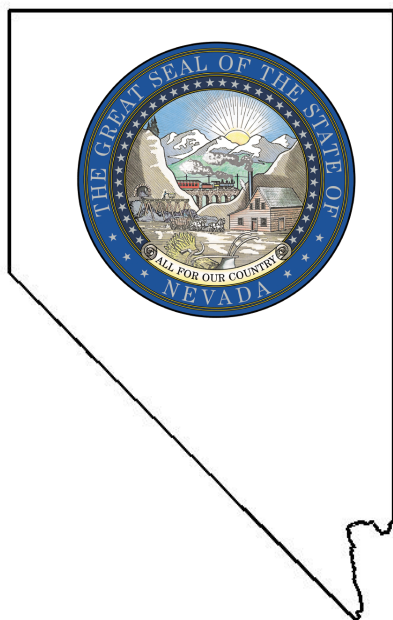


STATE OF NEVADA

Performance Audit

Department of Business and Industry
Manufactured Housing Division

2015



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Manufactured Housing Division issued on November 19, 2015. Legislative Auditor report # LA16-04.

Background

The Manufactured Housing Division of the Department of Business and Industry was created in 1979. The Division is primarily responsible for administering and enforcing manufactured housing laws and regulations to ensure that manufactured structures are constructed and installed in a manner that provides reasonable safety and protections to residents and other occupants. The Division's mission is to protect occupants of manufactured homes and commercial structures.

During fiscal year 2014, there were over 79,000 titled manufactured structures. Generally, structures regulated by the Division include manufactured or mobile homes, commercial coaches, portable and modular buildings, and factory-built housing. The Division's primary means of regulation is the issuance of licenses and titles, and the Division requires the purchase of permits for installations, remodels, and repairs of manufactured or mobile homes and commercial coaches.

As of November 2014, the Division had 13 employees located in its Carson City and Las Vegas offices. The Division operates from four budget accounts primarily funded by user fees and had revenues of \$1.5 million in fiscal year 2014.

Purpose of Audit

The purpose of the audit was to determine if certain operating and administrative controls related to inspections, deposits, information technology, and performance measures were adequate. Our audit focused on certain operating and administrative controls, primarily during calendar year 2014; however, certain information technology and inspection activity was reviewed through February 2015.

Audit Recommendations

This audit report contains 11 recommendations to improve operating and administrative practices over inspections, deposits, information technology, and performance measures.

The Division accepted the 11 recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Manufactured Housing Division

Department of Business and Industry

Summary

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

Key Findings

The Division needs to develop a process to ensure inspections are performed on structures, including a process to monitor permits where work did not meet adopted standards and permits where an inspection was never scheduled (open permits). Our review of permit and inspection records, or lack thereof, found 58% of failed inspection permits and 80% of open permits did not have a subsequent or an original inspection performed by the Division. Inspections were not performed by the Division because the Division relies solely on permit purchasers to schedule inspections and does not have a monitoring process in place to identify and perform necessary inspections when not notified by permit purchasers. (page 7)

The Division was unable to provide all records regarding inspections because inspection and permit records were not maintained appropriately. Our review of available records found the Division could usually provide permit documentation but not inspection checklists or correction notices. Furthermore, the Division does not cross-reference permit and inspection documentation to efficiently determine if regulation activities are complete and appropriate. As a result, the Division is unable, with any certainty, to determine whether work performed on regulated structures is adequate. (page 10)

The Division needs to develop a compliance label inventory system from receipt to affixation of the label. We found the Division does not maintain an adequate inventory of labels, does not complete a periodic reconciliation of labels stored in its possession, and labels are not properly safeguarded. Also, the database used to maintain the record of labels contained incomplete or inaccurate information. A compliance label inventory system is important because the Division affixes labels to structures to signify that adopted health and safety standards have been met. (page 12)

Control weaknesses exist over revenue collections and deposits. Weaknesses include fee revenue for licensing, titling, and annual park fees not always being deposited timely. The Division does not have a process to log checks upon initial receipt of payment. In addition, the Division does not perform a reconciliation between the receipt log and the state accounting system to ensure all amounts are deposited. Also, we found cash and checks received were not adequately safeguarded and access was not restricted. Finally, the Division has not adequately segregated the duties related to receipting and depositing of fees. Stronger controls over revenue collections and deposits are important because the Division collected almost \$1.5 million in fee revenue during fiscal year 2014. (page 14)

The Division is collecting and storing records of personal identifying information without statutory authority. Over 2,000 unencrypted social security numbers and names of applicants were found on the Division's network. In addition, approximately 200 files containing unencrypted personal identifying information were stored on local drives of individual desktop computers used by staff. Collecting and storing personal identifying information without appropriate safeguards puts the Division at risk of losing sensitive data. (page 17)

The Division can take steps to strengthen its oversight of performance measure results used in the State's budget process. We found records for some performance measures were not available or were incomplete for purposes of verifying reported results. Performance measures must be reliable because they can affect budget and policy decisions made by oversight bodies, including judgments made by stakeholders and the public about the Division's operations. Performance measures cannot be considered reliable; however, unless underlying records exist to support them. (page 18)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Manufactured Housing Division. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 11 recommendations to improve operating and administrative practices over inspections, deposits, information technology, and performance measures. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

August 11, 2015
Carson City, Nevada

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Introduction

Background

The Manufactured Housing Division (Division) of the Department of Business and Industry was created in 1979. The Division is primarily responsible for administering and enforcing manufactured housing laws and regulations to ensure that manufactured structures are constructed and installed in a manner that provides reasonable safety and protection to residents and other occupants. The Division's mission is to protect the interests of the manufactured housing industry and owners or occupants of manufactured homes and commercial structures. The Division works to ensure that all manufactured structures that are sold, delivered, and reside in Nevada are safely constructed and properly installed. During fiscal year 2014, there were over 79,000 titled manufactured structures. Generally, structures regulated by the Division include manufactured or mobile homes, commercial coaches¹, portable and modular buildings, and factory-built housing.

The Division's primary means of regulation is the issuance of:

- Licenses – The Division licenses various professionals involved in the manufacture, sale, and service of regulated structures who must qualify and register in order to engage in such business.
- Titles – The Division maintains record of ownership for manufactured homes, mobile homes, and commercial coaches, including records of liens placed on homes, and conversions of structures into real property.
- Permits – The Division requires the purchase of permits for installations, remodels, and repairs of manufactured or mobile homes and commercial coaches. Inspections of

¹ Commercial coach refers to a structure without motive power which is designed for occupancy for industrial, professional, or commercial purposes.

permitted work are performed to ensure structures meet Division standards.

Along with the issuance of licenses, titles, and permits, the Division:

- Investigates complaints involving occupants and park management and owners, and against licensees on services and products, or unlicensed activity.
- Administers a lot rent subsidy program for low-income owners of manufactured homes through assessment of annual fees from mobile and manufactured home parks.
- Provides educational classes for installation inspectors and general and specialty servicemen.

Staffing and Budget

As of November 2014, the Division had 13 employees located in its Carson City and Las Vegas offices. The Division operates from four budget accounts primarily funded by user fees and had revenues of \$1.5 million in fiscal year 2014. Exhibit 1 shows the Division's revenues by budget account and source for fiscal year 2014 and includes any amounts forwarded between fiscal years.

Revenues by Budget Account Fiscal Year 2014

Exhibit 1

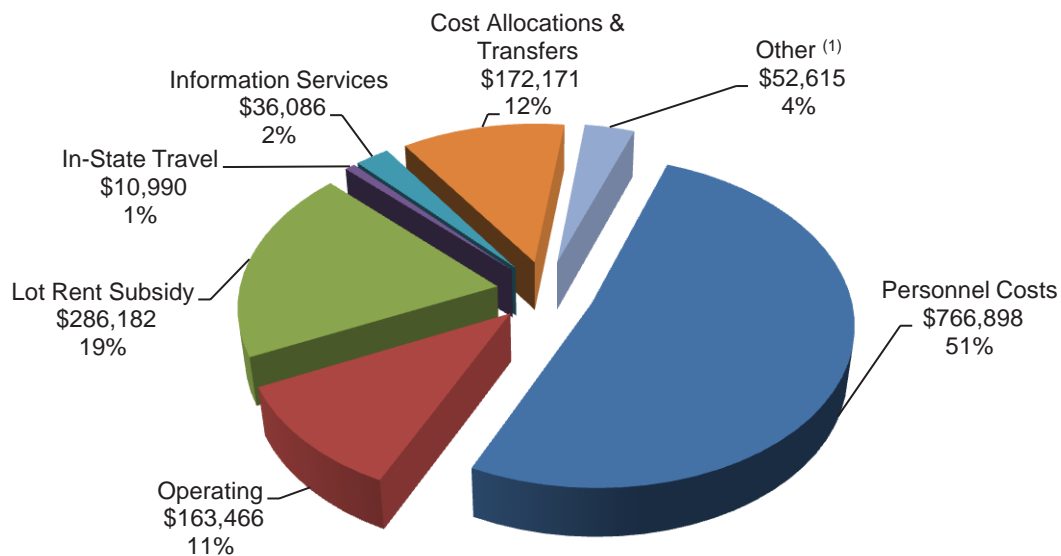
	Manufactured Housing	Mobile Home Parks	MFG Housing Education/Recovery	Lot Rent Trust Subsidy	Totals
Fees	\$877,655	\$142,327	\$74,200	\$336,712	\$1,430,894
Federal Funds	22,690	-	-	-	22,690
Cost Allocation Reimbursement	-	13,477	12,741	23,353	49,571
Treasurer's Interest	3,156	1,036	974	663	5,829
Other Revenue	5,350	-	-	35	5,385
Total Revenues	\$908,851	\$156,840	\$87,915	\$360,763	\$1,514,369
Balance Forward from 2013	706,790	204,010	211,940	194,239	1,316,979
Balance Forward to 2015	(745,541)	(192,013)	(236,248)	(169,138)	(1,342,940)
Revenue Used to Fund Operations	\$870,100	\$168,837	\$63,607	\$385,864	\$1,488,408

Source: State accounting system.

The majority of the Division's expenditures of \$1,488,408 were for personnel costs followed by lot rent subsidy payments to low-income owners of manufactured homes. Exhibit 2 shows the Division's expenditures by cost area.

Expenditures by Type Fiscal Year 2014

Exhibit 2



Source: State accounting system.

(1) Other expenditures include relocation and purchasing assessment costs.

Scope and Objective

Our audit of the Division focused on certain operating and administrative controls, primarily during calendar year 2014; however, certain information technology and inspection activity was reviewed through February 2015. Our audit objective was to:

- Determine if certain operating and administrative controls related to inspections, deposits, information technology, and performance measures were adequate to ensure occupant safety and compliance with applicable laws, regulations, and policies and procedures.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Operating and Administrative Practices Need Improvement

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

Inspection and Permit Program Oversight Needs to be Strengthened

The Division does not have procedures in place to ensure inspections are performed to confirm structures are installed and repaired in a manner that protects occupants. Specifically, some structures that failed an original inspection were not reinspected, and inspections were not performed on some permits. Furthermore, inspection documentation is not organized or maintained in a manner that facilitates retrieval or review. Finally, we found labels used to acknowledge structural safety are not properly monitored and safeguarded. Since these operating activities are pivotal to the Division's mission of protecting occupants, additional controls and procedures are necessary.

The Division issues permits and inspects installations and repairs made on regulated structures throughout the State for compliance with adopted standards, except in certain rural areas where counties perform services. Adopted standards provide minimum requirements to ensure the health and safety of occupants.

Standards pertain to the installation, support and tie down of structures, and are designed to protect occupants against uplift, sliding, rotation, and overturning. They also address the inspection of plumbing, access and egress, heating, cooling, fuel burning, and electrical system connections.

The Division requires the purchase of a permit prior to commencing any structure installation or approved project.

Permits are issued for various projects, including:

- structure installation;
- electrical;
- plumbing;
- gas system;
- structural remodel or repair;
- roofing; and
- heating, ventilation, and air conditioning (HVAC).

Exhibit 3 provides a list of the fees associated with each type of permit.

Schedule of Permit Fees

Exhibit 3

Type of Permit	Fee Amount
Multi-Section Home Installation	\$240
Single Section Home Installation	\$160
Commercial Coach Installation (WET) ⁽¹⁾	\$160
Commercial Coach Installation (DRY)	\$140
Basic Inspection ⁽²⁾	\$90
Reinspection	\$80

Source: Manufactured Housing Division schedule of fees.

(1) WET installation includes commercial coaches containing a potable water piping system.

(2) Basic inspection includes minor modifications to electrical, plumbing, gas system, structural remodel or damage repair, HVAC, or roofing.

On-site inspections are conducted once work has been completed to protect the public against health and safety hazards related to improperly installed or repaired manufactured homes, mobile homes, or commercial coaches. After a satisfactory inspection,

the Division may affix a label verifying the work performed meets adopted standards.

Some Inspections Not Performed

The Division needs to develop a process to ensure inspections are performed on structures, including a process to monitor permits where work did not meet adopted standards and permits where an inspection was never scheduled (open permits). Our review of permit and inspection records, or lack thereof, found 58% of failed inspection permits and 80% of open permits tested did not have a subsequent or an original inspection performed by the Division. Inspections were not performed by the Division because the Division relies solely on permit purchasers to schedule inspections and does not have a monitoring process in place to identify and perform necessary inspections when that does not occur.

During calendar year 2014, 2,619 permits were purchased for work on manufactured structures. Of the 2,619 permits, 325 failed inspection and 294 remained open without an inspection, according to the Division's permit database. The average time these inspections remained outstanding with no action being taken by the Division was 5 months. Exhibit 4 provides a breakdown of the 2,619 permits purchased during calendar year 2014.

**Permits Purchased
Calendar Year 2014**

Exhibit 4

Permits	Purchased Jan - March	Purchased April - June	Purchased July - Sept	Purchased Oct - Dec	Total Permits
With One or More Inspection(s) Completed					
Passed	479	487	525	435	1,926
Failed	103	81	70	71	325
Totals	582	568	595	506	2,251
Open Permits, Inspection(s) Needed					
Inspection Never Performed	54	52	63	125	294
Additional Inspection Needed ⁽¹⁾	11	18	17	28	74
Totals	65	70	80	153	368
Total Permits	647	638	675	659	2,619

Source: Manufactured Housing Division permit database as of January 16, 2015.

⁽¹⁾ Permit remains open as an additional (final) inspection is needed.

As shown in Exhibit 4, there were 2,619 permits purchased, of which 1,926 (74%) passed and 325 (12%) failed inspection. During calendar year 2014, the Division had five authorized positions between the Carson City and Las Vegas offices that performed inspections. Exhibit 5 provides a breakdown of inspections completed based on location.

**Inspections Completed Based on Location
Calendar Year 2014**

Exhibit 5

Office Location	Passed Inspection	Failed Inspection	Total Permits	Authorized Inspector Positions
Las Vegas Office	1,393	271	1,664	4
Carson City Office	394	37	431	1
Other ⁽¹⁾	139	17	156	-
Total	1,926	325	2,251	5

Source: Manufactured Housing Division permit database as of January 16, 2015.

⁽¹⁾ Division contracted support for inspections in other locations throughout the state.

Of the 325 failed inspections shown in Exhibit 5, we reviewed 50 in detail and found 29 (58%) where a reinspection was never performed. About 6 months, on average, transpired since the original inspection was performed for these permits. The longest outstanding inspection was performed nearly 11 months prior.

The Division fails permit inspections when standards for safety are not met. Of the 29 inspections reviewed, we found various conditions resulted in a failed inspection, including the following:

- improper blocking of a water heater enclosure;
- electrical continuity test failure;
- dryer vent missing;
- water line not bonded; and
- no tie downs or perimeter supports.

Furthermore, as shown in Exhibit 4, 294 (11%) of the 2,619 permits purchased were open. Permits are considered open when an inspection has never been performed. Of the 294 open permits, 106 were purchased prior to July 1, 2014; yet, the Division did not perform any type of follow-up with permit purchasers regarding these permits.

We randomly selected 30 open permits to review in detail and at the time of examination we found 24 (80%) remained without an inspection. Of the 24 open permits we reviewed, most were older than 6 months with the oldest permit being purchased nearly a year prior.

NRS 489.021 states it is the policy and purpose of the State to protect the public against hazards to the health, life and safety of persons and the safety of property. Statute also prohibits the alteration and installation of manufactured structures that are not constructed in a manner that provides reasonable safety and protection to owners and users. Inspections are performed by the Division to ensure structures meet these safety requirements. Furthermore, NRS 461A.140 requires repairs for substandard conditions, when inspected and found by the Division, to be physically commenced within 60 days and completed within a reasonable time. Because statute outlines this period for correction of substandard conditions, the Division can utilize this time period in developing a follow-up process for failed inspections.

Additionally, best practices suggest regulatory programs should monitor the inspection process and conduct inspections in a timely, efficient, and effective manner. Monitoring processes include controls to track the inspections conducted, violations found, and actions taken to ensure that violations are addressed appropriately and that conditions do not go unnoticed.

Inspections did not occur when required because the Division relies solely on permit purchasers to schedule inspections. While permit purchasers are best capable of determining when work is ready for inspection, the Division should have a monitoring process in place to ensure an inspection or reinspection is completed timely. Without a monitoring process, unsafe conditions may go unnoticed and occupants harmed as a result.

Disorganized Records Reduces Efficiency

The Division was unable to provide records regarding inspections because inspection and permit records were not maintained appropriately. Our review of available records found the Division could usually provide permit documentation but not inspection checklists or correction notices. Furthermore, the Division does not cross-reference permit and inspection documentation to efficiently determine if regulation activities are complete and appropriate. As a result, the Division is unable, with any certainty, to determine whether work performed on regulated structures is adequate.

During our review of permits and inspections, we requested the Division provide permit and inspection documentation. Records related to these activities include:

- Permits – describes the work to be completed, including the project address, and the type of inspection needed.
- Inspection checklists – provides a reference for inspectors to determine compliance and documents the work performed during an inspection.
- Correction notices – provided to permit purchasers and details substandard conditions identified during an inspection.

During our review of failed inspections, we requested the Division provide all permit and inspection documentation. However, the Division could not provide one or more of these documents for 43 of the 50 failed inspections reviewed. Mainly, the Division could not provide a copy of the inspection checklist or correction notice requested, and some copies of the original permit could not be provided as well. While records likely exist, the Division could not locate documents because records were unorganized and documents were haphazardly stored in staff offices. Additionally, when documentation was provided it was typically inadequate or incomplete and we could not efficiently determine whether structures ultimately passed inspection. For example, old and new permits were not referenced to one another and inspection documentation was not maintained with permit documentation. As a result, it was difficult to determine, with any certainty, the permit to which inspection activity was related. Furthermore, since inspection records, including correction notices, are not maintained together, or in any organized manner, we could not always correlate correction notices with permits or a specific inspection. Because the documents were not maintained together, it is unlikely inspectors were utilizing correction notices to determine if noted deficiencies were corrected during subsequent inspections.

The Division's procedures to close a permit specifically state any and all items listed on the attached correction notice, including reference to the correction notice number should be noted within the comment field of the database. However, this was not done and contributed to staff being unable to verify whether a reinspection was completed. Except for the procedure to notate correction notices in the database, Division policies governing permits and inspections do not outline a standard organized filing process. The Nevada State Administrative Manual requires maintenance of agency records in a cost effective format, which allows for rapid retrieval and protection of the information. This includes an established written organized filing system. Without such a system, the Division cannot be assured a subsequent inspection has been completed and does not have assurance safety standards are met.

Compliance Labels Inadequately Monitored

The Division needs to develop a compliance label inventory system from receipt to affixation of the label. We found the Division does not maintain an adequate inventory of labels, does not complete a periodic reconciliation of labels stored in its possession, and labels were not properly safeguarded. Also, the database used to maintain the record of labels contained incomplete or inaccurate information. A compliance label inventory system is important because the Division affixes labels to structures to signify that adopted safety standards have been met.

Labels are issued and intended to be affixed to the manufactured unit to signify compliance with Division requirements and standards. The Division utilizes four different labels:

- Issuance is made by Division staff or an approved designee who has approved an onsite inspection:
 1. Installation – for a manufactured home, mobile home, or commercial coach that is moved from one location to another.
 2. Commercial Coach (used unit) – for a used commercial coach that is missing a compliance label. Labels are affixed to units that are found to be in compliance with Division requirements and standards.
- Issuance is made through an approved third party reviewer. These labels are affixed to the unit at the manufacturing plant to signify the Division's approval of the manufacturers plans prior to shipment to Nevada:
 3. Manufactured Buildings (new unit) – for each new commercial coach or modular building that has been built by a manufacturer licensed by the Division.
 4. Factory Built Housing – for new factory built housing units.

While the Division maintains record of labels in a database, the Division is unable to generate a report that compiles a complete inventory of labels. The database can retrieve individual records of labels logged to staff or an approved designee, labels affixed to a structure, and inspection information related to a specific label. However, the database cannot generate a complete list for any given time period of labels received and its related disposition. While certain information can be extracted from the database, information in the database is not always accurate or complete. For instance:

- Labels showed as being assigned to one staff member, but another had physical possession of the label.
- Labels were not in sequential order as some were assigned randomly.
- Labels were recorded as being affixed to a structure without having ever been assigned to a staff member.
- Labels were not assigned, but multiple staff members had physical possession of the labels.

Additionally, certain labels could not be accounted for since we could not physically locate labels and the database did not reflect the assignment of labels to staff or affixation to a structure. Of the 128 commercial coach (new and used) labels examined, we found 33 were unaccounted for. This occurred because labels were stored in an unlocked filing cabinet and access was unrestricted. Furthermore, staff removed labels without logging the removal in the database. Allowing unrestricted access to labels can diminish the regulatory use of labels if they are utilized inappropriately.

Finally, the Division has not developed a formal process to void labels. We found several non-sequentially numbered labels that were never affixed to a structure or “void” was written on the labels. During our review of the database, we identified some labels were logged as being voided; yet, others were not. Staff reported procedures were vague in regards to the proper method of voiding labels.

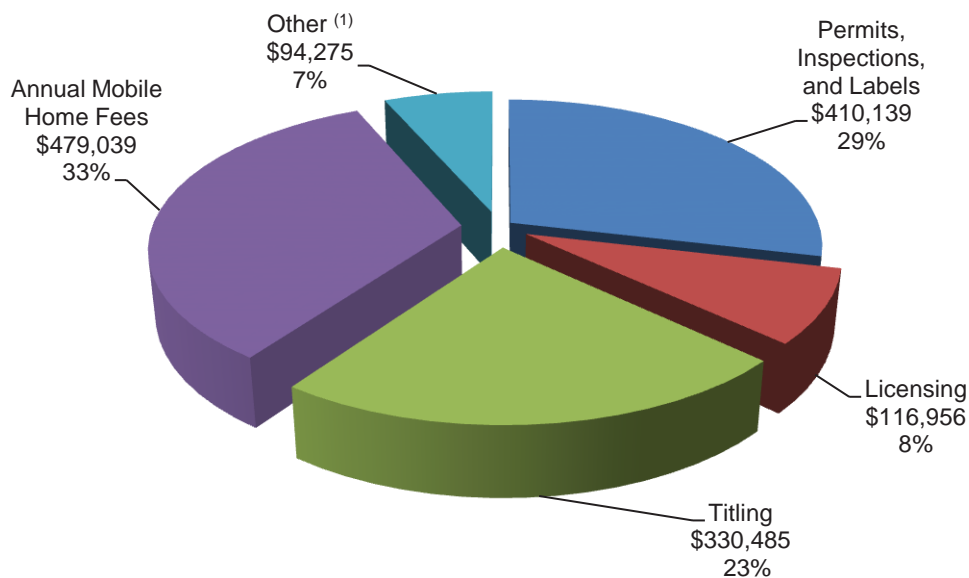
NRS 489.110 requires a compliance label to be issued under the authority of the Division and permanently attached to a manufactured structure to certify compliance with standards adopted by the Division. Labels are important for the Division to maintain regulatory oversight of compliance. However, the Division’s policies and procedures regarding compliance labels do not address procedures to properly safeguard, track, and monitor the labels. Without adequate procedures the Division is at risk of theft, loss, or of improper affixing of labels to manufactured structures.

Control Weaknesses Exist Over Revenue Collections and Deposits

Control weaknesses exist over revenue collections and deposits. Weaknesses include revenue not always being deposited timely, check and cash payments not being logged and compared to deposits, checks and cash not being adequately safeguarded, and an inadequate segregation of key duties in the receipt and deposit of funds. During fiscal year 2014, the Division collected nearly \$1.5 million in fee revenue. Exhibit 6 illustrates the Division’s collection of fees by program in fiscal year 2014.

Fee Revenue Collected by Source Fiscal Year 2014

Exhibit 6



Source: State accounting records.

(1) Other revenue included fees for factory built housing plan reviews, education, and recovery.

The Division charges various fees for permits and inspections, licensing, and titling. The Division also collects revenue by assessing annual fees from manufactured or mobile home parks to assist eligible low-income mobile home owners. We tested 100 transactions totaling over \$80,000 and found fees were not collected and deposited in accordance with state laws.

Revenue Not Always Deposited Timely

Fee revenue collected for licensing, titling, and annual park fees was not always deposited timely. Of the 100 tested, 51 of the receipts, totaling \$43,777, were deposited untimely. Of those tested, we found the Division made deposits, on average, 5 days late, but found one deposit to be 97 days late. Twenty-six of these untimely deposits were made more than one week late. Additionally, 4 of the deposits totaled more than \$10,000 and ranged between 1 and 3 days late.

Untimely deposits were made because the Division does not log and process checks and cash upon receipt for certain program fees. Instead funds are logged after staff process the associated program application, which can take several days or weeks. Untimely deposits increase the risk of lost or stolen payments especially when funds are not logged when received. Additionally, the State loses interest income the longer funds remain uninvested.

Payments Not Logged and Compared to Deposits

The Division does not have a process to log checks upon initial receipt of payment or a process to verify all funds are deposited. Checks collected from customers for licensing, titling, and park fees were not logged upon receipt; but, funds were attached to corresponding paperwork and distributed to designated employees throughout the Division's Carson City office for program processing. Once processed by program personnel, sometimes several days after receipt, then funds were logged. Since the Division's current process does not account for funds upon receipt, the risk funds could be diverted without detection is greater.

In addition, the Division does not perform a reconciliation between the receipt log and the state accounting system to ensure all amounts are deposited. Without a reconciliation between receipt logs and deposits, the Division has little assurance all funds received are accounted for. As part of our audit, we completed a reconciliation of the annual mobile home park fees collected during calendar year 2014. Our reconciliation showed payments logged after processing agreed to those recorded in the state accounting system. Although our analysis did not identify evidence of missing funds, improved recording and reconciling of cash and checks to accounting system records is needed to ensure funds received are deposited.

Fees Collected Not Adequately Safeguarded

Next, we found cash and checks received were not adequately safeguarded and access was not restricted. Fees collected by the Division's Carson City and Las Vegas offices are stored in an unlocked drawer during office hours, allowing access to all employees. In the Las Vegas office, fees are stored in an unlocked filing cabinet after business hours. These offices receive cash and checks regularly as fees received fund the Division's operations. Most of the deposits we reviewed ranged from \$3,000 to over \$10,000, and included several days of receipts, so adequate safeguarding of these items is important.

Inadequate Segregation of Duties

Finally, we found the Division has not adequately segregated the duties related to receipting and depositing funds. Segregation of duties is needed so that one individual cannot control all aspects of a financial transaction. Although several employees had responsibilities for the receipting of fees, one employee participated in all internal control activities. Segregation of duties is important because the Division is funded by the collection of fees.

Sound internal controls include procedures that specify the need for key duties and responsibilities to be divided or segregated among different employees. These segregations help reduce the risk of error and fraud. Several employees, as noted above, had responsibilities for the receipting of fees collected; however, one

employee in each office participated in all of the activities of receipting and depositing money.

Statutes require agencies to develop written procedures to carry out a uniform system of internal accounting and administrative controls. Additionally, statutes require agencies to deposit revenues by Thursday of each week, unless funds exceed \$10,000 which need to be deposited by the next business day. Also, statutes and the Nevada State Administrative Manual require agencies to have an established system of controls to safeguard and limit access to cash and checks to persons who need them to perform their duties. To help agencies establish a system of controls, the Division of Internal Audits has published documents to guide agencies in establishing internal controls. This guidance emphasizes the necessity of logging checks when received and reconciling logs to bank deposit records and budget status reports. Without improved controls and policies, an increased risk of funds being diverted without the Division's knowledge exists.

Sensitive Information Needs Better Protection

The Division is collecting and storing records of personal identifying information without statutory authority. Over 2,000 unencrypted social security numbers and names of applicants were found on the Division's network. In addition, approximately 200 files containing unencrypted personal identifying information were stored on local drives of individual desktop computers used by staff.

NRS 239B.030 requires agencies to be specifically authorized to collect personal information from the public. While the Division has authority to collect some personal identifying information for one program, the Division is not authorized to collect it for others. Without having such authorization, the Division collected and maintained unencrypted social security numbers electronically, as well as information in hardcopy format. Hardcopy files contained multiple social security numbers in addition to those identified in electronic format, because the Division collects more information than utilized in the program database. Furthermore, the Division stored unencrypted personal identifying information on the local

drive of three computers. Information included the names and social security numbers of former employees of the Division.

Collecting and storing personal identifying information such as unencrypted social security numbers puts the Division at risk of losing sensitive data. If that were to occur, the Division may have to make time-consuming and expensive notifications to affected persons. The Division should implement procedures to periodically review computers for unauthorized and unencrypted personal identifying information.

**Insufficient
Underlying
Records to
Support
Performance
Measure Results**

The Division can take steps to strengthen its oversight for the reliability of performance measure results used in the State's budget process. We found records for some performance measure support were not available or were incomplete for purposes of verifying reported results. Performance measures must be reliable because they can affect budget and policy decisions made by oversight bodies, including judgments made by stakeholders and the public about the Division's operations. Performance measures cannot be considered reliable; however, unless sufficient underlying records exist to support them.

The Division included 13 performance measures in its budget document for fiscal years 2016 and 2017. However, records were not always available to verify performance measure results reported. Specifically, records to support results were either not available to verify calculations or data was incomplete for four of the six performance measures reviewed. Exhibit 7 on the next page shows the measures tested.

**Performance Measures Tested
Fiscal Years 2013 and 2014**

Exhibit 7

No.	Performance Measure	Reported Results
1.	Percent of Inspections Failing	8.73%
2.	Workdays to Fulfill Inspection Request	1
3.	Workdays to Process a New License	3.4*
4.	Workdays to Process a Renewal License	3*
5.	Percent of Incorrect Title Applications Returned	14.56%*
6.	Workdays to Process a Title	4.7*

Source: Manufactured Housing Division, 2015 – 2017 State Budget.

* Results reported for fiscal year 2013 are represented because results from 2014 were not reported.

The accuracy for two of six measures could not be verified because performance measure support was not available. For example, two measures track the number of days to process a license. Specifically, records to support the number of days are maintained in individual hardcopy applicant files instead of one hardcopy location or electronic format. Without reviewing each individual hardcopy file, the measures could not be recalculated or verified.

Additionally, the Division maintained incomplete documentation for two of the six measures. Specifically, the Division reported 8.73% of inspections failed in fiscal year 2014. Although the Division tracked this measure on a monthly basis, supporting data reflected a result of 13.65%. Since testing of inspections revealed records were incomplete we could not verify which result was accurate. Another measure tracks the days to fulfill an inspection request. However, a significant number of fields in the permits database to calculate this measure were blank and data was not tracked by another method for nearly half of the year. Without the full data being available, we could not reasonably verify the accuracy of reported results.

The State Administrative Manual requires records used in computing performance measures be retained for 3 fiscal years and the measures must be reliable. However, the Division has not developed written policies and procedures over performance measures, including procedures for data gathering and

processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.

Additionally, performance measures are not reviewed by the Division prior to submittal for publication. As a result, decision makers and other users of government information do not have assurance the Division is meeting performance goals.

Recommendations

1. Establish a process to ensure inspections, either original or reinspections, are scheduled and performed in a timely manner. Document the process in policies and procedures.
2. Develop a method of record maintenance that ensures information related to permits and inspections is easily retrievable and supports review of performed inspections. The system should include some method of correlating all records related to a particular project and should be documented in policies and procedures.
3. Update compliance label policies and procedures to establish a retrievable inventory system for labels from receipt to affixation. The system should include a periodic reconciliation of compliance labels on hand.
4. Develop controls and modify policies and procedures to ensure receipts are deposited timely, in accordance with NRS 353.250.
5. Modify policies and procedures to ensure cash and checks are logged at the initial point of receipt.
6. Establish a process and develop policies and procedures to compare receipt log(s) to amounts recorded in the accounting system.
7. Secure cash and checks prior to deposit including limiting access to only necessary personnel.
8. Ensure duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are segregated.

9. Discontinue collection of sensitive personal identifying information where not authorized by law and remove existing sensitive data.
10. Develop procedures to periodically review Division computers for unauthorized and unencrypted sensitive data.
11. Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.

Appendix A

Audit Methodology

To gain an understanding of the Manufactured Housing Division, we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the Division's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division. Furthermore, we documented and assessed the Division's internal controls over inspections, deposits, personal identifying information, and performance measures.

To evaluate internal controls over inspections, we first obtained a database download list of all permits purchased between January 1, 2014, and December 31, 2014. We verified the accuracy of the listing by tracing the sequence of permit numbers generated during calendar year 2014. We filtered the download to identify the total number of failed inspections. We then randomly selected 50 of 325 permits from the list of failed inspections, to determine whether a reinspection was completed, how the reinspection was scheduled, and whether conditions noted in correction notices were reviewed and corrected. Next, we filtered the download to identify permits where an inspection was not noted in the database. Of the permits without an inspection, we randomly selected 30 of 294 to review further for inspection documentation. We also discussed the process of scheduling inspections with staff.

To further evaluate the Division's internal controls over inspections, we examined the labels database, the physical possession of labels by inspection staff and those unassigned, and access to the unassigned labels. In addition, we reviewed the Division's completeness and accuracy of database records. Finally, we discussed the use and functionality of the labels

database and reviewed written policies and procedures related to labels.

To determine whether fees were collected and deposited in accordance with state laws, we obtained lists regarding fees for titles, licenses, and mobile/manufactured home parks for calendar year 2014. We verified the completeness of each list by comparing data to agency files or internet searches. Based on our work, we concluded the lists contained fees for 6,306 titles, 336 licenses, and 377 parks. Next, we randomly selected 100 fee transactions (33 titles, 33 licenses, and 34 parks) to test. We obtained supporting documentation and determined the date fees were received and deposited. Furthermore, we reviewed the Division's process for receipting, handling, and reconciling cash and checks received. We discussed these processes with staff and reviewed policies and procedures as well.

To evaluate whether personal identifying information existed at the Division, we reviewed applicable laws and discussed with staff and management the existence of such information. We reviewed Division documentation for the type of information requested from applicants. Then we obtained access to electronic files and observed the type and extent of information stored and accessible to staff. Finally, we discussed the collection and availability of sensitive information with Division management and Department of Business and Industry staff.

To evaluate performance measures, we identified the Division's performance measure data reported in the 2016 and 2017 Executive Budget for fiscal years 2013 and 2014. We selected six measures based on our perception of legislative and public interest. We discussed measures with staff and requested supporting documentation to determine the accuracy and completeness of records, and the reasonableness of methodology. We then determined the Division's compliance with State Administrative Manual requirements.

For our sample design, we used non-statistical audit sampling, which was the most appropriate and cost effective method for concluding on our audit objective. Based on our professional

judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. We have not projected the errors noted in our samples to the population because our samples were derived from subsets of the population where specific criteria was met. Therefore, our sample results would not necessarily apply to the permit population as a whole. Judgmental selections were made based on a review of performance measures.

Our audit work was conducted from August 2014 to March 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Manufactured Housing Division. On July 23, 2015, we met with the Division Administrator to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 25.

Contributors to this report included:

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Deputy Legislative Auditor

Shannon Ryan, CPA
Audit Supervisor

A. Lilliana Camacho-Polkow, MBA
Deputy Legislative Auditor

Appendix B

Response From the Manufactured Housing Division

BRIAN SANDOVAL
Governor

STATE OF NEVADA



BRUCE BRESLOW
Director

JIM DePROSSE
Administrator

Department of Business & Industry
MANUFACTURED HOUSING DIVISION

August 6, 2015

Paul V. Townsend, CPA
State of Nevada
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend,

The Department of Business and Industry, Manufactured Housing Division (MHD) received audit recommendations developed by the Legislative Counsel Bureau (LCB) on July 27, 2015. The MHD is in agreement with all of the recommendations presented in the audit.

The MHD appreciates the thoroughness of the LCB audit staff, as well as the professionalism and cooperation that the staff demonstrated during the course of their audit activities. The resolution of the recommendations will allow for the MHD to more effectively and efficiently operate, and ultimately provide a higher level of service to the citizens of the State of Nevada.

Below are the MHD responses to the specific recommendations.

Recommendation #1:

Establish a process to ensure inspections, either original or re-inspections, are scheduled and performed in a timely manner. Document the process in policies and procedures.

Response:

The MHD has begun to develop and implement policies and procedures to ensure that all inspections are performed in a timely manner. These policies ensure that effective follow up will occur for all permitted work regardless of delays related to the timeliness of when an inspection request from the permit holder is received. All staff members will be thoroughly trained and aware of the new requirements. Constituents and licensees will also be informed of our implementation of the new policies and procedures.

Recommendation #2:

Develop a method of record maintenance that ensures information related to permits and inspections is easily retrievable and supports review of performed inspections. The system should

include some method of correlating all records related to a particular project and should be documented in policies and procedures.

Response:

The MHD recognizes the need for improvement of the maintenance of all records relating to inspection activities. The MHD is in the process of developing and implementing changes to our current system and has been working diligently to assess our requirements for a new computer system. Once that system has been implemented, the MHD will be more efficient with an improved method of retrieving permit information.

Recommendation #3:

Update compliance label policies and procedures to establish a retrievable inventory system for labels from receipt to affixation. The system should include a periodic reconciliation of compliance labels on-hand.

Response:

The MHD is in the process of finalizing procedures that will ensure better tracking of all labels and insignias; from point of receipt from the label supplier to the application on a regulated structure. The process will include an effective method to periodically reconcile all insignias and labels that are in the possession of the Division. These procedures will more accurately account for labels assigned to inspectors and insignias issued to licensed manufacturers.

Recommendation #4:

Develop controls and modify policies and procedures to ensure receipts are deposited timely, in accordance with NRS 353.250.

Response:

The MHD is in the process of reviewing current procedures and making the necessary modifications to existing procedures to ensure that all receipts are deposited timely in accordance of NRS 353.250. We have been working with the fiscal staff of the Department of Business and Industry Director's office for guidance on resolution and compliance.

Recommendation #5:

Modify policies and procedures to ensure cash and checks are logged at the initial point of receipt.

Response:

With the updating of related policies and procedures, the MHD will be certain to ensure that cash and checks are logged at point of receipt so they are accurately tracked and the accumulation of funds received is known for timely deposit.

Recommendation #6:

Establish a process and develop policies and procedures to compare receipt log(s) to amounts recorded in the accounting system.

Response:

Together with the establishment of improved cash and check logs at time of receipt, the MHD will have the data to compare receipt logs to amounts recorded in the accounting system. Once completed, revised

policies and procedures will ensure that payments logged after processing will match the amounts posted in the accounting system.

Recommendation #7:

Secure cash and checks prior to deposit including limiting access to only necessary personnel.

Response:

The MHD has submitted purchase orders for safes for both Division offices. These will be used to secure the funds received and maintained in the office prior to being deposited. The MHD will also expand policies and procedures to include effective safeguarding practices.

Recommendation #8:

Ensure duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are segregated.

Response:

The MHD is committed to developing adequate procedures to ensure appropriate segregation of duties. The MHD will utilize assistance from fiscal staff of the Department of Business and Industry Director's office for guidance on resolving this issue.

Recommendation #9:

Discontinue the collection of sensitive personal identifying information where not authorized by law and remove existing sensitive data.

Response:

The MHD has discontinued the collection of sensitive personal data where not authorized by law and is in the process of removing all records related to the previous collection of sensitive data as recommended by the LCB auditors. The Park's database information has been modified to ensure sensitive information no longer exists, along with the elimination of the entry of tax ID numbers on the annual reporting form. The Lot Rent Subsidy applications and instructions were amended, and the application package no longer requests a copy of the social security cards.

Recommendation #10:

Develop procedures to periodically review Division computers for unauthorized and unencrypted sensitive data.

Response:

The Department of Business and Industry's IT staff performed scans on all identified computers and removed unauthorized and unencrypted sensitive data. The MHD will develop policies and procedures for routine audits of sensitive data on all MHD desktop computers.

Recommendation #11:

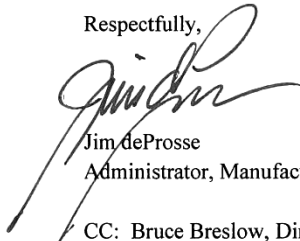
Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.

Response:

The MHD will document the source and methodology of the information used to report performance measures so there is a way to review the performance measure calculations for accuracy and consistency. Implementation of a new computer system in 2016 will assist in providing more reliable reporting by allowing accurate tracking of some performance indicators that is not available with the current system. All records pertaining to the calculations of the performance records will be retained for a period of three years, which will be reflected in the new policies and procedures.

On behalf of the MHD, I would like to express our appreciation to you and your staff for their cooperation and professionalism during the entire audit process. If there are any additional questions or concerns, please feel free to let me know.

Respectfully,



Jim deProse
Administrator, Manufactured Housing Division

CC: Bruce Breslow, Director, Department of Business and Industry

Manufactured Housing Division's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Establish a process to ensure inspections, either original or reinspections, are scheduled and performed in a timely manner. Document the process in policies and procedures.....	<u>X</u>	<u> </u>
2. Develop a method of record maintenance that ensures information related to permits and inspections is easily retrievable and supports review of performed inspections. The system should include some method of correlating all records related to a particular project and should be documented in policies and procedures	<u>X</u>	<u> </u>
3. Update compliance label policies and procedures to establish a retrievable inventory system for labels from receipt to affixation. The system should include a periodic reconciliation of compliance labels on hand.....	<u>X</u>	<u> </u>
4. Develop controls and modify policies and procedures to ensure receipts are deposited timely, in accordance with NRS 353.250.....	<u>X</u>	<u> </u>
5. Modify policies and procedures to ensure cash and checks are logged at the initial point of receipt	<u>X</u>	<u> </u>
6. Establish a process and develop policies and procedures to compare receipt log(s) to amounts recorded in the accounting system.....	<u>X</u>	<u> </u>
7. Secure cash and checks prior to deposit including limiting access to only necessary personnel	<u>X</u>	<u> </u>
8. Ensure duties of receipting cash and checks, preparing deposits, and reconciling receipts to the accounting system are segregated	<u>X</u>	<u> </u>
9. Discontinue collection of sensitive personal identifying information where not authorized by law and remove existing sensitive data	<u>X</u>	<u> </u>
10. Develop procedures to periodically review Division computers for unauthorized and unencrypted sensitive data	<u>X</u>	<u> </u>
11. Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation	<u>X</u>	<u> </u>
TOTALS	<u>11</u>	<u> </u>