone has a priority to make a bill draft request, yet no one has made a request and the Legislative Session is about to begin.

Assemblyman Grady asked if the Medicare retiree problems encountered when PEBP participants entered the program was resolved and running smoothly.

Mr. Wells replied during the transition there were issues that came up. PEBP has attempted to address them as they have come up, and continues to address these problems. PEBP is receiving fewer complaints and a few issues remain that need to be addressed. A claims audit of the TPA and an audit for the Medicare retiree program was done. The audit showed some glaring weaknesses, which have been addressed through a corrective action plan with the vendor. The corrective actions will be reviewed

on December 17, 2012, to ensure the changes were implemented. There are still unique individual issues that need to be addressed.

Assemblywoman Carlton thanked Assemblyman Grady for asking his questions. She stated the importance of excess reserve monies and asked for further discussion on how the decisions were made. She said in the last IFC meeting, there were some disbursements of a portion of excess monies and other changes were made. She wanted to make sure she understood correctly that there was an additional \$23 million on top of what a normal reserve should be.

Mr. Wells replied as of the end of June 30, 2012, as shown in Ex. 2 of the report, PEBP had an excess of the required reserves to operate the program. This was in anticipation of a three year loss coming up as a result of the six-year underwriting cycle consisting of three good years and three bad years and the balance after six years. Nationwide we are in a period of low utilization and it is beginning to change. The financial statements for the first quarter are showing a loss. PEBP is not going into the excess reserves for the current fiscal year. PEBP's plan is to continue reducing the amounts required for the incurred but not reported liability, catastrophic reserve, and reserves for unused health reimbursement arrangement accounts.

Assemblywoman Carlton asked if we have been in the new system long enough to look at utilization and evaluate how far these reserves are beyond appropriate reserve amounts.

Mr. Wells replied PEBP is at the beginning of being able to make good comparisons. With the high deductible PPO, some participants are avoiding or not getting necessary preventative care that could end up being higher medical costs in the future.

Assemblywoman Carlton stated the new program has not been in effect long enough to make that evaluation. What plans were looked at to give the program those results?

Mr. Wells replied the State of Indiana has had a high deductible plan in place since 2006 and their analysis in 2010 was able to determine a significant amount of medical care was deferred or forgone.

Assemblywoman Carlton appreciated his response and asked Mr. Wells to share this information with her, and she looked forward to his cooperation in providing needed information in the upcoming months. She thanked Mr. Wells for his responses and was concerned about state and participant premium dollars just sitting there when it can be used for health care. The bottom line is being healthy and having money in a bank account does not make you healthy.

Chair Parks stated, regarding the bill draft request for background checks Assemblyman Grady previously spoke about, we will find a way to include it in next session.

Chair Parks opened for comments from the public. None being made he thanked the audit staff and called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REPORT ON THE PUBLIC EMPLOYEES' BENEFITS PROGRAM. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

C. Department of Employment, Training and Rehabilitation Employment Security Division

Mr. Townsend introduced Shannon Ryan, Audit Supervisor, and Daniel Crossman, Deputy Legislative Auditor, to present the report.

Mr. Crossman stated he was going to present an overview of the audit of the Employment Security Division, of the Department of Employment, Training and Rehabilitation beginning with some background information on the Division.

The program is part of a joint state and federal insurance system that provides temporary partial wage replacement to protect workers against the hardships of unemployment.

Mr. Crossman stated the report provided information on the economic recession and its impact on the State, resulting in significant loss of jobs and high unemployment as shown in Ex. 3. Consequently, the Division has experienced a significant increase in claims and unemployment benefits paid to unemployed workers as shown in the exhibits on page 5.

Mr. Crossman stated the report describes the Unemployment Trust Fund where state unemployment taxes paid by employers are deposited and used to fund unemployment claims for which the State is responsible. Additionally, the report details in general terms the three types of benefit programs claimants may qualify for, and the respective termination dates.

Mr. Crossman stated the audit report discusses the state's borrowings from the Federal Government to pay claims when the state's unemployment tax collections and reserves were exhausted. Since 2009, more than \$1.1 billion has been borrowed. Ex. 7 shows, as of September 30, 2012, about \$498 million has been repaid, leaving a balance owed of \$676 million.

Mr. Crossman stated the report next defines the scope and objective of the audit. The audit objective was to determine if certain control activities related to the verification of continued claimant eligibility were adequate to prevent and detect unemployment claim overpayments.

Mr. Crossman stated the Division can better identify and prevent payments to individuals not meeting ongoing eligibility requirements by implementing certain processes. The Division does not have a process to identify claimants who are

incarcerated and do not meet the eligibility requirements to receive benefits. Auditors identified 67 claimants who received unemployment benefits while incarcerated in January 2012, and who collected about \$240,000 improperly. There were about 97,000 individual claimants in January 2012.

Mr. Crossman stated testing was performed on inmates in Department of Corrections' facilities and the Washoe County Detention Center. Ex. 8 on page 10 shows 31 inmates received benefits totaling more than \$208,000 while incarcerated at a Department of Corrections facility with 12 of those inmates collecting benefits for more than 6 months and averaging nearly \$13,000 in improper benefits.

Mr. Crossman stated 36 inmates in the county detention center collected benefits totaling more than \$33,000 while incarcerated as described on page 11 of the report.

Mr. Crossman stated while the number of claimants who were incarcerated appears small compared to the total claimants, a significant amount of improper payments can be avoided by performing a cross match of incarceration records with claimant records.

Mr. Crossman stated auditors estimate, based on the results of testing, using published jail and correctional facility population information, the amount of unemployment benefits paid to incarcerated individuals to be as much as \$5 million over the last 3 years.

Mr. Crossman identified the need for legislation to ensure the Division is given access to incarceration information from local and state detention facilities to identify ineligible claimants.

Ex. 11, on page 14, shows our survey of 13 states that perform cross matches of unemployment and incarceration records and their methods for obtaining those records.

Mr. Crossman stated auditors requested test information from three entities. The Department of Corrections and one local detention facility provided the data while the other declined the request. ESD management indicated the Division does not have specific authority through state or federal law to compel agencies to provide records of incarceration.

Five recommendations were made to improve the controls over continued eligibility to identify claimants who are ineligible for benefits while incarcerated.

Mr. Crossman stated the results of a comparison of death records with claimant records identified 15 individuals who claimed benefits in January 2012 but died during or before January 2012. Twelve of the 15 individuals stopped claiming after death and three did not. Although the three cases represent a small percentage of claims paid, in these

instances, more than \$40,000 in benefits were improperly obtained after the claimants were deceased.

Mr. Crossman stated the Division needs to develop a process to identify deceased claimants. Furthermore, it needs to develop a process to disable the account of the deceased to ensure the account is not reopened. One of the three claimants stopped claiming benefits in February 2010 but the claim was reopened 6 months later even though the claimant had died in April 2010. Weekly benefit claims continued for 83 weeks until benefits were exhausted, resulting in more than \$33,000 paid to the account of the deceased person.

Mr. Crossman stated auditors recommend the Division develop processes to compare death records to claimant records periodically and to place permanent stops on accounts of deceased.

Mr. Crossman stated there is potential for claimants to be improperly receiving unemployment benefits while claiming workers' compensation benefits. NRS 612.265(9) requires private carriers of workers' compensation insurance to provide the Division, on a monthly basis, the names of individuals who receive benefits. The Division is then required to compare this information with unemployment claimant records to determine if individuals are improperly receiving the two types of benefits concurrently.

Mr. Crossman stated to ensure claimants are not receiving benefits concurrently, auditors recommend the Division institute a process to request workers' compensation claimant information from private carriers and compare it to unemployment claimant information, to detect and prevent improper payments.

Mr. Crossman stated the last section of the report deals with identifying claimants who have returned to work and are not reporting, or are under reporting their earnings, resulting in improper payments. Improper payments are a concern for the unemployment program nationwide. Because of the high rate of overpayments, the Federal Government has established initiatives for states to significantly reduce improper payments.

Mr. Crossman stated Nevada's improper payment rate associated with claimants that have returned to work was more than 5% in 2011 compared to a national average of 3.4%. According to the Department of Labor (DOL), improper payments related to claimants not properly reporting earnings after returning to work was \$29.5 million in CY 2011 in Nevada.

Mr. Crossman stated the largest component of the improper payments is claimants that return to work and continue to claim while under reporting or not reporting earnings as shown in Ex. 12. Earned wages reduce the amount of benefits claimants are paid.

Therefore, there may be incentive for people to not report, or under report, the amounts they are earning. To address this issue, the DOL has requested states to compare new hire information with claimant records to identify claimants that have returned to work.

Mr. Crossman stated the Division performs comparisons of records of newly hired people in Nevada and nationally with unemployment claimant records and has processes to scrutinize claims if certain scenarios are met.

Mr. Crossman stated the audit analysis only looked at cases the Division dismissed as being low risk to identify potential performance improvements that could help further reduce improper payments. The auditors looked at the lists of new hires that were also claimants, for 20 days and identified 497 individual cases the Division cleared as low risk. Of those, the auditors found 154 cases where there was the potential for improper payments to be made and where the Division could do more to identify such cases.

Mr. Crossman stated the auditors identified three areas for improvements based on the application of the Department of Labor's recommended operating procedures for the new hire process and our survey of seven states with low improper payment rates.

Mr. Crossman stated reported earnings need better scrutiny. The earnings reported by claimants are not sufficiently scrutinized to ensure the amounts reported are accurate. Reported earnings reduce the benefit paid to the claimant. The Division's practice is to accept any reported amount as reasonable when reviewing new hire hits and to rely on a quarterly review of certain reported earnings to identify errors. However, the Division's processes could be improved. The Division should scrutinize reported earnings at the time of the new hire and compare to employer reported wages when available. Additionally, it can improve its processes to systematically compare the reported earnings with the wages reported by employers on a quarterly basis.

Mr. Crossman stated in one case, a claimant reported earnings of \$240 in the week of the new hire date. In subsequent weekly claims, the claimant gradually reduced reported earnings to \$20 and continued to report \$20 for 12 straight weeks. Wages reported by the employer indicated the claimant only reported about 23% of actual earnings.

Mr. Crossman stated claim stops and a better record of new hire information are needed in the claims system. In certain cases when a claimant stops claiming after being hired, a stop could be placed on the account to require the claimant to contact a claims examiner to discuss the intervening employment, if they wish to reopen the claim. Additionally, the Division would benefit from recording basic new hire information in the claims information system to ensure that information is available to the claims examiner when and if the claimant calls to reopen the claim.

Mr. Crossman stated certain cases need additional review. The Division does not question a claim when the claimant does not report earnings after a new hire notice as long as the claimant reports some earnings within a month of the hire date. In these instances, claimants may not be reporting wages when earned, as is required, but rather wait until they are paid to report earnings. Furthermore, in some instances, claimants stopped filing after the new hire date but then returned to claim benefits later without reporting any earnings. All seven state auditors contacted indicated they investigate cases where no claim is made the week of the new hire date but claims are made in subsequent weeks.

Mr. Crossman stated the Division could improve its administrative controls over the new hire program by implementing a supervisory review process to ensure that its staff are consistently and properly treating new hire cases. Additionally, the Division's policies and procedures over this process need significant improvement.

Mr. Crossman stated Ex. 13 shows the recent trend of a higher percentage of cases being cleared and lower percentage of cases being investigated for potential problems. The information suggests more attention is needed to ensure cases are being properly classified.

Four recommendations were made to enhance the new hire process.

Mr. Crossman concluded his report stating the report also contains the audit methodology and the Division's response. The Division accepted all recommendations.

Chair Parks opened for questions from the Committee.

Assemblyman Hickey asked if DETR has shared its plans on introducing any bill draft requests (BDRs) for legislation regarding audit recommendations or should we follow-up with them ourselves.

Mr. Crossman responded that we did discuss with the Division its intention to amend a BDR that has already been submitted and the Division would be better able to address where that stands currently. The Division is in favor of legislation to ensure the Division would be able to obtain those records. The response in the audit report indicates the Division would request a legislative change in 2015 if legislation cannot be accomplished in the upcoming session.

Assemblywoman Carlton asked regarding the incarceration portion of the audit, did the auditors break it out as far as individuals waiting for trial or are these individuals all post sentence/trial incarcerations.

Mr. Crossman responded the auditors did not break it out in that manner. These individuals were incarcerated regardless of their status.

Assemblywoman Carlton expressed her concern and stated she understands the post-trial incarceration portion but not the before trial portion. An individual is innocent until proven guilty. What happens if an individual is in jail for one day and is able to post bond? How in depth were the auditors able to get into regarding the time of incarcerations?

Mr. Crossman replied that the individuals must be available to work for a majority of the week, at least four days to be eligible for benefits. If claimants were incarcerated four days or more in a benefit week, we considered them unable to obtain benefits because of their inability to work during that week. The information that we used for the periods of incarceration were from the records we received from the Department of Corrections and Washoe County, which indicated the days in which the claimants were in those facilities.

Assemblywoman Carlton stated there was no distinguishment between pretrial and post; therefore, we do not know where they stood as far as the adjudication of the individual's case.

Mr. Crossman replied we only received the intake and release dates.

Assemblyman Hickey stated as a stand in for the Committee he thanked the auditors for their work. Now having first-hand knowledge of what the Audit Division does and the value of this for all of us in the upcoming session. Especially, in providing greater efficiencies and finding more money so we can do more or less depending on what the Chairperson of Ways and Means leads us towards. Thank you.

Chair Parks invited the Employment Security Division to come forward and provide comments.

Kelly Karch, Deputy Administrator of Employment Security Division (Division) for the Unemployment Insurance Program, stated the demarcation point was July 2008 and in the past 4 ½ years the Division has had a heavy workload with many issues and has addressed all issues. The first priority is to get the benefits paid. In July 2008, the Federal Emergency Compensation Program was established and the Division began receiving a large number of Nevada unemployment claims. The Division did not have the staff at that time, but made sure payments were made. Payments were being made to more than 142,000 unemployed Nevadans weekly at one point. The Division is currently paying 61,000 Nevadans a week. The Division has remodeled the integrity unit with the DOL monies received. This provided new tools, doubled staff, and gave administrative support needed to continue to make progress in handling claims, fraud, and overpayment issues. The call centers continue to receive thousands of calls per day. The Nevada unemployment rate has been at historical levels.

Mr. Karch stated the Division has initiated several programs and the recommendations of the Legislative Counsel Bureau. This year tax returns will be garnished for individuals who owe the Division money. This has been a very successful program and Mr. Zuelke and others are working on this program to make sure improper payments or fraud payments are returned to the Division. Many states using this program received tens of millions of dollars as a result of this program. The Division has also implemented the AWARE Program to discover new types of fraud. The Silver Stampede Investigation in conjunction with the Federal Government found a ring of people defrauding the State for \$4.2 million. Three of those individuals are now serving time in a federal penitentiary. An integrity task force and IT staff meet to discuss new ways to discover fraud. The integrity work group meets to discuss national fraud. The Division website has a rogues gallery that has pictures of people who were convicted of felonies with their names and a description of the conviction. Currently, there are 30 cases in the Attorney General's Office regarding fraud. On December 12, 2012, the Division brought together the UIQ System, a social security cross match, to verify the applicant's identity.

Mr. Karch concluded stating the Division is three years into a modernization process because the current system is over 30 years old and anticipates the new system will go live in May or June of this year.

Chair Parks stated the report noted three deceased claimants received payments totaling \$40,000 and the background information referenced one individual continued collecting for 83 weeks in excess of \$33,000. He asked did the Division recover the funds and what is the process to recover funds for overpayments and fraud.

Mr. Karch replied there is a process to recover funds, but many Nevadans do not have funds right now with the economy and the loss of homes. However, there is a BDR that will clean up the garnishment system. The manpower to do a garnishment is unreasonable, so that will be discussed in the next legislative session. The Division hopes with this BDR passing the Division will be able to fast track the garnishment system for individuals who owe money from improper payments and fraud and recover those funds. As far as the case referred to he did not know if it was currently being investigated, but assured that it would be if not.

Chair Parks stated his concern for the individuals incarcerated who were able to game the system and share with other individuals incarcerated. He asked if the requirement of calling in weekly with claimant status and job search had been improved.

Mr. Karch replied the Division is working on getting weekly electronic bumps of state prison inmates data from prison records. A recent federal bulletin indicated incarceration information shared with the Social Security Administration must be shared with unemployment programs. The Division is working to get the database together. The UINV system will stop the claim immediately if the social security number of a

person shows as being an incarcerated individual. The system is moving to more of a regulatory process where the Division can use databases, including vital statistics, and compare information through technology. The increase in technology will help as the Division has limited resources and is doing investigations of fraud by hand. Since July 2008 the Division has investigated 242 cases, 182 of those were after July 2009. The Division is working on deterring fraud and has two criminal convictions of incarcerated individuals who committed fraud.

Chair Parks asked if state detention facilities and county and state facilities are cooperating with the Division.

Mr. Karch replied they are getting cooperation and the prison system is cooperating with the Division. The cities and counties may want payment because of the required work that needs to be done. The Division cannot pay funds out of the Trust Fund or administrative funds as they are used to keep the Division and Unemployment Insurance Program going. The Division is considering adding onto the statutes. Several BDRs are in process to work with UI system and fill in some gaps from over the years that have been exposed with the amount of claims processed.

Chair Parks stated he looks forward to seeing definition of these requirements as we go forward and not paying for services.

Assemblyman Hickey asked Mr. Karch if there were individuals other than the incarcerated or jailed individuals that were collecting benefits fraudulently and gaming the system and what can be done about that.

Mr. Karch replied the Division's processes to deter fraud include: searching databases, posting pictures on the website of those who commit fraud, messaging on telephonic queues, messaging of UI fraud on correspondence, and employers notifying the Division of new hires. A week or two without notification of a new hire adds to the process of collecting. Nevada took on the new hire list when many states were not doing it. The Division took it on and did it 100% at a time when there were a great number of claims. The Division has been working to inform claimants through claimant handbooks recently updated. Two hundred and fifty thousand handbooks are ordered each year and when we tell claimants it is in the handbook no one has one. It is an ongoing education. The employers are also responsible and it is up to them to report the new hire. The Division needs help evaluating who is out there, what they are doing in order to bring them in and see them in person. The system now is telephonic and soon will be more of an internet system. It is very important for the employers to cooperate. The Division sends flyers in their tax bills requesting them to report new hires.

Assemblyman Hickey stated he appreciated the response and attempted goals.

Assemblywoman Carlton read Recommendation 4, "Update eligibility policies addressing the inmates residing in residential confinement and transitional housing facilities." She stated those individuals are hopefully out looking for work as part of transitional housing and asked how the Division will be executing this recommendation.

Mr. Karch replied that the Division is updating all of the policies and procedures right now. If inmates are in halfway houses and can work and collect unemployment benefits as long as they have the ability to look for a job. For everyone to find work, is in everyone's best interest.

Assemblywoman Carlton stated this is a catch 22 with so much competition for every job out there. When an individual comes out of an institution and to a halfway house, he or she is probably not considered for a job. Barriers to success are important and the support can get the individual back into the community and back on the right path. She is looking forward to seeing the progress.

Assemblywoman Carlton asked if there has been any analysis on the employer modification factors and if the Division has looked at the modification rates by industry and percentage of unemployed that came from various industries.

Mr. Karch replied that the Division has not submitted anything to change the different tax classes at this time. If something like that is done, there is a great deal of analysis in the process to see what type of businesses are affected and the overall economic effect. The construction industry is naturally up and down. Nothing has been done at this time, but it may come up this session.

Assemblywoman Carlton stated she wanted to clarify again that there has been no real analysis or mining of data to show regarding these multiplication factors. Has the Division done an analysis of the impact of those employees in those industries?

Mr. Karch stated the Division has not done a formal analysis. This session there is no legislation proposed on that issue.

Chair Parks asked for further questions. None being made he called for a motion.

ASSEMBLYMAN GRADY MOVED TO ACCEPT THE REPORT ON THE DEPARTMENT OF EMPLOYMENT, TRAINING AND REHABILITATION EMPLOYMENT SECURITY DIVISION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN CARLTON. THE MOTION CARRIED UNANIMOUSLY.

Item 4— Presentation of Review of Governmental and Private Facilities for Children, December 2012 (NRS 218G.575)

Mr. Townsend stated this review of children facilities is conducted pursuant to statutes for children who have been placed in facilities by court order. He introduced Jane Bailey, Audit Supervisor, Sandra McGuirk, Deputy Legislative Auditor, and Mike Herenick, Deputy Legislative Auditor, to present the report.

Mr. Herenick began his presentation with an introduction of the report. The report includes the results of the auditors' reviews of 6 children's facilities, unannounced site visits to 12 children's facilities, and surveys of 60 children's facilities, as required by NRS 218G.570 through 585. The statutes require reviews of both governmental and private facilities for children. We identified 20 governmental and 40 private facilities in Nevada, for a total of 60 facilities. Ex. 1 shows the number of different types of facilities, their maximum capacity, and average population and staffing levels as of June 30, 2012.

Mr. Herenick stated 149 youths were placed in out-of-state facilities by a county or the State as of June 30, 2012. The youths were placed in 26 different facilities in 13 different states. Ex. 2 shows the number of youths placed in out-of-state facilities by the different placing agencies. Ex. 3 shows the number of youth placed in out-of-state facilities and the placing agencies over the past 3 years.

Mr. Herenick stated statutes require children's facilities to forward to the Legislative Auditor copies of complaints filed by children in their custody or on behalf of such a child. Auditors reported they received 1,039 complaints from 34 facilities in Nevada for the year ended June 30, 2012. The other 26 facilities reported that no complaints were filed during the year. In general, the reason a facility may report no complaints are filed may be because of the type of facility and/or the age of youths being served. For example, younger youths in a residential setting are more inclined to discuss their complaint rather than file a written complaint; therefore, a facility may report no complaints were filed.

Mr. Herenick stated the report contains the scope, purpose, and methodology. The reviews included an examination of policies, procedures, processes, youth files, management information, and complaints. In addition, the report discusses related issues and observed related processes during audit visits.

Mr. Herenick introduced Sandra McGuirk, In-Charge Deputy Legislative Auditor, to continue the presentation of the report, and present the conclusions and observations made during the reviews of the facilities.

Ms. McGuirk stated based on the procedures performed, and except as otherwise noted, the policies, procedures, and processes in place at all six facilities reviewed provide reasonable assurance the facilities adequately protect the health, safety, and welfare of the youths at the facilities, and they respect the civil and other rights of the youths. During the 12 unannounced visits conducted, the auditors did not note anything that caused us to question the health, safety, welfare, or protection of the rights of the children in the facilities.

Ms. McGuirk stated the report concluded a lack of supervision, including employee evaluations and training, may have contributed to numerous incidents regarding inappropriate staff behavior at Oasis On-Campus Treatment Homes, which could impact the safety and welfare of the children residing at the facility. These incidents, including inappropriate use of physical force and lack of supervision of the children by staff, were reported to Oasis' licensing agency, the Clark County Department of Family Services (DFS), in the past 2 years. Some of the reports were unsubstantiated by DFS while others were still being investigated. These reports and the subsequent DFS investigations resulted in an Oasis required action plan in June 2012. Oasis consists of five treatment homes with a maximum capacity of 28 youths. Oasis is operated by the Nevada Department of Health and Human Services, Division of Child and Family Services.

Ms. McGuirk stated a summary of our reviews of all six facilities is included in the report. All six facilities reviewed needed to develop or update policies and procedures. The types of policies and procedures that were missing, unclear, or outdated ranged from staff duties as mandatory reporters of suspected child abuse and neglect to contraband searches, including documentation of searches. Policies and procedures are needed to help ensure management and staff understand the facilities' processes and provide consistent services to the youths.

Ms. McGuirk stated five of the six facilities reviewed need to improve their medication administration processes and procedures. The auditors found youth medical files did not always contain complete or clear documentation of dispensed, prescribed medication at four of the six facilities reviewed. For example, some youths' files were missing evidence of physicians' orders at two of the six facilities. At one facility, a youth's file indicated medication was administered on days that did not exist. In addition, medication files and records did not always contain evidence of independent review at three of the six facilities.

Ms. McGuirk expressed the need for facilities to improve their implementation of medication policies. During the 2011 Legislative Session, the Legislature passed Senate Bill 246 that became effective January 1, 2012. The bill requires children's facilities to adopt policies to document medication administration and errors, and establish processes to minimize and address errors. However, Don Goforth Resource Center had not developed any policies or procedures related to medication administration at the time of the review. She was happy to report that on December 12, 2012, the Audit Division received a copy of Don Goforth's adopted medication policies.

Ms. McGuirk stated five of six facilities had either incomplete medication documentation or made errors during the administration of medications that went undetected until the review. Facilities could reduce the incidence of undetected errors by implementing a

process, such as an independent review, to identify errors and improve the quality of medication administration processes.

Ms. McGuirk explained an independent review is a process to review medication administration records and identify potential errors, fraud, or abuse. The auditors would like to commend Desert Willow Treatment Center for improvements to its medication administration processes since the last review in 2009. For example, Desert Willow Treatment Center has assigned staff who are not routinely involved in the medication administration process to compare medication records with physician and pharmacy orders, and verify medication records are complete. The process has contributed to the facility identifying, documenting, and addressing errors. In addition, the facility has included this process in its policies and procedures.

Ms. McGuirk stated that Ex. 4 in the report includes a map of the six facilities we reviewed. The report provides more detail on issues noted at each facility, as well as each facility's response. For example, on page 10 we discuss Caliente Youth Center beginning with some background information, followed by the purpose of our review, results in brief, observations, and the facility's response to each observation.

Appendices A through F are at the end of the report and contain a copy of Nevada Revised Statutes; glossary of terms; summary of common observations; background, population, and staffing information on 60 Nevada facilities; a list of unannounced Nevada facility visits; and the methodology used for the report

Ms. McGuirk concluded her presentation and offered to answer any questions the subcommittee may have.

Chair Parks thanked Ms. McGuirk and opened for comments.

Assemblyman Grady complemented the Audit Division on the work and expressed his concern that last session's requirements of medication administration policies are taking this long to implement. He asked why the process has taken over two years to implement.

Ms. McGuirk replied that yes there were significant issues regarding medication administration and therefore the law was passed by the Legislature. Another thing to remember, is the legislation that was passed last session did not become effective until January 2012. In this review, the auditors focused on whether the facilities reviewed had adopted those policies to comply with the statutes. The last facility that had not adopted those policies, that we are aware of, was Don Goforth Resource Center. They have now adopted the policies. The facilities are making progress, but there are still needed improvements.

Chair Parks stated it appears that some of the observations were done announced and some were unannounced and asked if there are more deficiencies found in an unannounced visit than an announced visit.

Ms. McGuirk replied the announced visits observations can be found in the Summary of Observations at Six Facilities Reviewed in Appendix C of the Report. The difference between announced and unannounced site visits is for the unannounced site visits, we call them an hour in advance to tell them that we are coming to look at their facility. We are only there for a couple of hours. At that time, auditors use their eyes and ears to determine issues that need to be rectified. In terms of full reviews (announced visits) of the six facilities included in the report, we did spend at least 4 days at each of the facilities and therefore being able to find issues that need to be fixed.

Ms. McGuirk also stated another difference between the reviews and unannounced site visits is in the reviews, auditors pull a judgmental sample of personnel files as well as youth files. This is where a majority of issues are found. In the unannounced visits, we do not look at files.

Chair Parks opened for further questions. None being made he thanked the audit staff and asked if Kelly Wooldridge of DCFS would like to come forward and comment on the review.

Kelly Wooldridge, Deputy Administrator, Children's Mental Health, Child and Family Services, thanked the audit staff for doing this vital service of reviewing Nevada children's facilities and stated the children's facilities that she manages are Family Learning Homes, Adolescent Treatment Center, Oasis On-Campus Treatment Homes, and Desert Willow Treatment Center. In response to the audit, action has been taken for every recommendation made. In terms of medication administration policy, in March 2012, the draft policy was given to Mental Health Commission, suggestions were made, and it was finalized in June 2012. Changes to our medication administration and management policies, additional changes found, and all of the changes to policies that LCB has recommend will be forwarded to the Legislative Commission.

Ms. Wooldridge stated Oasis-on-Campus Treatment Homes has implemented a rigorous action plan to improve services and treatment for the youth placed there. There have also been some management changes.

Chair Parks asked if Ms. Wooldridge was aware of any bill draft request that have been submitted relevant to the review of these facilities for next session.

Ms. Wooldridge replied she was not aware of any bill draft request that would affect the review.

Chair Parks asked if there was anyone else that wanted to come forward and comment.

Steve McBride, Deputy Administrator, Juvenile Justice Services, Division of Child and Family Services, thanked the auditors for the review of the Caliente Youth Center and their findings, resulting in benefits of improved policies, practices, and procedures. Recommendations have been implemented in a number of areas. Specifically, in the revisions of individualized programs policy files, reviews have been conducted to ensure timely treatment plan development. Plans are dated and signed as required. The dated copies are placed in the youth's master file and that is done by the mental health counselor and tracked by the administrative assistant. All treatment plans were verified current and complete as of December 7, 2012.

Mr. McBride stated regarding the recommendation for periodic review of policies and procedures, 9 policies have been reviewed and revised as of November 30, 2012. The total 113 policies should be reviewed and revised on an annual basis. The medication administration process is a priority with ongoing review of policy protocol and practice as indicated in the written response. Cheeking prevention protocol was reviewed, read, and signed by all nursing staff with random observations done by the superintendent. Additionally, there has been ongoing supervision on following medication refusal documentation and the practice of ensuring the youth is present before removing medication from sealed containers for administration.

Chair Parks asked for further questions none being made he opened for further comments. None being made he moved for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE REVIEW OF
GOVERNMENTAL AND PRIVATE FACILITIES FOR CHILDREN. THE
MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY. THE
MOTION CARRIED UNANIMOUSLY.

Item 5— Presentation of SIX-MONTH REPORTS (NRS 218G.270)

A. Office of Governor, Office of Energy

Mr. Townsend stated there are four six-month reports and these are the reports prepared by the Department of Administration. The Department reviews the audit recommendations six months after the sixty-day plan of corrective action has been filed, and verifies the implementation status and reports back to the Audit Division. Auditors then communicate these results to the Audit Subcommittee. He introduced Rocky Cooper, Audit Supervisor, to present the report.

Mr. Cooper stated in February 2012, the Audit Division issued an audit report on the Office of Energy. The six-month report on the status of the 14 recommendations showed the Office has made a lot of improvements. Twelve recommendations were fully implemented and two were partially implemented.

Two of the partially implemented recommendations relate to statutory requirements for developing a plan to reduce grid based energy consumption in state owned buildings. State law requires the director to prepare a plan requiring executive branch agencies to reduce grid based energy purchases for state-owned buildings by 20% by 2015. This law became effective in 2005. Although a plan has not been developed, steps are being taken to reduce grid based energy consumption in state buildings.

The Office's six-month report indicates data has been collected regarding information on energy consumption. The Office reported current information indicating the State has now achieved an 8.3% reduction since 2005. Senate Bill 358 of the 2009 Legislative Session required the Office to file biannual reports with the Legislative Commission indicating the general progress towards energy reduction in state buildings. Biannual reports have not been filed with the Legislative Commission. The Office's six-month report indicates various strategies are under consideration by the Office and the Public Works Division to achieve additional reductions in energy consumption. When more specifics have been developed, these strategies together with a general discussion of the progress to date will form a basis for those biannual reports.

The auditors have two questions for the agency.

When does the Office anticipate it will be able to develop a plan to reduce grid based energy consumption in state-owned buildings?

When does the Office anticipate it will be able to file biannual reports with the Legislative Commission?

Brita Tryggvi, Deputy Director, Office of Energy, replied regarding the first question. As mentioned in the Office's response of October 25, 2012, various strategies are under consideration by the Office and the Public Works Division to achieve additional reductions in energy consumption in state-owned buildings by 2015. These strategies are in various stages of finalization and the Office is attempting to quantify the cost of each strategy and the amount of energy saved. As soon as the strategies have been completely thought out, the Office will present them to the Department of Administration and to the Governor's Office with the goal of having a package ready to present to the Legislature in February 2013. The Office intends the strategies together with necessary backup documentation will become the plan as referenced in NRS 701.215. The plan will likely require financial and staff resources from multiple agencies, thus needing appropriate approvals.

Regarding the second question, the Office anticipates the biannual report could be filed in July of every odd number year. This timing will correspond with the timing of the status report that is submitted to the Governor and the Director of the Legislative Counsel Bureau on July 1 of every year. This year, for the first time, the 2011 status report included information on the general progress being made towards reducing energy consumption in state-owned buildings. The Office intends to continue including this information in the status report. Therefore, preparation of the biannual report could

logically follow preparation of the status report. As a side note, the information in the status report is always for the preceding year. For example the status report that was submitted on July 1, 2012, presented data for calendar year 2011.

Chair Parks asked why reporting is made to the Legislature on odd years after the Legislature adjourns. Reporting could be sooner so issues could be addressed during session years also. He thanked Ms. Tryggvi for her comments.

Mr. Townsend noted on this report and others where all the recommendations are not fully implemented we will be monitoring the progress of that and report back to the Subcommittee the progress made.

Chair Parks asked for further comments. None being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE OFFICE OF GOVERNOR, OFFICE OF ENERGY.
THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND
CARRIED UNANIMOUSLY.

B. Department of Administration, Buildings and Grounds Section

Shannon Ryan, Audit Supervisor, stated in February 2012, the Audit Division issued an audit report on the Department of Administration, Buildings and Grounds Section. That report had 10 recommendations. A corrective action plan was filed in April 2012 and the six-month report was received on October 29, 2012. Based on that report, the Section has implemented five recommendations. The five remaining partially implemented recommendations relate to ensuring performance measures and information submitted to the Legislature are accurate and agency lease payments are proper. The Audit Division noted the partially implemented recommendations and the anticipated date for full implementation in a letter contained in the Subcommittee's packet. The auditors would like to discuss with agency personnel whether the time frames estimated for full completion of the recommendations continue to remain accurate.

The auditors have two questions for the Section.

Has the Section made progress on the three recommendations noting December 31, 2012, as the implementation date?

Is the Section still on target to meet its planned implementation dates of June 30, 2013 and September 30, 2013, for the recommendations related to developing IT solutions and reviewing marketing data?

Chair Parks thanked Ms. Ryan for her presentation and asked the Section to come forward to comment.

Gus Nunez, Administrator, Public Works Division, stated Buildings and Grounds (B&G) is a Section in the Public Works Division after the merger in last biennium. Julie Kidd,

oversees the leasing services of B&G, and Peter Etchart, P.E., Chief Engineer, oversees the maintenance function of B&G accompanied by Mr. Nunez. Since the questions deal with leasing services, he had Julie Kidd address the questions asked.

Julie Kidd, Leasing Services Section, Public Works Division, replied regarding the first recommendation to develop written policies and procedures for performance measures to ensure reported results are reliable including, data gathering processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation. The Section will complete this recommendation by December 31, 2012. The Section is in the process of developing written policies and procedures for performance measures to ensure reliable reporting. Policies will require retention of supporting documentation to evidence results of data gathering and processing, computations, supervisory review of computations, and methodology.

Regarding recommendation six to develop procedures to ensure management reviews and approves information published and submitted to the Legislature, there is a draft policy to ensure management reviews and approval has been generated, which is currently under review. The Section anticipates it to be fully implemented by December 31, 2012.

Recommendation seven to develop a procedure to assist state agencies, ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement; the Section is on track for implementation by December 31, 2012. A draft policy to assist agencies in ensuring lease payments on renegotiated leases are made in conformity with the proper lease agreements is under review.

Regarding recommendation three to use information technology solutions to create efficiencies and assist staff in calculating performance measures, the Section anticipates this will be implemented by June 30, 2013. The Section has begun work on a database and engaged temporary staff members to perform data input necessary for creating the system and are currently testing and augmenting the system's reporting capabilities.

Recommendation four is to periodically review the appropriate market data analysis to assess and obtain the lease rates in terms that are most beneficial to the State and document the analysis of market rates and trends to negotiated lease rates and terms. The Section has partially implemented this recommendation and foresees full implementation by September 30, 2013. The procedures have been updated to periodically review appropriate market data analysis to be at rates and terms that are beneficial to the State. The Section requested funds in its 2014-2015 budget for a third party market data subscription. The information provided through the subscribing service will help in the analysis of market rates and trends. Once the market data technology is implemented, procedures will be translated to section policy for review and approval by administration.

Chair Parks thanked Ms. Kidd for her comments and opened for questions, none being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF ADMINISTRATION, BUILDINGS AND GROUNDS SECTION. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

C. Department of Administration, Division of Enterprise Information Technology Services

Doug Peterson, Information Systems Audit Supervisor, stated in February 2012 the Audit Division issued an audit report on the Department of Administration, Division of Enterprise Information Technology Services. That report had 15 recommendations. As of October 2012, the Department of Administration indicated 11 recommendations were fully implemented and four were partially implemented. The first recommendation was to update the state's primary computing facilities contingency plan and the Division has reported working on an update to the continuity of operations and its disaster recovery plan. This update includes conducting testing and exercises to identify and prioritize hardware or software requirements to recover information in a contingency. The auditor's first question is:

When does the Division anticipate having an updated contingency plan?

David Gustafson, Administrator, Division of Enterprise Information Technology Services, State Chief Information Officer, replied within six months the Division will have an updated contingency plan. The Division team will be putting the core infrastructure for what the Division is responsible for within the updated plan within six months.

Mr. Peterson stated the second recommendation was to develop a plan to periodically test the state's primary computing facilities IT emergency plans. The Division is continuing to compile documentation from a test to confirm the State has necessary platforms available to restore critical IT resources in an orderly and timely manner. The auditor's second question is:

When does the Division anticipate developing this plan to periodically test facilities' IT emergency plans?

Mr. Gustafson replied the Division also recognizes the need to establish this periodic testing and has adjusted the budget request to do so, and is looking forward to legislation for help. The positions the Division had in the past dedicated to disaster recovery were eliminated years ago. This is why plans are outdated and testing not done.

Mr. Peterson asked if Mr. Gustafson could clarify when the plans will be finished?

Mr. Gustafson replied a package is going to the Legislature that includes hardware, software, and employee resources; to fund specifically for disaster recovery, testing continuity, planning, and testing going forward. If that package is approved, then the Division will be initiating the recommendation as soon as the Legislative Session is over.

Assemblywoman Carlton asked what it is and why it's not in the budget?

Mr. Gustafson replied he could not share what is in the budget.

Assemblywoman Carlton said she understands. Remembering the saying do not kill the messenger she appreciated the honesty.

Chair Parks stated it is a compilation of multiple agencies.

Mr. Peterson stated recommendation three was to conduct an initial high-level statewide risk assessment to identify and prioritize security risks, including a base line that can be built upon in subsequent years. The Division is indicating that it is re-enabling a program that was previously maintained by the prior disbanded Planning Division.

The auditor's third question is:

When does the Division anticipate completing this high-level risk assessment?

Mr. Gustafson replied within six months. The Critical Business Technology Assessment Program has already been restored. The Division has begun compiling questionnaires for agencies, and boards and commissions. The Division team is not convinced they can do this in 20 questions, but does have some idea of what is out there. That will be out to the agencies, boards, and commissions by mid January. By the time we get the results back, compile, assimilate, and work with staff to get it out will be six months.

Mr. Peterson stated recommendation seven was to require the Division to conduct quarterly reviews of user lists, as indicated in the state information security standards, and the Division is working to conduct those quarterly reviews of lists. The Division is in the process of automating the review process. They do indicate that they expect to establish the ability to conduct the recommended reviews by January 2013. The last question is:

Does the Division still anticipate full implementation by January 2013?

Mr. Gustafson replied yes, the Division will have full implementation of the seventh recommendation by January 2013 and the reviews will be conducted quarterly going forward.

Chair Parks opened for further comments, being none he turned the discussion to Mr. Townsend.

Mr. Townsend stated the efforts of the Division are appreciated and it has done a good job working on the recommendations. Some of the recommendations are fairly significant. He requested the Division return for a future meeting after the legislative session to discuss the progress being made.

Chair Parks concurred and stated IT security is a major issue in every area and opened for motion on further review of the recommendations and accept the report.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH
REPORT ON THE DEPARTMENT OF ADMINISTRATION, DIVISION OF

ENTERPRISE INFORMATION TECHNOLOGY SERVICES. THE MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND CARRIED UNANIMOUSLY.

D. Department of Motor Vehicles

Doug Peterson, Information Systems Audit Supervisor, stated in February 2012 the Audit Division issued an Audit Report on the Department of Motor Vehicles. The Report had 16 recommendations. In October 2012, the Department of Administration indicated that 14 recommendations were fully implemented and two were partially implemented. Recommendation 4 was to improve the process and procedures over reconciliation of the Department and state accounting systems. The Department of Motor Vehicles has revised existing policies and procedures over the reconciliation process. The first reconciliation will be completed within 45 days from the end of September. The first question is:

Has the Department completed this first reconciliation?

Troy Dillard, Interim Director, Department of Motor Vehicles, replied he wished this meeting was in two weeks as there would be nothing to talk about. Unfortunately, the Department was unable to meet the 45 days due to uncontrollable circumstances. He introduced Deborah Cook, Chief of Administration, to explain further.

Deborah Cook, Chief of Administration, Department of Motor Vehicles, replied the Department was unable to meet the deadline due to turnover of key staff during this time. The position has been filled and that person is doing the reconciliations. However, the Department has not been able to meet the deadline established.

Mr. Peterson asked the Department when it anticipates completion of the reconciliation.

Ms. Cook replied the Department should be able to complete the reconciliation within 2 weeks.

Mr. Peterson stated Recommendation 14 was to develop a single strategic planning document. The Department is in the process of developing this document and indicated an anticipated full implementation date of December 31, 2012. The question is:

Does the Department still anticipate this full implementation date?

Mr. Dillard replied yes.

Mr. Peterson expressed the Audit Division's appreciation to the DMV for its efforts and completing the majority of the recommendations before this point and getting the last two closely finished.

Chair Parks stated the Audit Division will continue to monitor the completion of these recommendations and opened for questions and comments, none being made he called for a motion.

ASSEMBLYWOMAN CARLTON MOVED TO ACCEPT THE SIX-MONTH REPORT ON THE DEPARTMENT OF MOTOR VEHICLES. THE

MOTION WAS SECONDED BY ASSEMBLYMAN HICKEY AND
CARRIED UNANIMOUSLY.

Item 6—Public Comment

Chair Parks called for public comment. He noted there was none.

Chair Parks adjourned the meeting.

The meeting adjourned at 12:22 p.m.

Respectfully submitted,

Deborah Anderson, Audit Secretary

Assemblywoman Maggie Carlton, Chair
of the Audit Subcommittee
of the Legislative Commission

Paul V. Townsend, Legislative Auditor
and Secretary to the Audit Subcommittee
of the Legislative Commission

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

5a

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December 27, 2013

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

In September 2012, we issued an audit report on the Department of Business and Industry, Division of Insurance. The Division filed its plan for corrective action in December 2012. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 10 recommendations contained in the audit report. As of June 18, 2013, the Department of Administration indicated all 10 recommendations were fully implemented. Therefore, we have no questions for agency officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Scott Kipper, Commissioner, Division of Insurance

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: June 18, 2013

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

On September 19, 2012, your office released an audit report on the Department of Business and Industry, Division of Insurance (Division). The Division subsequently filed a corrective action plan on December 18, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

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

Recommendation 1

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

Status – Fully Implemented

Agency Actions – The Division implemented a monitoring process to help ensure timely collection of all accounts receivable for annual fees. In addition, the new process includes time frames for performing internal collections efforts.

Discussions with staff revealed that SIRCON, a robust insurance industry database software, is now being used to monitor all accounts receivable to ensure timely collection efforts.

We reviewed the policies and procedures and determined the monitoring process is achieving the desired results. Additionally, the accounts receivable aging report disclosed a reduction of \$163,000 from the outstanding debt noted in the audit report.

Recommendation 2

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

Status – Fully Implemented

Agency Actions – The Division developed a monitoring process to help ensure timely collection of all examination fees. The Division represents that the process is now fully automated. We reviewed the Division's monitoring policy for receipt tracking, and verification of examination bills. The policy also states that any 60 days overdue will be transferred to the State Controller's Office for collection. The Division represents that hearings are scheduled if the respondent does not agree with the bill imposed through the examination process.

The Division stated that one insolvent account is under a receivership and collection efforts cannot be pursued without a court's approval. Once the approval is received, collection efforts will continue on all non-current past due accounts.

Recommendation 3

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

Status – Fully Implemented

Agency Actions – The Division developed policies and procedures for collection of past due insurance premium tax. We reviewed the new policies and procedures and noted an administrative assistant and an analyst are now responsible for monitoring timely premiums and initiating collection efforts on

unpaid premiums. The procedures include issuing demand letters and referring past due accounts to their Legal Section.

Recommendation 4

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

Status – Fully Implemented

Agency Actions – The Division developed policies and procedures for companies in the process of dissolution to help ensure all past due taxes and fees are collected. We reviewed the policies and procedures and noted processes which include notification of the Legal Section on overdue accounts and actions to be taken to transfer accounts to the Controller's Office for collection.

Recommendation 5

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

Status – Fully Implemented

Agency Actions – The Division revised policies and procedures to help ensure key required industry reports for domestic companies are reviewed timely.

We reviewed the new policies and procedures and noted they require an analyst and an administrative assistant to monitor industry reports to ensure filing deadlines are being met. Additionally, the policies and procedures require bi-weekly meetings of the Chief Insurance Examiner and Assistant Chief Insurance Examiner to ensure these reports are filed and reviewed on a timely basis.

Recommendation 6

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

Status – Fully Implemented

Agency Actions – The Division developed policies and procedures to help ensure key required industry reports for pure captives are submitted and reviewed timely.

We reviewed the policies and procedures and noted they require an analyst and an administrative assistant to monitor industry reports to ensure filing deadlines are being met. Additionally, the policies and procedures require bi-weekly meetings of the Chief Insurance Examiner and Assistant Chief Insurance Examiner to ensure these reports are filed and reviewed on a timely basis.

Recommendation 7

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

Status – Fully Implemented

Agency Actions – The Division disclosed they revised policies and procedures to help ensure reports for Third Party Administrators, and other key required reports monitored by the Producer Licensing Section, are submitted and reviewed timely.

We reviewed the new policies and procedures and determined that new guidelines have been established to ensure timely submission and review of required reports for Third Party Administrators. The Division also developed new tracking checklists to be used in performing these review process.

Recommendation 8

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

Status – Fully Implemented

Agency Actions – The Division developed policies and procedures to help ensure key required industry reports for self-insured worker's compensation companies are submitted and reviewed timely.

We reviewed the new policies and procedures and noted they include detailed steps to be followed by analysts to ensure reports are submitted and reviewed timely. They also include provisions to refer companies with untimely reports to the Legal Section for appropriate action.

Recommendation 9

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

Status – Fully Implemented

Agency Actions – The Division developed a monitoring process to help ensure appropriate, consistent, and timely enforcement action when companies do not comply with reporting requirements.

We reviewed the new monitoring process noting the corporate and financial affairs section's analyst assigned to each company is now responsible for monitoring the receipt of filing and initiating enforcement actions. Companies that file their reports late are now subject to fines up to \$3,000. If the reports are still late after a demand letter, the matter is referred to the Legal Section for suspension or dissolution after 60 days following the suspension.

Recommendation 10

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

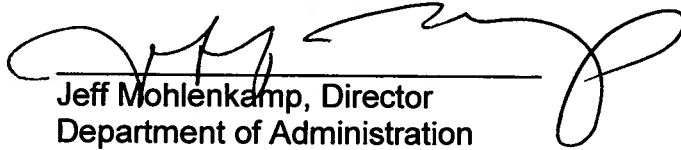
Status – Fully Implemented

Agency Actions – The Division developed a monitoring process to help ensure examinations of title companies and self-insured workers' compensation companies are performed timely. The Division provided a Domestic Entity Examination Tracking policy that includes regulation of both title companies and self-insured workers compensation groups.

We reviewed examination schedules for title companies and self-insured workers' compensation companies to be completed over the next three years. We determined based on information provided that the Division is making progress towards completing the required examinations.

Paul Townsend, Legislative Auditor
June 18, 2013
Page 6

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry
Scott J. Kipper, Commissioner, Division of Insurance
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the 10 recommendations.

Recommendation Status

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

Division of Insurance

Department of Business and Industry

Summary

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

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

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

Key Findings

Our review of past due annual fees found: (1) untimely collection efforts, (2) accounts for inactive companies were not sent to collections timely, (3) invoices improperly issued were not voided timely, and (4) payments were not entered in the accounting system timely. All 36 invoices tested had problems. For example, two active companies owe annual fees that were due March 2011. There was no evidence of collection efforts prior to our inquiries in May 2012. NRS 680A.180 requires each insurance company authorized to transact insurance in Nevada to pay an annual continuation fee. If the continuation fee is not paid timely, an insurer's certificate of authority expires at midnight on May 31. (page 6)

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

Controls need to be improved for required industry reports monitored by the Producer Licensing and Workers' Compensation Sections. We found follow-up was not timely when companies did not submit certain reports and reports were not always reviewed timely. For example, 15 of 20 Producer Licensing reports and 17 of 20 Workers' Compensation reports were not reviewed timely. (page 14)

DOI did not take timely enforcement action when certain reporting requirements were not met. For example, we tested 25 workers' compensation companies and found enforcement was not timely for all 25 companies. It took from 74 to 335 days after the report was due until a Consent to Fine (CTF) was issued. This included 16 instances of no action for 150 days or more. It is inequitable when some companies do not comply with laws and regulations, and enforcement is not timely. In addition, when action was taken to issue a CTF many were issued in error. A CTF involves a matter that has not gone to hearing. For instance, a CTF should be sent when a party has failed to file a required report. It is an offer made to the party to settle for a fine amount that is usually less than the maximum allowed in statute. (page 15)

DOI did not always ensure title companies and workers' compensation companies had timely examinations. According to DOI records, 33 of 53 title companies did not have an examination in 2011. We selected 20 of these companies and found no evidence of an examination. NRS 692A.100 requires annual examinations of title companies, title agents, and escrow companies. The purpose of these examinations is to determine the company's financial condition, fulfillment of contractual obligation, and compliance with law. We also found exceptions for 14 of 30 workers' compensation companies tested. The purpose of these examinations is to determine the adequacy of the company's security deposit; sufficiency of reserves; and the reporting, handling and processing of claims. (page 18)

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

5b

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December 27, 2013

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

On February 11, 2013, we issued an audit report on the Department of Conservation and Natural Resources, Division of Forestry. In that report we made six recommendations to assist the Division in improving oversight and control activities regarding conservation and camp project work. The Division filed its plan for corrective action in May of 2013. NRS 218G.270 requires the Department of Administration to issue a report within six months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

The Department of Administration reported in November 2013 on the status of the six recommendations contain in the audit report. The Department indicated all six recommendations were fully implemented. We agree and therefore do not have any questions for agency officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Leo M. Drozdoff, Director, Department of Conservation and Natural Resources
Pete Anderson, State Forester Firewarden

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: November 7, 2013

Subject: Legislative Audit of the Division of Forestry

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

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

Recommendation 1

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

Status – Fully Implemented

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

Recommendation 2

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

Status – Fully Implemented

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

Recommendation 3

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

Status – Fully Implemented

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

Recommendation 4

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

Status – Fully Implemented

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

Recommendation 5

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

Status – Fully Implemented

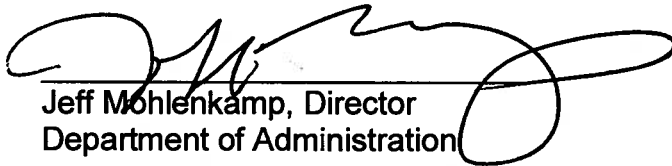
Agency Actions – The Division revised existing policies and procedures for the compilation of monthly reports to ensure accuracy and completeness, including the analysis and review by the central office of project cost allocations for less than full rate projects. We reviewed fiscal year 2014 first quarter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

Recommendation 6

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

Status – Fully Implemented

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



Jeff Mohlenkamp, Director
Department of Administration

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

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

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

Audit Recommendations

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

NDF accepted the six recommendations.

Recommendation Status

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

Division of Forestry

Department of Conservation and Natural Resources

Summary

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

Key Findings

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

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

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

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

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

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

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December 27, 2013

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

In April 2012, we issued an audit report on the Department of Business and Industry, Housing Division. The agency filed its plan for corrective action in July 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the three recommendations contained in the audit report. As of January 14, 2013, the Department indicated that all three recommendations were fully implemented. We agree and therefore do not have any questions for agency officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Bruce Breslow, Director, Department of Business and Industry
Bruce K. Johnson, Administrator, Housing Division

SIX-MONTH REPORT



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

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 14, 2013

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

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

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

Recommendation 1

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

Status – Fully Implemented

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

Recommendation 2

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

Status – Fully Implemented

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

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

Recommendation 3

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

Status – Fully Implemented

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

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



Jeff Mohlenkamp, Director
Department of Administration

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

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the three recommendations.

Recommendation Status

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

Housing Division

Department of Business and Industry

Summary

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

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

Key Findings

The Division established an effective process to ensure ARRA weatherization funding was spent timely and directed at cost-effective weatherization measures. This funding was allocated throughout the State to help low-income families. Our review of 100 files, totaling about \$1 million in project costs, identified that funds were spent on priority measures that were billed according to pre-approved contractor prices. (page 5)

The Division has established controls to monitor subrecipients. Our review of 100 project files found subrecipients were timely when: (1) approving applications, (2) performing energy assessments, (3) completing projects, and (4) performing final project inspections. The Division's controls help provide reasonable assurance that subrecipients' activities comply with program requirements and that weatherization funds are used appropriately. (page 6)

The Division has established controls to ensure effective monitoring of contractors' work. Effective monitoring of contractors helped ensure approved weatherization measures were installed and the workmanship was of good quality. Our inspection of 40 homes identified only a few instances where measures paid for were not installed. These uninstalled measures totaled \$1,092 of approximately \$405,000 in project costs, less than 1% of the amount inspected. Although monitoring was effective, we identified a few instances where inspection forms, used by the subrecipients to review contractor work, were not properly completed. (page 7)

The process to determine applicant eligibility for the weatherization program can be strengthened. Although subrecipients documented applicants' reported income and household size, additional documentation and procedures would help verify all household income is correctly reported. For 19 of 100 weatherization files tested, better documentation was needed to support the applicants' incomes. In addition, 28 files contained conflicting documentation pertaining to the household size. When adequate steps are not taken to verify applicants' incomes, limited weatherization funding may not be available for those applicants that need it the most. (page 9)

The Division has reliable performance information related to its weatherization activities. Our testing found only a 4% error rate when reviewing weatherization information used by the Division to report performance. Reliable performance information is important so the Division can monitor subrecipients' weatherization activities. Furthermore, governing officials and citizens can use this information to evaluate the results of the Division's program. (page 13)

The weatherization data reported by the Division is reliable; however, additional training and monitoring can improve data accuracy in a few areas. Although our testing identified an overall error rate of only 4%, the errors identified occurred more frequently in certain areas. For example, for 28% of the files reviewed, subrecipients did not input the correct draft reduction amounts realized through their installation of weatherization measures. Providing additional training and monitoring to subrecipients will help improve data reliability in areas where errors were more frequent. (page 14)

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
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DONALD O. WILLIAMS, *Research Director* (775) 684-6825

December 27, 2013

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

In April 2012, we issued an audit report on the Substance Abuse Prevention and Treatment Agency (SAPTA) within the Division of Mental Health and Developmental Services (now a part of the Division of Public and Behavioral Health). The audit report contained nine recommendations to help ensure grant recipients comply with audit requirements that provide assurance funds are spent for intended purposes. In addition, the report contained seven recommendations to improve fiscal monitoring performed by SAPTA personnel to provide additional assurance about subrecipients' use of grant funds. SAPTA filed its plan for corrective action in July 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 16 recommendations contained in the report. As of January 14, 2013, the Department of Administration indicated that seven recommendations were fully implemented and nine recommendations were partially implemented. Based on our subsequent follow-up with SAPTA personnel, we have determined that all partially implemented recommendations are now fully implemented and we do not have any questions for agency officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of Governor
Steve Weinberger, Administrator, Division of Internal Audits
Jeff Mohlenkamp, Director, Department of Administration
Michael J. Willden, Director, Department of Health and Human Services
Richard Whitley, Administrator, Division of Public and Behavioral Health
Mary Wherry, Acting Agency Director, SAPTA

SIX-MONTH REPORT



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

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: January 14, 2013

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

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

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

Recommendation 1

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

Status – Fully Implemented

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

Recommendation 2

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

Status – Partially Implemented

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

Recommendation 3

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

Status – Partially Implemented

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

Recommendation 4

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

Status – Partially Implemented

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

Recommendation 5

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

Status – Partially Implemented

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

Recommendation 6

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

Status – Fully Implemented

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

Recommendation 7

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

Status – Fully Implemented

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

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

Recommendation 8

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

Status – Fully Implemented

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

Recommendation 9

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

Status – Fully Implemented

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

Recommendation 10

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

Status – Partially Implemented

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

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

Recommendation 11

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

Status – Fully Implemented

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

Recommendation 12

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

Status – Fully Implemented

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

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

Recommendation 13

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

Status – Partially Implemented

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

Recommendation 14

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

Status – Partially Implemented

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

Recommendation 15

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

Status – Partially Implemented

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

Recommendation 16

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

Status – Partially Implemented

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

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



Jeff Mohlenkamp, Director
Department of Administration

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

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Agency accepted the 16 recommendations.

Recommendation Status

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

Substance Abuse Prevention and Treatment Agency

Department of Health and Human Services

Summary

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

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

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

Key Findings

We examined the last two years' audit reports on the 5 coalitions and 10 treatment providers that were awarded the most funds from SAPTA in fiscal years 2010 and 2011. The 15 subrecipients were awarded nearly \$34 million in those years, which was 73% of the total awarded by SAPTA. Eight of 30 (27%) audit reports did not examine whether funds were used for the grants' intended purposes or indicate compliance with other grant requirements. (page 6)

Subrecipients submitted audit reports late in over half of the reports we tested. In 11 of 16 (69%) late reports, SAPTA did not follow up after the audit report was late, or waited more than 30 days to contact them. Furthermore, SAPTA imposed sanctions on only one subrecipient, and only after the subrecipient did not submit audit reports for 3 consecutive years. (page 8)

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

SAPTA did not detect that a subrecipient provided forged audit reports for several years. Forged reports were submitted for fiscal years 2007 through 2010. Due to concerns upon reviewing the photocopied reports, we contacted personnel at the CPA firm whose name was on the forged reports and verified that the firm did not prepare them. As required by NRS 218G.140(2), we reported this information to the Governor, each legislator, and the Attorney General. (page 11)

None of the five coalitions tested had timely fiscal monitoring visits. Monitoring visits were late from 6 months to over 3 years, and averaged 20 months past due. Half of the 10 treatment providers had untimely fiscal monitoring site visits. Of these, SAPTA was unable to provide documentation when its largest treatment provider was last subject to a fiscal monitoring site visit. This provider received nearly \$7.1 million in fiscal years 2010 and 2011. (page 16)

Documentation of procedures performed on monitoring visits was not sufficient to verify that staff properly performed important steps. Two of five fiscal monitoring forms for coalitions, and four of nine treatment providers, had insufficient documentation to support conclusions the reviewer reached. (page 17)

Three of the subrecipients' fiscal monitoring forms we tested reported problems that required follow-up. Follow-up to make sure the coalitions took timely, appropriate corrective action was insufficient in all cases. For example, a monitoring visit in April 2011 noted significant concerns about a subrecipient's use of funds, yet SAPTA continued making payments through September 2011. (page 19)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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December 27, 2013

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

In September 2012, we issued an audit report on the Division of State Lands. The plan of corrective action was filed in December 2012. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the three recommendations contained in the audit report. As of June 18, 2013, the Department of Administration indicated all three recommendations were fully implemented. We agree and therefore do not have any questions for agency officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

Enclosure

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
James Lawrence, Administrator, Division of State Lands

SIX-MONTH REPORT



**STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION**

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

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: June 18, 2013

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

On September 19, 2012, your office released an audit report on the Department of Conservation and Natural Resources, Division of State Lands (Division). The Division subsequently filed a corrective action plan on December 18, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

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

Status – Fully Implemented

Agency Actions – The Division developed written procedures on how performance measures are computed including the methodology and source documents used and retained. We compared the old procedures to the newly developed procedures and noted significant changes. We also reviewed the methodology and source documents used and retained for reasonableness.

Recommendation 2

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

Status – Fully Implemented

Agency Actions – The Division modified their procedures to ensure all performance measures include a descriptive title that clearly indicates what is being measured. We reviewed performance measures dated April 22, 2013 and noted the new titles used in the performance measures clearly describe the activities being measured.

Recommendation 3

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

Status – Fully Implemented

Agency Actions – Discussions with staff and review of new procedures disclosed that reviews of the above are now being performed at least on a quarterly basis by the management team including the administrator and deputy administrator.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Leo Drozdoff, Director, Department of Conservation & Natural Resources
James Lawrence, Administrator, Division of State Lands
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the three recommendations.

Recommendation Status

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

Division of State Lands

Department of Conservation and Natural Resources

Summary

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

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

Key Findings

The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013, specifically, the Executive Budget and the Priorities and Performance Budget. The measures are also included in the Division's strategic plan and are linked to its goals and objectives. Of the seven performance measures, we found three measures were not adequately supported. The supporting records were not retained or could not be provided. Performance measures cannot be considered reliable unless they are supported by sufficient underlying records. In addition, the Division's description for one measure did not accurately reflect the reported information. The Division lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures and insufficient review of the data collection for measures. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. (page 5)

Our testing of the Division's receipts, totaling about \$380,000 of the \$954,000 collected during calendar year 2011, found the Division's controls provide reasonable assurance that fees are collected and processed accordingly. Our selection included receipts from assessments, land sales, and fees from license plates, easements, licenses, and permits. We also tested a sample of fee agreements and found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes. The Division's current process for collecting and depositing fees is much improved, as the prior audit in 2003 noted several problems with the process in place at that time. Problems noted in the prior audit included fees not always being collected and inadequate controls over the receipt of fees. (page 9)

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

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December 27, 2013

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

In March 2013, we issued an audit report on the Division of Water Resources. The audit report contained eight recommendations to improve upon the inspection of dams, strengthen the reliability of performance measures, and enhance controls over the safeguarding of receipts. The Division filed its plan for corrective action in May 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the eight recommendations contained in the report. As of December 2, 2013, the Department of Administration indicated all recommendations were fully implemented. We agree and therefore do not have any questions for Division officials.

Respectfully Submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

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

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: December 2, 2013

Subject: Legislative Audit of the Division of Water Resources

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

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

Recommendation 1

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

Status – Fully Implemented

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

Recommendation 2

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

Status – Fully Implemented

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

Recommendation 3

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

Status – Fully Implemented

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

Recommendation 4

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

Status – Fully Implemented

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

Recommendation 5

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

Status – Fully Implemented

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

Recommendation 6

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

Status – Fully Implemented

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

Recommendation 7

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

Status – Fully Implemented

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

Recommendation 8

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

Status – Fully Implemented

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



Jeff Mohlenkamp, Director
Department of Administration

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

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the eight recommendations.

Recommendation Status

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

DIVISION OF WATER RESOURCES

Department of Conservation and Natural Resources

Summary

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

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

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

Key Findings

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

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

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

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

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

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

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

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December 27, 2013

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

In February 2013, we issued an audit report on the Department of Corrections, Accuracy of Criminal History Information. The audit report contained 10 recommendations to improve: (1) the accuracy of criminal history in the Department's information system and reported to the Parole Board, (2) the timeliness of the Department's responses to grievances and documentation in its grievance files, and (3) controls that limit access to criminal history information. The Department filed its plan for corrective action in May 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 10 recommendations contained in the report. As of November 20, 2013, the Department of Administration indicated six recommendations were fully implemented and four were partially implemented. The four partially implemented recommendations shown below relate to the accuracy of criminal history information provided to the Parole Board and controls that limit access to the criminal history information.

Recommendation Number	
3	Review the accuracy of inmates' criminal history information in reports provide to the Parole Board.
6	Limit ability to change criminal history and sentencing information in NOTIS to only those users requiring such access to perform their job duties.
7	Implement controls to identify and disable computer user accounts that are no longer authorized.
10	Implement a program to provide security awareness training at least annually to all employees.

Information Provided to Parole Board

One of the partially implemented recommendations (Recommendation 3) was to review the accuracy of inmates' criminal history information in reports provided to the Parole Board. Our audit found that although 27 of 113 (13%) of reports we tested had errors, the errors did not have consequences because the Parole Board corrected the information before using it to make parole decisions. Nevertheless, it is the Department's responsibility to ensure the criminal history information it provides to the Parole Board is correct. The Department of Administration's review found that although the Department of Corrections implemented three levels of review to ensure accuracy, 7 of 54 (13%) reports provided to the Parole Board contained errors related to criminal history.



Question

1. Has the Department evaluated why the three levels of review did not detect errors before the reports were provided to the Parole Board?

Access Controls Over Information System

The other three partially implemented recommendations (Recommendations 6, 7, 10) related to controls that limit access to criminal history information. Our audit found the Department could improve controls that limit access to important inmate information in the Department's primary information system, which is called NOTIS (Nevada Offender Tracking Information System). NOTIS is used to manage an inmate's period of imprisonment, the inmate's risk classification, parole eligibility, medical needs, and other critical information.

Concerning Recommendation 6 relating to limiting the ability to change criminal history and sentencing information, the Department of Administration's six-month report indicated the Department of Corrections is in the process of developing a new, enhanced sentence management system that will address this recommendation. The target date for this system to be functional will be approximately March 2014. We will follow-up with Department at that time to ensure this recommendation has been fully implemented.

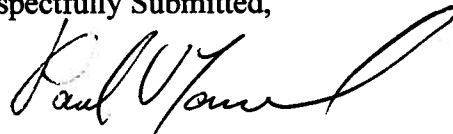
With regard to Recommendation 7 concerning disabling certain user accounts, the six-month report indicated that although the Department implemented new controls, some terminated employees were still on current NOTIS access listings.

Question

2. Has the Department determined why its new procedures did not remove access to NOTIS for the 21 terminated employees found by the Department of Administration?

Lastly, concerning Recommendation 10 related to security awareness training, we conclude that the Department has taken sufficient action for us to consider this recommendation to be fully implemented.

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of Governor
Steve Weinberger, Administrator, Division of Internal Audits
Jeff Mohlenkamp, Director, Department of Administration
Greg Cox, Director, Department of Corrections

SIX-MONTH REPORT

Brian Sandoval
Governor



Jeff Mohlenkamp
Director

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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: November 20, 2013

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

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

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

Recommendation 1

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

Status – Fully Implemented

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

Recommendation 2

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

Status – Fully Implemented

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

Recommendation 3

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

Status – Partially Implemented

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

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

Recommendation 4

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

Status – Fully Implemented

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

Recommendation 5

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

Status – Fully Implemented

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

Recommendation 6

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

Status – Partially Implemented

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

Recommendation 7

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

Status – Partially Implemented

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

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

Recommendation 8

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

Status – Fully Implemented

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

Recommendation 9

Enable the automatic session timeout function through group policy settings.

Status – Fully Implemented

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

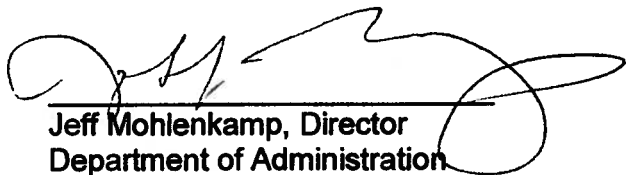
Recommendation 10

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

Status – Partially Implemented

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

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



Jeff Mohlenkamp, Director
Department of Administration

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

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

Purpose of Audit

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

Audit Recommendations

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

The Department accepted the 10 recommendations.

Recommendation Status

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

Accuracy of Criminal History Information

Department of Corrections

Summary

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

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

Key Findings

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

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

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

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

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

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

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

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

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December 27, 2013

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

In September 2012, our office issued an audit report on the Division of Welfare and Supportive Services. The report contained five recommendations to improve administrative controls over Electronic Benefits Transfer (EBT) cards and the EBT account services vendor. The Division filed its plan for corrective action in December 2012. NRS 218G.270 requires the Department of Administration to issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the five recommendations. As of June 2013, the Department of Administration indicated three recommendations were fully implemented and two were partially implemented. The two partially implemented recommendations are shown below.

**Recommendation
Number**

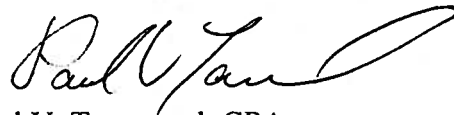
1	Develop policies and procedures for using additional sources of information to identify when clients have died.
2	Develop policies and procedures to more timely stop the payment of benefits to deceased clients.

The Department of Administration reported the Division coordinated with the Office of Vital Statistics to receive a monthly report listing the deaths of Nevada residents. This list is manually matched to the Division's database information to identify deceased clients. Further, the Division has requested its Information Technology section to create a matching report by electronically interfacing the Office of Vital Statistics' database with the Division's database. When this electronic interface is completed, the policies will be modified. Full implementation of these two recommendations is expected in early 2014.

Question

1. Does the Division still anticipate fully implementing these two recommendations in early 2014?

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend", with a large, sweeping flourish at the end.

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Michael McMahon, Administrator, Division of Welfare and Supportive Services
Michael Willden, Director, Department of Health and Human Services

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: June 18, 2013

Subject: Legislative Audit of the Division of Welfare and Supportive Services

On September 19, 2012, your office released an audit report on the Division of Welfare and Supportive Services (Division). The Division subsequently filed a corrective action plan on December 18, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

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

Recommendation 1

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

Status –Partially Implemented

Agency Actions –The Division coordinated with the Office of Vital Statistics (OVS) to receive a monthly report listing the deaths of Nevada residents. The Division's Investigations and Recovery Unit (I&R) manually matches the OVS information to the agency's eligibility and benefits database information (NOMADS) to identify deceased clients. A Work Item has been initiated with the Division's Information Technology section to create a matching report by electronically interfacing the monthly OVS report with NOMADS. Once the

electronic interface has been programmed, the relevant policy will be modified. The Division expects this recommendation to be fully implemented in early 2014.

Recommendation 2

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

Status –Partially Implemented

Agency Actions –The Division updated the Eligibility and Payments Manual (E&P Manual) to specify, after notification from the case manager, that the EBT Specialist must “status” the EBT card and deactivate the account upon the death of the only eligible household member. The policy will be updated to reflect electronic matching of death information from the Office of Vital Statistics with the NOMADS database once program changes are made. The Division expects full implementation early 2014.

Recommendation 3

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

Status –Fully Implemented

Agency Actions –The Division updated the Eligibility and Payments Manual (E&P Manual) to specify, after notification from the case manager, that the EBT Specialist must “status” the EBT card, and deactivate the account upon the death of the only eligible household member. Existing policy allows termination of benefits without advance notice under circumstances where the client’s death renders the household ineligible.

Recommendation 4

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

Status –Fully Implemented

Agency Actions –The Division worked with the vendor to receive error reports that identify discrepancies between agency records and vendor records. The daily error reports are used as the basis for inquiry by the Investigations and

Recovery Unit to ensure reports relating to EBT cards are complete, accurate, timely, and easily accessible.

Recommendation 5

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

Status –Fully Implemented

Agency Actions –The Division implemented controls to ensure vendor invoices agree with contracted amounts and rates prior to payment. In addition to utilizing Outlook alerts, the Division updated fiscal spreadsheets to reflect current and future contract rates, and established a secondary accuracy review before submitting payment for approval.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Michael J. Willden, Director, Department of Health and Human Services
Michael J. McMahon, Administrator, DWSS
Steve Weinberger, Administrator, Division of Internal Audits
Steve H. Fisher, Deputy Administrator, DWSS Program and Field Operations

AUDIT HIGHLIGHT

Audit Highlights



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

Report # LA12-19.

Background

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the five recommendations.

Recommendation Status

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

Division of Welfare and Supportive Services

Department of Health and Human Services

Summary

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

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

Key Findings

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

The Division's controls for preventing unauthorized persons from using benefits after the death of a client can be improved. The Division relies on the EBT vendor to remove unspent SNAP benefits from accounts after 12 months. Of the 50 deceased clients' accounts we tested, 13, or 26%, had purchases or automatic teller machine transactions after the clients' dates of death. These transactions totaled \$6,502 and took place from 13 to 247 days after the clients' dates of death. Since the EBT cards were still being used, the EBT vendor did not promptly remove the benefits remaining in the accounts at the time of death. (page 9)

We matched client information in the Division's NOMADS with information on deaths in Nevada maintained by the Office of Vital Statistics and found 178 clients with dates of death that were different in the two databases. We tested five of these clients' accounts and found all were listed by the vendor as having active accounts even though the clients' records in NOMADS showed the clients were deceased. (page 9)

The EBT services vendor's reports did not always contain complete, accurate, and timely information. We tested client information reports for 65 client files whose unused benefits were removed by the vendor or whose accounts had no activity for more than 1 year. All 65 clients' accounts were listed as active accounts on the EBT vendor's system. The Division's contract with the EBT vendor defines an active account as one where there is client-initiated activity within 360 days for SNAP accounts and 180 days for TANF accounts. The contract makes the vendor responsible for changing the card and account status from active to inactive. However, the statuses for these 65 accounts were not changed. Leaving an account status as active after a client has died increases the risk that an unauthorized person may use the benefits. (page 11)

The Division did not adequately review the invoices from the EBT vendor before paying. The Division paid invoices where the vendor used a monthly rate for point-of-sale devices from a prior contract. We estimate the Division overpaid the vendor by \$77,000. According to Division management, all monies from the overpayment were recouped from the vendor. (page 12)

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

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December 27, 2013

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

In December 2012, we issued an audit report on the Department of Employment, Training, and Rehabilitation, Employment Security Division (ESD). ESD filed its plan for corrective action in March 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 12 recommendations contained in the report. As of September 13, 2013, the Department of Administration indicated 8 recommendations were fully implemented, 3 were partially implemented, and 1 had no action taken. The recommendations not fully implemented and their status are shown below.

Recommendation Number		Status
2	Develop and document policies and procedures regarding data comparisons and investigating ineligible claimants when identified.	Partially Implemented
3	Request legislation to pursue a statutory change requiring state and local government detention facilities provide incarceration records to the Employment Security Division upon request.	No Action
5	Improve policies and procedures regarding notifying claimants their personal identifying information may be compromised.	Partially Implemented
8	Institute a process to request and compare private carriers of industrial insurance information to claimant data in accordance with NRS 612.265 to ensure unemployment insurance and workers' compensation benefits are not being collected concurrently by individuals.	Partially Implemented

Regarding recommendations two and five that deal with the development and improvement of policies and procedures, the Department of Administration indicated in their report that ESD had made progress in this area. However, certain processes had not been incorporated into ESD policies at the time of the Department of Administration's review. In particular, the Department of Administration noted ESD did not specifically address data comparisons in their policies and procedures for recommendation number two.

Additionally, regarding recommendation number five, ESD did not address notifying claimants when his/her personal information is discovered, during the course of cross-matching activities, to be potentially compromised. Since these processes are new to ESD, developing and adopting policies and procedures regarding these activities will help ensure ESD is protecting state and claimant resources.

Question

1. Has ESD made further progress on the development and implementation of policies and procedures over data comparisons and notifying claimants when their personal information is compromised?

During our audit, we noted ESD was required by NRS 612.265 to compare industrial insurance information to claimant data to ensure unemployment and workers' compensation benefits were not being collected concurrently. The Department of Administration noted ESD instituted a process to request such information but found it was not cost effective for ESD and private insurance carriers. As a result, ESD attempted to manually cross-match Division of Industrial Relations data with ESD data but found it to be labor intensive and not sufficient to render a conclusive determination of ineligibility. The Department of Administration also reports ESD expects an upgrade to the Division of Industrial Relations system to be discussed during the 2015 Legislature in order to make the cross-match cost effective.

We understand the efforts ESD has made to comply with NRS 612.265. NRS 612.265 section 9 states that private insurance carriers must submit information to the Administrator of ESD in a manner determined by the Administrator. Further, statute requires ESD to make a comparison of the data and if it appears, from the information submitted that a person is simultaneously obtaining benefits under both programs the Administrator will notify the Attorney General or any other law enforcement agency. While manual cross-matches may not be cost effective we would encourage ESD to continue to pursue the receipt of electronic data from industrial insurers in a manner that allows ESD to compare the data in a cost effective manner.

Questions

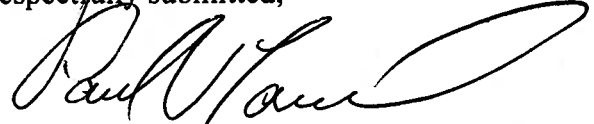
2. If the Division of Industrial Relations is able to obtain data in a useable format related to worker's compensation benefits what prevents ESD from being provided useable data from industrial insurance providers?
3. If ESD does not plan to pursue obtaining this information from industrial insurers does it intend to request changes to NRS 612.265 during the 2015 legislative session?

Finally, we understand that ESD has not had an opportunity to implement recommendation number three regarding statutory changes to compel state and local detention facilities provide incarceration data to ESD. During our audit we noted the importance of receiving this information as offenders typically are housed in local detention facilities prior to being transferred to the Department of Corrections. We continue to stress the importance of receiving this information and comparing this data to ESD records.

Questions

4. Does ESD still intend to request legislation for the 2015 legislative session to compel local detention facilities provide records of incarceration?

Respectfully submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Frank Woodbeck, Director, Department of Employment, Training, and Rehabilitation
Renee Olson, Administrator, ESD

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: September 13, 2013

Subject: Legislative Audit of the Employment Security Division

On December 13, 2012, your office released an audit report on the Department of Employment, Training and Rehabilitation, Employment Security Division (Division). The Division subsequently filed a corrective action plan on March 13, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Division to comply with audit findings.

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

Recommendation 1

Develop a process to identify ineligible, incarcerated UI benefit recipients and detect or prevent improper UI payments to such individuals.

Status – Fully Implemented

Agency Actions – The Division developed a process to identify ineligible, incarcerated Unemployment Insurance (UI) benefit recipients and detect or prevent improper UI payments to such individuals. A Memorandum of Understanding (MOU) with the Department of Corrections (NDOC) became effective March 28, 2013 which defined the terms under which a monthly transfer of inmate information to the Division would occur. Information provided by NDOC is cross-matched to Division data to identify claimants ineligible for benefits as a result of incarceration. Two transfers, in June and July, have occurred since

execution of the MOU. Efforts have been made to obtain similar data from local law enforcement on a periodic basis while acknowledging those agencies are not statutorily bound to honor the request. The ineligible claimants' accounts are "stopped" once a determination of ineligibility is reached and, if fraud is suspected, a referral is made to the Attorney General's office for prosecution.

Recommendation 2

Develop and document policies and procedures regarding data comparisons and investigating ineligible claimants when identified.

Status – Partially Implemented

Auditor Comments –The Division developed and documented policies and procedures regarding investigation of ineligible claimants when identified. In July 2013, the Division updated eligibility policies in three sections of the *Manual of Operations*: Section 1360, Section 1714D, and Section 4724. Changes to these sections clarify that ineligibility issues due to incarceration will be referred to the Benefit Payment Control (BPC) Integrity Unit for a determination of eligibility. Also, procedures for the Investigator to follow depending on the circumstances of the case of an ineligible claimant were further clarified in section 7625 of the *Manual of Operations*. The Division did not provide policies and procedures specifically addressing data comparisons.

Recommendation 3

Request legislation to pursue a statutory change requiring state and local government detention facilities provide incarceration records to the ESD upon request.

Status – No Action

Auditor Comments –The Division represents that, at the time the audit findings were released, it was too late to amend its legislation before the Nevada State Legislature. The Division anticipates proposing statutory changes in the 2015 legislative session to require state and local government detention facilities to provide incarceration records to ESD upon request.

Recommendation 4

Update eligibility policies to address inmates residing in residential confinement and transitional housing.

Status – Fully Implemented

Agency Actions –The Division updated eligibility policies to address inmates residing in residential confinement and transitional housing. In July 2013, the Division updated eligibility policies in three sections of the *Manual of Operations*: Section 1360, Section 1714D, and Section 4724. Each of these sections was modified with the same language, which reads, in part:

“Additionally, any periods of time in which a claimant is subject to parole, probation, house arrest, or restricted to a restitution center may also raise concerns regarding availability, and would be referred to BPC/Integrity Unit to investigate the terms and conditions of the claimant’s confinement to determine availability.”

Recommendation 5

Improve policies and procedures regarding notifying claimants their personal identifying information may be compromised.

Status – Partially Implemented

Auditor Comments –The Division provided information verifying the process of matching claimants Social Security Numbers (SSN) with the Social Security Administrations database. They further provided examples of mismatches and the training material describing the process when mismatches occur. However, the Division did not provide policies and procedures that address notifying a claimant when his/her personal information is discovered, during the course of cross-matching activities, to be potentially compromised.

Recommendation 6

Work with the Office of Vital Records to periodically acquire records of deceased individuals and perform a timely comparison with unemployment claimant information.

Status – Fully Implemented

Agency Actions –The Division worked with the Office of Vital Records (OVR) to periodically acquire records of deceased individuals and perform a timely comparison with unemployment claimant information. In June 2013, the Division entered into an MOU with OVR to provide, on an on-going basis, death information to be used for cross-matching with Division data to identify claimants listed as deceased. The first cross-match was completed in July, 2013.

Recommendation 7

Develop a process to place permanent stops on accounts of claimants identified as deceased to prevent future benefits from being paid.

Status – Fully Implemented

Agency Actions – The Division developed a process to place permanent stops on accounts of claimants identified as deceased to prevent future benefits from being paid. Once a claimant is identified as deceased on the OVR Death Index, the account is reviewed by a Fraud and Integrity Program agent. The agent enters the date of death which automatically locks the claimant's profile account. The profile account can only be unlocked after a positive in-person identification process.

Recommendation 8

Institute a process to request and compare private carriers of industrial insurance information to claimant data in accordance with NRS 612.265 to ensure unemployment insurance and worker's compensation benefits are not being collected concurrently by individuals.

Status – Partially Implemented

Auditor Comments – The Division instituted a process to request and compare private carriers of industrial insurance information to claimant data in accordance with NRS 612.265 to ensure unemployment insurance and worker's compensation benefits are not being collected concurrently by individuals. The process involves a cross-match of Bureau of Industrial Relations (BIR) data with Division data to identify potential ineligible concurrent claimants. After efforts to request information from private carriers, the Division-BIR cross-match was developed as an alternative to a direct-from-private carrier data exchange. The direct-from-private carrier data exchange was deemed infeasible and not cost-effective by both the insurance industry and the Division. The Division represents the manual Division-BIR cross-match is labor intensive and the information provided by BIR alone is not sufficient to render a conclusive determination of ineligibility. The Division expects a possible upgrade to the BIR system to be a point of discussion in the 2015 Legislature in order to make the cross-match cost effective.

Recommendation 9

Review and implement appropriate practices outlined by the DOL and other states to ensure claimant benefit payments to those identified as having returned to work are appropriate.

Status – Fully Implemented

Agency Actions –The Division reviewed and implemented appropriate practices outlined by the DOL and other states to ensure claimant benefit payments to those identified as having returned to work are appropriate. The Division represents the Department of Labor's UI *Community of Practice* website is reviewed for updates and best practices that may be considered for implementation. The Division cites recent modifications to claimant and employer template letters, New Hire policies and procedures, New Hire report cross-match procedures, and summary reports to management on cross-match efforts as best practices implemented since the review.

Recommendation 10

Develop a process to place claim stops and record new hire information in the information system as appropriate.

Status – Fully Implemented

Agency Actions –The Division developed a process to place claim stops and record new hire information in the information system as appropriate. As outlined in the July, 2013 revisions to the *Manual of Operations* chapters 1300 and 1700, as well as section 4788.06, and *New Hire* desk procedures, reviewers of the State and National New Hire reports are instructed to enter notes into the database to inform UI agents of actions taken by the reviewer. The claims examiner places a "stop" on the account to prevent further payment when a match on the New Hire report has been identified.

Recommendation 11

Implement supervisory review over new hire cases to ensure technicians consistently and accurately classify hits.

Status – Fully Implemented

Agency Actions – The Division implemented supervisory review over new hire cases to ensure technicians consistently and accurately classify hits. In January 2013, the Division assigned a supervisor to oversee the New Hire process. The

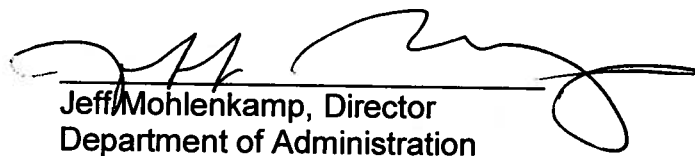
supervisor assigned oversight of the New Hire process conducts a random sample of New Hire "hits" to ensure consistency and accuracy. A "hit" is a match on either the State or National New Hire Reports with a claimant currently receiving UI benefits. The supervisor maintains a spreadsheet to indicate reviewed "hits" and reports findings to management.

Recommendation 12

Define new hire practices in formalized, detailed policies and procedures and make readily available to claims examiners responsible for the new hire review process.

Status – Fully Implemented

Agency Actions – The Division defined new hire practices in formalized, detailed policies and procedures and made them readily available to claims examiners responsible for the new hire review process. In July, 2013 the Division modified pertinent portions of Chapters 1300 and 1700, as well as section 4788.06, of the *Manual of Operations* to provide detailed policy and procedural guidance to those involved in the New Hire process. In February 2013, detailed guidance for claims examiners responsible for the new hire review process was documented in *New Hire* desk procedures. The *New Hire* desk procedures are available to claims examiners in hard copy, and electronically on the G:Drive and Sharepoint.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Frank R. Woodbeck, Director, Department of Employment, Training and Rehabilitation
Renee Olson, Administrator, Employment Security Division
Steve Weinberger, Administrator, Division of Internal Audits
Kelly Karch, Deputy Administrator, Employment Security Division

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the 12 recommendations.

Recommendation Status

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

Employment Security Division

Department of Employment, Training and Rehabilitation

Summary

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

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

Key Findings

We estimate as much as \$5 million in improper payments could have been made to claimants who were incarcerated over the last 3 years. Our review of benefit claims paid in January 2012, identified 67 of the nearly 97,000 unemployment claimants were incarcerated in one local government detention center or a state correctional facility. These claimants received benefits of about \$241,000 during their period of confinement. We provided the Division with information regarding each claimant to allow for claims to be stopped and investigations to be initiated. (page 9)

Division management indicated it does not have specific authority through state or federal law to compel detention facilities to provide records of incarceration. As a result, statutory revisions requiring facilities provide data to the Division are necessary to ensure the Division can compare claims data with incarceration records. (page 12)

We identified eight instances of potential identity theft of claimants' personal identifying information by incarcerated individuals. Division policies should be updated to notify claimants their personal identifying information is being used by another individual. (page 16)

Fifteen deceased claimants were found in the nearly 97,000 UI claimants paid benefits during January 2012. In 12 of 15 instances, benefits were not requested after the claimant's death; however, 3 deceased claimants received payments totaling \$40,417 after they had died. In addition, the Division needs to enhance its claims information system to prevent accounts of deceased claimants from being reopened when deceased individuals are identified. (page 17)

The Division is not requesting data from private insurance carriers regarding individuals receiving disability, temporary partial disability, or rehabilitative services as a result of on the job injuries. NRS 612.265(9) requires private carriers of workers' compensation insurance to provide the Division a monthly list of individuals who received benefits and the Division is required to compare this information with claimant records to identify individuals concurrently receiving both benefits. (page 18)

We identified potential for improper payments continued to exist in 154 of 497, or 31%, of cleared cases where claimants returned to work. Specifically, better scrutiny of earnings reported by claimants is needed, payment stops on claims should be made to ensure benefits are not restarted, claimants should be notified of their return to work status, and the Division needs to record pertinent information into the claims information system. Based on DOL estimates, a reduction in improper payments of 10% would yield savings of \$2.9 million per year. In addition, the Division needs to develop and enhance policies and procedures over the review process and institute a routine review of examiner cases to ensure consistent case resolutions. (page 23)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF SIX MONTH REPORT**

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December 27, 2013

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

In December 2012, we issued an audit report on the Public Employees' Benefits Program (PEBP). PEBP filed its plan for corrective action in March 2013. NRS 218G.270 provides that the Director of the Department of Administration shall issue a report within 6 months outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the 14 recommendations contained in the report. As of September 13, 2013, the Department indicated that nine recommendations were fully implemented. In addition, we concluded that two other recommendations were fully implemented. The three partially implemented recommendations are show below.

Recommendation Number		Anticipated Date for Full Implementation
2	Provide additional resources to participants to facilitate comparing prices among providers.	Not Identified
4	Implement Board policy requiring contracts to include performance standards.	September 2013
5	Require certain vendors to report performance results with quarterly reports.	September 2013

PEBP has made significant progress in providing additional resources to participants to facilitate comparing prices among providers. PEBP is providing information to participants through an on-line pricing tool. However, certain pricing information is still not available, such as inpatient care and outpatient surgery, as outlined in PEBP's plan of corrective action.

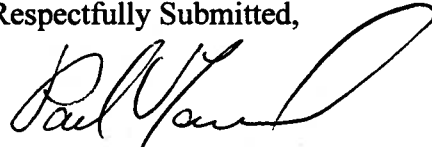
PEBP has also made significant progress for requiring contracts to include performance standards and requiring vendors to report performance results with quarterly reports. Most contracts now include performance standards, and the remaining contracts without performance guarantees were scheduled to be amended by September 2013. In addition, PEBP adopted a requirement for certain vendors to report performance results with quarterly reports. PEBP anticipated full implementation of this requirement by September 30, 2013.

Members of the Audit Subcommittee
of the Legislative Commission
December 27, 2013
Page 2

Question

1. Has PEBP achieved full implementation of the remaining three recommendations since September 2013?

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend", with a large, sweeping loop at the end.

Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program

SIX-MONTH REPORT



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

MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: September 13, 2013

Subject: Legislative Audit of the Public Employees' Benefits Program

On December 13, 2012, your office released an audit report on the Public Employees' Benefits Program (PEBP). PEBP subsequently filed a corrective action plan on March 1, 2013. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by PEBP to comply with audit findings.

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

Recommendation 1

Periodically inform participants of the wide range in costs for some healthcare procedures and the possibility of significant savings by comparing prices among providers.

Status – Fully Implemented

Agency Actions – PEBP is periodically informing participants of the wide range in costs and the possibility of significant savings using newsletters, pricing tools available to participants on PEBP website, and Twitter messages. We reviewed the information provided to participants and the information appears adequate.

Recommendation 2

Provide additional resources to participants to facilitate comparing prices among providers.

Status – Partially Implemented

Agency's Comment – PEBP has made significant progress in providing additional resources to participants facilitating price comparison among providers. PEBP has started to provide some price information to participants through an on-line pricing tool. PEBP believes this recommendation to be fully implemented.

Auditor's Comments – We reviewed pricing information provided to participants. While some pricing information is currently being provided, information regarding inpatient care, facility stay, and outpatient surgery are still not available to participants. Since this information is still not available, this recommendation is partially implemented.

Recommendation 3

Through the third party administrator's website, provide participants with access to Explanation of Benefits statements that include clear descriptions of medical procedures provided and CPT codes.

Status – Fully Implemented

Agency Actions – PEBP's third party administrator, HealthScope Benefits, now provides participants access to view online Explanation of Benefits Statements that include clear descriptions of medical procedures provided and CPT codes.

Recommendation 4

Implement Board policy requiring contracts to include performance standards.

Status – Partially Implemented

Agency Actions – PEBP is implementing Board policy requiring contracts to include performance standards. We reviewed PEBP's list of contracts and determined that 69 percent of the contracts currently include performance guarantees. The remaining contracts noted as requiring performance guarantees are scheduled to be amended by September 2013. Additionally, PEBP stated that future Requests for Proposals (RFP) will include performance guarantees.

Recommendation 5

Require certain vendors to report performance results with quarterly reports.

Status – Partially Implemented

Agency Actions – PEBP has adopted a requirement for certain vendors to report performance results with quarterly reports. PEBP provided a quarterly report template vendors will be using for the July to September 2013 report period. We reviewed PEBP's Vendor Reporting Assignments list for Plan Year July 2013 to June 2014 and noted providers with a quarterly reporting requirement had not yet provided the first quarterly reports. PEBP anticipates full implementation by September 30, 2013.

Recommendation 6

Comply with contract provisions by conducting annual evaluations and audits when required.

Status – Partially Implemented

Agency Comments – (7540-1-6) PEBP reports completing an annual evaluation of one vendor for Fiscal Year 2012 and was in the process of performing another audit when it was abandoned due to the vendor terminating its contract. In addition, PEBP has determined that audits of utilization and large case management will be performed every other year instead of annually. PEBP stated that future contracts with an effective date of July 1, 2014, for utilization and large case management will require audits to be performed every other year. PEBP anticipates full implementation of this recommendation by August 2015.

Auditor's Comments: has not completed all the required annual audits and evaluations. As a result, this recommendation is deemed partially implemented.

Recommendation 7

Develop controls to ensure contracts address reporting deadlines and information provided by vendors is consistently reported.

Status – Fully Implemented

Agency Actions – PEBP developed controls to ensure contracts address reporting deadlines and information provided by vendors is consistently reported. We reviewed PEBP's tracking sheets and staff assignments and determined controls are in effect to ensure reporting deadlines are met and vendor information are consistently reported.

Recommendation 8

Update contracting policies and procedures.

Status – Fully Implemented

Agency Actions – PEBP has updated its contracting policies and procedures. We reviewed the past and current policies and procedures and noted data entry and vendor monitoring changes. PEBP stated that it intends to do an internal controls self-assessment in October 2013 pursuant to SAM 2418.

Recommendation 9

Develop controls to restrict access to files containing participant credit card numbers to PEBP staff who require access as part of their job functions and to remove old files containing participant credit card numbers that are no longer necessary from the computer network.

Status – Partially Implemented

Agency Comments – PEBP states they developed controls to restrict access to files containing participant credit card numbers to PEBP staff who require access as part of their job function and removed old files containing participant credit card numbers that are no longer necessary from the computer network. Our review revealed that the files containing credit card information for processing payments is accessible to all accounting and information technology staff. However, credit card numbers for transactions more than 90 days old have been removed.

Auditor Comments – Since the credit card information is still accessible to all accounting and information technology staff, this recommendation is partially implemented. Full implementation will involve giving access to staff whose job functions require such access.

Recommendation 10

Develop a plan for encrypting sensitive participant information in the Enrollment and Eligibility System and for other vendors who are provided this information.

Status – Fully Implemented

Agency Actions –PEBP has developed a plan for encrypting sensitive participant information. PEBP stated its plan for encryption requirements will be in all future data processing Request for Proposal (RFP's). We verified those requirements are in PEBP's current RFPs.

Recommendation 11

Develop a plan for masking sensitive participant information in all user Graphical User Interfaces for the Enrollment and Eligibility System and for other vendors who are provided this information.

Status – Fully Implemented

Agency Actions – PEBP has developed a plan for masking sensitive participant information. PEBP stated its plan for masking requirements will be in all future data processing RFPs. We verified those requirements are in PEBP's current RFPs.

Recommendation 12

Conduct fingerprint based background investigations on all newly hired employees with access to sensitive information or systems as required by the State Security Standard 4.04.

Status – Fully Implemented

Agency Actions – PEBP has fingerprint based background investigations conducted on all newly hired employees. We verified that PEBP has made arrangements with the Department of Administration's Division of Human Resource Management to conduct all its fingerprint based background investigations.

Recommendation 13

Conduct Civil Name Check background investigations on all existing employees in accordance with PEBP's background investigation policy.

Status – Fully Implemented

Agency Actions – PEBP is conducting Civil Name Check (CNC) background investigations on all existing employees in accordance with PEBP's background investigation policy. PEBP stated CNCs will be conducted every three years. We verified that the name checks had been completed.

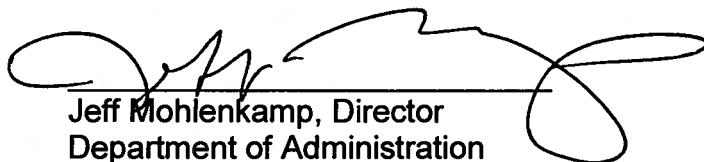
Recommendation 14

Update accounting policies and procedures to reflect current operations.

Status – Fully Implemented

Agency Actions – PEBP updated accounting policies and procedures to reflect current operations. We reviewed the old and new policies and confirmed changes were made to the old policies.

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



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
James R. Wells, CPA, Executive Officer, Public Employees' Benefits Program
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

Purpose of Audit

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

Audit Recommendations

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

The Public Employees' Benefits Program accepted the 14 recommendations.

Recommendation Status

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

Public Employees' Benefits Program

Summary

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

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

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

Key Findings

A wide range in costs can occur for the same healthcare procedures in Nevada. Costs can vary widely because providers charge different amounts and negotiate varying discounts with insurance providers. When planning nonemergency procedures participants should consider comparison-shopping. Comparing prices among providers could save the participant and the Plan money. (page 6)

PEBP is taking steps to provide participants with additional information to assist with comparing healthcare costs. These include providing participants with access to several on-line tools that provide information on healthcare and prescription drug costs. In addition, PEBP is working with its third party administrator (TPA) to provide participants with additional cost information for certain medical services. Although PEBP is taking steps to provide participants with additional tools to price healthcare and pharmacy costs, more work needs to be done. PEBP should periodically inform participants of the wide range in healthcare costs, tools available, and the best methods to compare prices. (page 8)

Participants do not receive adequate information to verify that billings are correct. Explanation of Benefits (EOB) statements, provided to participants after a claim is processed, do not always provide clear descriptions of services billed or medical billing codes. As a result, there is an increased risk that participants and the Plan could overpay for healthcare services. (page 9)

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

Several weaknesses were found in PEBP's contract with the wellness vendor. First, the contract did not include deadlines to ensure performance results were provided timely. Second, program implementation dates were not included in the contract. Third, the contract did not specify how results should be presented to ensure consistent reporting. (page 16)

PEBP has good information technology controls over participant information. However, access to sensitive data including credit card numbers and other information could be further restricted. Five PEBP staff had access to credit card information whose job duties did not require access. In addition, PEBP and vendor staff can view sensitive participant information even though access is not needed to perform their job duties. (page 21)

Prior to 2012, PEBP did not conduct background investigations on staff with access to confidential information. During our audit, PEBP began conducting *Civil Name Check* background investigations on new hires; however, current practice does not follow state requirements to conduct fingerprint based investigations on new employees. Granting employees access to sensitive data without appropriate background investigations increases the risk that individuals could gain access to sensitive information and use it inappropriately. (page 23)

PEBP did not have up-to-date accounting policies and procedures. Policies and procedures have not been updated in more than 7 years despite changes to the Program's accounting function. For example, procedures refer to the prior Enrollment and Eligibility System that was replaced in 2007. (page 25)

LEGISLATIVE AUDITOR'S ANALYSIS OF SIX MONTH REPORT

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December 27, 2013

Members of the Audit Subcommittee
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In September 2012, we issued an audit report on the Department of Business and Industry, Division of Industrial Relations. The Division filed its plan for corrective action in December 2012. NRS 218G.270 provides that the Department of Administration shall issue a report within 6 months after the plan of corrective action is due outlining the implementation status of the audit recommendations.

Enclosed is the six-month report prepared by the Department of Administration on the status of the eight recommendations contained in the audit report. As of June 18, 2013, the Department of Administration indicated five recommendations were fully implemented and three were partially implemented. Based on our review of the six-month report and other documents provided, we determined that two of the partially implemented recommendations are now fully implemented. The remaining partially implemented recommendation relates to developing aged accounts receivable lists for the Division.

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

According to the Department of Administration's six-month report, the Division is currently working to develop a solution for aged accounts receivable reporting. The six-month report also indicates that full implementation was expected by June 2013.

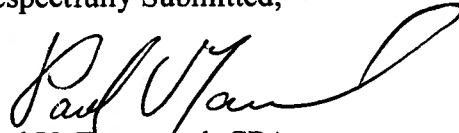
Questions

1. What has prevented the Division from achieving full implementation of this recommendation?

Members of the Audit Subcommittee
of the Legislative Commission
December 27, 2013
Page 2

2. When does the Division anticipate full implementation?

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Paul V. Townsend", with a large, stylized loop at the end.

Paul V. Townsend, CPA
Legislative Auditor

PVT:dw

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
Don Soderberg, Administrator, Division of Industrial Relations

SIX-MONTH REPORT



STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
209 East Musser Street, Room 200 | Carson City, Nevada 89701
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MEMORANDUM

To: Paul Townsend, Legislative Auditor
Legislative Counsel Bureau

From: Jeff Mohlenkamp, Director
Department of Administration

Date: June 18, 2013

Subject: Legislative Audit of the Division of Industrial Relations

On September 19, 2012, your office released an audit report on the Department of Business and Industry, Division of Industrial Relations (Division). The Division subsequently filed a corrective action plan on December 19, 2012. NRS 218G.270 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken by the Department to comply with audit findings.

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

Recommendation 1

Establish controls to ensure the accuracy of accounts receivable information.

Status – Partially Implemented

Agency Actions – The Division revised its accounts receivable procedures to establish controls to ensure the accuracy of accounts receivable information. The Division's response notes it requested an extension for the collection process from the Controller's Office. We reviewed the memo sent to the Controller's Office on November 28, 2012 and noted the exemption request is for 30 days, although the agency status report states a 15-day extension request. The Division expects full implementation upon receiving response from the Controller's Office.

Recommendation 2

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

Status – Partially Implemented

Agency Actions – The Division is currently working to develop a solution for comprehensive and consistent aged accounts receivable reporting. We examined documentation, including correspondence between the Division's information technology staff and Iron Data, the Division's vendor, who provides the accounts receivable application, as well as other evidence that shows coordination of ongoing work. The Division expects to fully implement the recommendation by June 2013.

Recommendation 3

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

Status – Partially Implemented

Agency Actions – The Division revised its policies and procedures to establish controls to ensure the debt is turned over to the State Controller's Office for collection in a timely manner. The Division's response notes it requested an extension for the collection process from the Controller's Office. We examined the memo sent to the Controller's Office on November 28, 2012 and noted that the exemption request is for 30 days, although the agency status report states a 15-day extension on its request. The Division expects full implementation upon receiving response from the Controller's Office.

Recommendation 4

Ensure social security numbers and other sensitive information are adequately safeguarded.

Status – Fully Implemented

Agency Actions – The Division established several layers of security to ensure social security numbers and other sensitive information are adequately safeguarded. We reviewed system access listings for authorized users and observed system encryption is being utilized within its active databases. We also reviewed the vendor's information guide on how data is encrypted and deem it adequate to ensure data encryption.

Recommendation 5

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

Status – Fully Implemented

Agency Actions – The Division removed unnecessary fields and data elements containing social security numbers from the Division's servers and database. In addition, the Division continues to work with the vendor to remove social security numbers from its database when the Division comes across errant records. We observed the Versa database, the Division's database for all Mechanical and Worker's Compensation data and processing, and verified that unnecessary fields and social security numbers have been removed. We randomly selected worker's compensation complaint numbers and reviewed the records within the Mechanical Versa database. Search fields appeared reasonable and appropriate and records did not contain social security information. No exceptions were noted in our observation.

Recommendation 6

Encrypt emails containing personally identifiable information.

Status – Fully Implemented

Agency Actions – The Division implemented encryption methods for emails containing personally identifiable information. The Division implemented the use of TLS (Transport Layer Security) emails as well as a FTP (File Transfer Protocol) website to transfer personally identifiable information to and from customers. We sampled emails sent to the City of Las Vegas and noted the encryption code was embedded within the email to ensure encryption. We also observed the encrypted FTP process of sending and receiving sensitive files from Employers Insurance Company to ensure encryption. Email encryption methods appear reasonable and appropriate.

Recommendation 7

Develop strategies to improve management of current and future information systems.

Status – Fully Implemented


Agency Actions – The Division developed strategies to improve management of current and future information systems. We reviewed documentation provided by the Division and determined that strategies are noted to improve management over systems. Included in the IT Project Standards and Guidelines is an Overview of Phases depicting the flow of oversight of project management, guidelines for project lifecycle phases and operation and maintenance procedures. Guidelines and procedures appear to be adequate and appropriate.

Recommendation 8

Prioritize open support ticket items.

Status – Fully Implemented

Agency Actions – The Division created standards to improve the management of systems and IT projects as noted in Recommendation #7 above to prioritize open support ticket items. Included in the standards is a requirement for the help desk to track ticket priorities. We obtained and examined a copy of the most recent help desk ticket report. The Division uses the report to monitor the status of open ticket items. As such, the report appears to be adequate and appropriate for prioritizing open support ticket items.



Jeff Mohlenkamp, Director
Department of Administration

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Bruce Breslow, Director, Department of Business and Industry
Donald E. Jayne, CPCU, Administrator, Industrial Relations
Steve Weinberger, Administrator, Division of Internal Audits

AUDIT HIGHLIGHT

Audit Highlights



Division of Industrial Relations

Department of Business and Industry

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

Background

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the eight recommendations.

Recommendation Status

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

Summary

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

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

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

Key Findings

The Division did not turn over past due fines and penalties in accordance with time limits specified in statute. We identified over \$180,000 in past due fines and penalties that should have been turned over to the Controller's Office for collection. Our review of 42 Workers' Compensation cases with outstanding debt identified 35 cases that should have been turned over to the Controller's Office that were either late or not sent at all. For example, 11 cases that were turned over were an average of 6 months past due at the time. In addition, for 24 cases not turned over, the investigation had been completed 2½ years prior to our testing. Further, the Division had not sent demand letters requiring payment for 19 of the cases which were an average of 16 months overdue. (page 4)

Our testing of 25 OSHA cases with outstanding balances identified 12 that should have been turned over to the Controller's Office for collection, but had not been. These cases were between 9 and 619 days past the Controller's 60-day requirement at the time of testing. By not turning the debt over to the Controller's Office, the Division was unable to participate in the state's Debt Offset Program, which helps ensure collection of money owed to the State. Under this program, a vendor can be put in a hold status which would cause any payment made to the vendor to be rejected. The amount of the payment is then applied to the outstanding debt due to the State. (page 5)

The Workers' Compensation and OSHA Sections did not maintain complete or accurate aged accounts receivable reports. For example, the receivable report used by the Workers' Compensation Section for reporting outstanding debt to the State Controller's Office did not include all cases. We identified 189 cases in the section's active account files that were not on the aged accounts receivable reports. (page 6)

The Division does not adequately protect claimants' personally identifiable information, such as social security numbers. We identified unencrypted social security numbers on several of the Division's application databases. In addition, the Division sends and receives unencrypted emails containing claimants' social security numbers. (page 9)

The Division did not provide adequate oversight during implementation of the VERSA information system used for OSHA Mechanical Unit inspections and Workers' Compensation cases. The system lacks sufficient reporting capabilities resulting in staff using other programs to create reports. In addition, updating information for Mechanical Unit inspections can be a time consuming process. Also, the Division did not have a prioritized approach for ensuring the system's most critical shortcomings are corrected. Finally, the Division did not enforce contract terms during the implementation process such as comprehensive end user testing and holding back final payments until corrections had been made. (page 11)

**LEGISLATIVE AUDITOR'S ANALYSIS
OF FOLLOW-UP ON SIX MONTH
REPORT FROM A PRIOR MEETING**

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December 27, 2013

Members of the Audit Subcommittee
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In February 2012, we issued an audit report on the Department of Administration, Division of Enterprise Information Technology Services. This audit contained 15 recommendations to improve the confidentiality, integrity, and availability of state information systems. On October 29, 2012, the Department of Administration submitted its six-month report on the implementation status of these recommendations indicating that 11 recommendations were fully implemented and 4 were partially implemented.

At the December 13, 2012, Audit Subcommittee meeting, the agency testified the four recommendations were still partially implemented. Based on our review of information provided by the Division of Enterprise Information Technology Services in November 2013, we concluded that two recommendations have been implemented and two recommendations continue to be partially implemented. The two partially implemented recommendations are listed below.

Recommendation Number	
1	Update the state's primary computing facility's contingency plan and ensure the plan includes a prioritized disaster recovery component.
2	Develop a plan to periodically test the state's primary computing facility's IT emergency plans to ensure critical IT resources can be restored in an orderly and timely manner.

The Division indicates the primary computing facility's contingency plan has been updated but is still in process. In addition, a new position has been hired to enhance the contingency plan. The Division anticipates having an updated plan by January 1, 2014.

Question

1. Has the Division completed updating the contingency plan by January 1, 2014? If not, when will the plan be completed?

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of the Legislative Commission
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The Division indicates they have developed a plan to periodically test the state's primary computing facility's IT emergency plans. Also, the Division indicates they have tested one core application. However, in our review of documents and discussions with Division personnel, we found there is no listing of the priority in which systems need to be restored nor is there a written plan indicating when testing will be conducted.

Question

2. When does the Division anticipate completing the plan to periodically test the state's primary computing facility's IT emergency plans?

Respectfully Submitted,



Paul V. Townsend, CPA
Legislative Auditor

PVT:da

cc: Gerald Gardner, Chief of Staff, Office of the Governor
Jeff Mohlenkamp, Director, Department of Administration
Steve Weinberger, Administrator, Division of Internal Audits
David Gustafson, CIO, Enterprise IT Services

AUDIT HIGHLIGHT

Audit Highlights



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

Background

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the 15 recommendations.

Recommendation Status

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

Division of Enterprise Information Technology Services

Department of Administration

Summary

The Division needs to strengthen information system controls to ensure adequate protection over systems and data. The availability of key state information systems can be better ensured by updating and testing the state's primary computing facility's emergency plans. Also, the security of confidential personal information could be improved with better security oversight of occupational licensing agencies or boards. In addition, web server content should be better monitored to prevent accidental release of confidential information. Furthermore, a systematic process to identify statewide information security risks could improve use of security resources.

Former employees had current network access and better controls are needed over the computing facility access cards. Computer virus protection and critical security updates need to be better monitored. In addition, stronger security can be achieved by encrypting data in newly developed software applications, alerting state agencies more timely about newly identified risks, and enforcing state password standards.

Key Findings

The State's primary computing facility did not have a written disaster recovery plan. In addition, the facility's disaster recovery capability has not been tested since 2006. Such testing reduces the time needed to restore critical IT services such as those that may impact public health and safety. In addition, the contingency plan we were provided by the Division had not been updated in over 10 years despite numerous changes in the state's information technology infrastructure and changes in employees responsible for enacting parts of the plan. Without periodic updating and testing of these plans, there is greater risk that mission critical IT resources will not be restored in an efficient and timely manner when a disaster or other major system failure occurs. (page 3)

Most state occupational licensing boards that collect confidential personal information of licensees do not currently receive security oversight from the state's Office of Information Security. The Division indicates that state boards and commissions have avoided any assistance or oversight by them. These boards normally collect applicant social security numbers used in determining if the applicants have any unpaid child support payments. Given the confidential nature of the data collected, the Division's security oversight could help prevent unintended disclosure of the information. (page 6)

We found Division hosted state websites were not monitored for the release of sensitive confidential information as recommended in our prior audit. As a result, we found confidential personal information was again posted on a state website that was viewable to anyone on the Internet. While the primary responsibility for monitoring website content is the agency owning the website, a backup monitoring process is needed to detect any confidential personal information that is unintentionally posted on the websites. (page 7)

We identified nine computer user accounts of former employees whose network access had not been disabled. These accounts could have been identified and disabled if the Division was conducting quarterly reviews of user lists as required by state information security standards. (page 9)

We identified 18 Personal Identity Verification (PIV) cards that needed to be deactivated. These PIV cards are used by Division employees to gain access to restricted office or computing locations. The PIV cards needing deactivation could have been identified and deactivated if the Division was conducting the quarterly audits of the PIV card system as required by the Division's own policies. (page 9)

Four of the 32 Division computers we sampled did not have current virus protection as required by state security standards. Without current virus protection, there is increased risk that employees with infected computers will lose productive time while their computers are purged of the infected files. In addition, we identified 7 of 32 computers that did not have critical software security patches installed as required by state security standards. (page 11)

