

STATE OF NEVADA

Performance Audit

Horse Power
Special License Plate

2017



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on Horse Power issued on April 14, 2017.
Legislative Auditor report # LA18-08.

Background

Horse Power incorporated with the Secretary of State in 2005 as a non-profit organization. The Horse Power license plate was approved by the Commission on Special License Plates on October 19, 2006. In its presentation, Horse Power indicated license plate proceeds would be used as a philanthropic program to aid groups, organizations, and individuals that care for wild equine throughout the State of Nevada.

Horse Power receives almost all of its funding from its special license plate issued by the Department of Motor Vehicles. Plate holders pay \$62 in the initial year and \$25 each year thereafter, of which Horse Power receives \$30 and \$20, respectively. Horse Power has received nearly \$1 million in special license plate revenues since 2007.

Horse Power expended \$140,000 on program operations in fiscal year 2016. Slightly over half of the expenditures were for direct animal care since the program has evolved from providing financial aid to others to supporting an equine rescue facility.

Purpose of Audit

The purpose of this audit was to review the appropriateness of expenditures and evaluate whether Horse Power had adequate methods and procedures in place to ensure grants and expenditures benefit the intended recipient. The scope of our audit was fiscal years 2015 and 2016. As necessary, we included information from prior years to provide perspective on Horse Power's operations.

Audit Recommendations

This audit report contains 15 recommendations to reduce animal care expenditures and improve oversight of program and financial transactions. Horse Power accepted 12 recommendations and rejected 3.

Additionally, we have a recommendation for the Commission on Special License Plates to consider whether Horse Power is utilizing funding in a manner that meets its approved use.

Horse Power Special License Plate

Summary

Horse Power spends almost all of its special license plate funds to operate an equine rescue facility in Northern Nevada, leaving little funding left over to aid others who care for equine. The organization can take steps to reduce costs for this facility by purchasing feed at lower costs and by actively seeking to adopt out animals. Since Horse Power currently supports over 40 animals, reductions in feed costs and herd size can generate significant savings to serve more equine in the State through grant activities. Furthermore, the Horse Power Board has not provided effective oversight to ensure proper practices of financial administration. For example, the business purpose for fuel purchases was not documented, the Board did not follow its methods and procedures for monitoring debit card transactions, budgets did not contain sufficient details to oversee activities, and receipts were not provided for many expenditures.

Grant funding to organizations and individuals who care for equine has sharply declined in recent years as Horse Power has increasingly spent funding on the support of a rescue facility operated by the Executive Director. Because funding has been redirected to support more equine at the facility, it is questionable if Horse Power is meeting the original intent of establishing a philanthropic program to financially aid others who care for equine, as was approved by the Commission on Special License Plates in 2006. Furthermore, grant application and award processes are not sufficient to ensure opportunities are reaching potential grantees and applicants are treated fairly and consistently.

Key Findings

Horse Power could have reduced feed costs by an estimate \$5,000 for fiscal year 2016 simply by purchasing from other businesses who offered similar products at lower prices. Moreover, Horse Power can save significantly more if it considered purchasing feed in bulk quantities. Buying in bulk would reduce the frequency of delivery and could have saved between \$14,000 and \$24,000 in 2016 depending on the type of hay purchased. (page 6)

Horse Power did not have an effective adoption program to provide for an ongoing reduction in the size of the herd. Based on discussions with the Executive Director and a review of ownership documentation, the organization did not adopt out any horses to individuals during fiscal years 2015 and 2016. (page 7)

Horse Power did not provide any ownership records of equine at its facility even though we requested this information on multiple occasions. Therefore, we obtained available records from the Nevada Department of Agriculture. We found Horse Power has more equine at its facility than Nevada Department of Agriculture records reflect. (page 7)

The Executive Director did not document the business necessity of travel expenses when using a personal vehicle; therefore, the appropriateness of vehicle expenses could not be determined. For fiscal years 2015 and 2016, over \$5,400 in fuel and vehicle expenses was paid for by the Executive Director with a Horse Power debit card. Of this amount, \$4,400 was paid for fuel and \$1,000 was vehicle repairs. Documentation to support the business use of a personal vehicle is required by the Internal Revenue Service. (page 8)

Transactions made with a debit card were not monitored or approved by the Board as required in its methods and procedures. Debit card purchases are linked to Horse Power's bank account designated for operating expenses, and more than \$130,000 was paid by this method during fiscal years 2015 and 2016. Therefore, monitoring and approving these transactions is essential to ensuring expenditures are appropriate. (page 9)

Budgetary data submitted to the Board for review and approval is not sufficiently detailed to monitor and oversee the activities of the organization. The budget included a few percentages and no amounts. Additionally, the Board does not routinely receive and review periodic financial comparisons of budget to actual information. (page 10)

As Horse Power's revenues from the sale and renewal of special license plates has increased, the amount of money awarded to others has declined significantly. Specifically, grant expenditures have declined over 90% from a high of \$56,303 in calendar year 2009 to only \$4,825 in 2015. (page 14)

Horse Power's grant awarding process needs improvement to ensure fair and consistent treatment of applicants. For instance, the application process limits the number of applicants because: 1) publication of funding opportunities is limited, 2) application requirements are burdensome, and 3) timeframes to submit applications are short. Furthermore, the Board does not have adequate policies and procedures detailing the process, including types of funding awarded, review of applications, exceptions, and emergency grant qualifications. (page 17)

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This report contains the findings, conclusions, and recommendations from our performance audit of Horse Power, a non-profit organization. This audit was conducted pursuant to a special request of the Commission on Special License Plates and was 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 15 recommendations to improve oversight of program and financial transactions. Additionally, we have included a recommendation for the Commission on Special License Plates to consider whether Horse Power is utilizing funding in a manner that meets its approved use. 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 "Rocky Cooper".

Rocky Cooper, CPA
Legislative Auditor

April 4, 2017
Carson City, Nevada

Horse Power

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Introduction

Background

Horse Power incorporated with the Secretary of State in 2005 as a non-profit organization. The Horse Power license plate was approved by the Commission on Special License Plates on October 19, 2006. In its presentation, Horse Power indicated license plate proceeds would be used for a philanthropic program to financially aid groups, organizations, and individuals that care for wild, estray or second chance horses, burros, or mules throughout the State of Nevada.

Horse Power is a small non-profit organization comprised of the Executive Director and a few volunteer board members. Executive positions include a President, Vice President, Treasurer, and Secretary. According to amended bylaws, the organization can serve with as few as two trustees or board members.

Horse Power receives almost all of its funding from its special license plate issued by the Department of Motor Vehicles. Plate holders pay \$62 in the initial year and \$25 each year thereafter, of which Horse Power receives \$30 and \$20, respectively. As of June 30, 2016, nearly 6,500 plates were issued. Exhibit 1 shows the Horse Power specialty license plate.

Horse Power Specialty License Plate

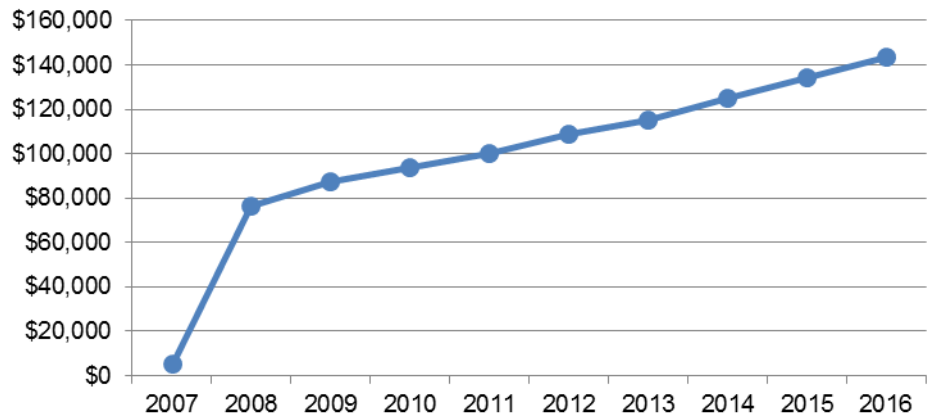
Exhibit 1



Source: Department of Motor Vehicles.

Horse Power has received nearly \$1 million in special license plate revenues since 2007. License plate revenues have grown each year the plate has been available. Exhibit 2 shows the growth of revenue each year since the plate's inception.

Annual License Plate Revenues **Exhibit 2**
Fiscal Years 2007 to 2016



Source: Department of Motor Vehicles.

Statutes require special license plate organizations to report information to the Commission on Special License Plates each year. Information required is generally financial in nature and includes a balance sheet and the most recent tax return of the organization. Horse Power reports this information based on a calendar year. Our audit covered the 2 fiscal years beginning July 1, 2014, to June 30, 2016; therefore, we compiled financial information for the organization for this time period. Exhibit 3 shows Horse Power's revenues and expenditures for fiscal years 2015 and 2016.

Horse Power Revenues and Expenditures Fiscal Years 2015 and 2016

Exhibit 3

Revenues	2015	2016
DMV License Plate	\$131,472	\$141,112
Donations	2,886	1,612
Totals	\$134,358	\$142,724
Expenditures		
Executive Director Salary	\$ 35,580	\$ 35,580
Grants	— ⁽¹⁾	5,725
Feed	64,336	64,452
Other Animal Care	13,164	8,623
Fuel and Vehicle Maintenance	2,961	2,462
Equipment and Facility	3,510	7,445
Marketing	1,237	7,431
Other Costs	5,461	8,492
Totals	126,249	140,210
Difference	\$ 8,109	\$ 2,514

Source: Auditor prepared from Horse Power accounting information.

⁽¹⁾ Horse Power granted funds during calendar years 2014 and 2015; however, due to the timing of the grant payments, no grant expenditures were made during fiscal year 2015.

Program Operations and Location

Horse Power pays its Executive Director, who is also a board member, a salary for activities performed on behalf of the Board. Bylaws provided to the Commission on Special License Plates in October 2006 prohibited board members from receiving compensation other than reasonable expenses; however, bylaws were amended December 28, 2006, to allow for compensation by an affirmative vote of the Board.

Over a period of years, the program has evolved from providing financial aid to others, to establishing and maintaining an equine rescue facility operated by the Executive Director. This facility currently cares for more than 40 equine at a location in Storey County. Until around November 2016, the facility was located in Washoe Valley, Nevada.

Scope and Objective

The scope of our audit included a review of expenditures and grant activities for fiscal years 2015 and 2016. As necessary, we included information from prior years to provide perspective on changes to Horse Power's operations. Our audit objective was to:

- Review the appropriateness of expenditures and evaluate whether Horse Power has adequate methods and procedures in place to ensure grants and expenditures benefit the intended recipient.

This audit was requested by the Commission on Special License Plates and was authorized by the Legislative Commission on June 28, 2016. We conducted our audit 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.

Expenditures Need Better Monitoring

Horse Power spends almost all of its special license plate funds to operate an equine rescue facility in Northern Nevada, leaving little funding left over to aid others who care for equine. The organization can take steps to reduce costs for this facility by purchasing feed at lower costs and by actively seeking to adopt out animals. Since Horse Power currently supports over 40 animals, reductions in feed costs and herd size can generate significant savings to serve more equine in the State through grant activities. Furthermore, the Horse Power Board has not provided effective oversight to ensure proper practices of financial administration. For example, the business purpose for fuel purchases was not documented, the Board did not follow its methods and procedures for monitoring debit card transactions, budgets did not contain sufficient details to oversee activities, and receipts were not provided for many expenditures.

Animal Feed Costs Can Be Lowered

Horse Power can take steps to significantly reduce animal feed costs. Feed costs can be reduced by buying in bulk and using less expensive blends of grass hay. Purchasing in bulk and feeding a less expensive blend of hay could have saved up to \$24,000 in 2016. Additionally, Horse Power is not actively reducing the size of the herd in its care through an effective adoption program. Since feed is the organization's largest expenditure and the number of equine cared for is sizeable, even modest reductions in price or the number of equine at the facility can save thousands of dollars annually.

Horse Power animals consume over 300,000 pounds of hay during any given year. Additionally, Horse Power primarily feeds orchard hay, which is considered to be a premium blend of grass hay that is more expensive than other blends. During fiscal year

2016, Horse Power spent over \$64,000 on feed, or nearly 46% of total expenditures.

During fiscal years 2015 and 2016, Horse Power arranged weekly deliveries of approximately 50 bales of hay from one local business, as well as, occasional feed purchases from other suppliers. Typically, the majority of each order was for orchard hay sold at \$18.95 per 100-pound bale. The business delivered to the facility for a nominal fee of \$15. Additionally, the establishment provided short-term credit to the organization when funding was low.

Feed Cost Reduction

Horse Power could have reduced feed costs by an estimated \$5,000 for fiscal year 2016 simply by purchasing from other businesses who offered similar products at lower prices. Moreover, Horse Power can save significantly more if it considered purchasing feed in bulk quantities. Buying in bulk would reduce the frequency of delivery and could have saved between \$14,000 and \$24,000 in 2016 depending on the type of hay purchased. Our estimate of \$24,000 is based on a bulk price of \$11.69 for weed free grass hay. Because Horse Power moved to a more rural location during our audit, bulk delivery may be difficult; however, the organization should implement methods to obtain feed at the lowest possible price.

In order to purchase feed in bulk quantities, Horse Power would need to protect feed from the elements. The Executive Director indicated Horse Power would not be able to buy hay in bulk since it could not install a protective hay structure on leased land. However, a vendor we contacted stated protective structures are available that can be moved, if necessary. Furthermore, other rescue operations use low cost tarps to protect feed from the elements.

Additionally, because of Horse Power's recent move to Storey County, the Executive Director indicated the County requires all feed to be certified weed free. Hay suppliers we contacted provided pricing for certified weed free blends that could be substituted for the feed currently being utilized.

Adoption Program Not Effective

Horse Power did not have an effective adoption program to provide for an ongoing reduction in the size of the herd. Based on discussions with the Executive Director and a review of ownership documentation, the organization did not adopt out any horses to individuals during fiscal years 2015 and 2016; however, some horses were re-homed to a rescue facility in California. An effective adoption program will reduce expenditures and allow Horse Power to serve more equine throughout the State.

On average, it costs Horse Power about \$1,400 in feed and \$189 in other costs, such as veterinary and hoof care, to support an animal each year. Therefore, a reduction in the number of horses cared for can increase the amount of funding available to grant to other individuals and organizations throughout the State.

Several governmental and non-profit rescue facilities in Northern Nevada have adoption programs and report successful placement of equine with screened, approved applicants. For instance, the Bureau of Land Management indicated its program in cooperation with Nevada Department of Corrections places about 60 equine each year in adoptive families. In addition, a non-profit organization similar to Horse Power stated it successfully places about 16 equine per year, on average.

Equine Ownership Records Not Complete

Horse Power did not provide any ownership records of equine at its facility even though we requested this information on multiple occasions. Therefore, we obtained available records from the Nevada Department of Agriculture (Department). We found Horse Power has more equine at its facility than Department records reflect. The Department shows 28 equine are registered to the Executive Director even though discussions and an on-site visit indicate more than 40 equine are physically on-site.

The Executive Director indicated ownership records were not obtained for certain horses because they were transported within 100 miles from their previous owner. However, Department personnel confirmed changes in equine ownership within Nevada are required to be documented unless an animal is foaled at a facility.

Furthermore, the Executive Director indicated Horse Power is not listed as the owner of record for these animals due to liability reasons. We contacted a similar organization who indicated ownership records are in the name of the non-profit organization and insurance is purchased at a cost of approximately \$1,000. In addition, an insurance agent confirmed liability insurance would likely be between \$1,000 and \$1,500 annually.

The Department also confirmed that non-profit organizations, such as Horse Power, could be listed as the registered owner of these animals. Proper ownership is important since the organization will have difficulty adopting out horses if the Executive Director is not available.

**Business
Purpose of
Personal Vehicle
Use Not
Documented**

The Executive Director did not document the business necessity of travel expenses when using a personal vehicle; therefore, the appropriateness of vehicle expenses could not be determined. For fiscal years 2015 and 2016, over \$5,400 in fuel and vehicle expenses was paid for by the Executive Director with a Horse Power debit card. Of this amount, \$4,400 was paid for fuel and \$1,000 was vehicle repairs. Documentation to support the business use of a personal vehicle is required by the Internal Revenue Service.

Business use of a personal vehicle is usually reimbursed to users based on actual expenses or standard mileage rates. However, Horse Power allowed unrestricted use of the organization's debit card by the Executive Director to purchase fuel without records that purchases were business related.

Supporting documentation was not required because Horse Power does not have effective processes and controls to ensure fuel and vehicle expenses are appropriate. In addition, the Board does not have a contract with the Executive Director detailing the nature and extent of expenses to be reimbursed. Also, as noted later, the Board's oversight of program and financial activities needs improvement.

**Board
Oversight
Needs
Improvement**

Recordkeeping should note the business purpose of the trip, travel start and end locations, the date, and mileage driven, in order to substantiate the necessity of the travel. Also, reimbursement requests should be reviewed for accuracy and appropriateness by someone independent from the requestor. This is a fundamental control for reducing the risk of fraud and abuse.

Oversight of program and financial activities by the Board could be more effective. Expenditures were not monitored in accordance with stated methods and procedures, budgets were not detailed enough to adequately oversee the entity's financial condition or confirm program priorities were met, and liabilities incurred from program activities were not reported properly. Board oversight is an essential element to ensuring a non-profit is well-managed and remains fiscally sound.

Debit Card Transactions Not Monitored

Transactions made with a debit card were not monitored or approved by the Board as required in its methods and procedures. Debit card purchases are linked to Horse Power's bank account designated for operating expenses, and more than \$130,000 was paid by this method during fiscal years 2015 and 2016. Therefore, monitoring and approving these transactions is essential to ensuring expenditures are appropriate and used for the benefit of the intended recipient. Horse Power's methods and procedures filed with the Commission on Special License Plates (Commission) state:

All receipts are saved and handed in to the Treasurer with complete and legible notations as to the purpose and source of the transaction. Online banking is made available to the Treasurer for immediate cross-checking as each use is recorded online. The Board of Directors shall be apprised at least quarterly of each debit card transaction and its purpose and shall approve the transaction. The user of the debit card is responsible for insuring that the expenditures are according to approved use and the Treasurer and the Board shall ensure that each transaction was appropriate and properly documented.

As part of our audit, we reviewed receipts provided by the Executive Director for compliance with methods and procedures. We reviewed receipts for notations of the source and purpose of the transaction, as well as approval by the Treasurer, and board minutes for discussion regarding transaction review and approval. We could not find any evidence that the procedures, filed with the Commission pursuant to NRS 482.38277, were being followed.

Review and approval of transactions is important since expenditures were made for items that are not directly related to animal care, maintenance of the facility, or grants made to others. For instance, Horse Power transactions were made at general merchandise stores (\$3,494), gas stations (\$4,398), restaurants (\$178), and ATM's (\$300). Even though these transactions may not comprise a significant portion of the entity's funding, oversight is essential for ensuring expenditures are proper. In addition, allowing one person to control an entire function increases the risk of error or fraud.

Budgets Not Detailed

Budgetary data submitted to the Board for review and approval is not sufficiently detailed to monitor and oversee the activities of the organization. The budget included a few percentages and no amounts. Additionally, the Board does not routinely receive and review periodic financial comparisons of budget to actual information.

The budget submitted to the Board at its February 2016 meeting only included percentages. The entity expected to spend 64.5% of revenue on programs, facility, equipment and contracts, 28.5% on administration costs, 5% on marketing, and 2% on operations. Percentages, as noted above, do not provide sufficient detail for board members to adequately monitor different program areas and determine whether the budgeted and actual expenses incurred by the organization reflect its priorities. For instance, although 64.5% of revenues was expected to be utilized for programs, there was no detail regarding the expected use between direct animal care programs and grants to other organizations. As discussed later in this report, significant

variation between the totals spent for these two programs exist, but that data was not included in the budget.

Best practices for non-profit organizations state detailed budgetary information is essential for showing an organization's planned financial activities for the year. Furthermore, the budget should be compared with actual amounts on a regular basis to allow board members to measure whether the organization's goals, set by the budget, are being met.

Liability Not Reported

Horse Power's annual balance sheet for calendar year 2015, submitted to the Commission, did not disclose a liability of over \$10,000. This liability was incurred from boarding fees for horses obtained at auction at a time when Horse Power could not support the animals on-site. Instructions for annual balance sheet submissions to the Commission require organizations to report any accounts payable or other liabilities. Although this liability was discussed at a December 2014 Board meeting, it was not reported on either the December 2014 or 2015 balance sheets submitted to the Commission pursuant to NRS 482.38277.

Board Turnover Contributes to Oversight Issues

Meeting minutes indicate the Board has operated with as many as six members in the last few years and as few as three, excluding the Executive Director. Certain executive positions have experienced significant turnover at times. For instance, the position of Treasurer was occupied by five different people during calendar year 2013. Additionally, board members often assume dual positions when vacancies occur. For example, from April 2015 to July 2016, one individual was both the Treasurer and Secretary of the organization. Non-profit organizations with a strong, effective board of directors have a greater likelihood of success.

Supporting Documentation Not Provided

Receipts or invoices were not provided for many expenditure transactions during fiscal years 2015 and 2016. In total, 178 expenditures totaling nearly \$37,000 were not supported with adequate documentation to determine the appropriateness of the expenditure.

We requested all receipts and invoices for transactions during fiscal years 2015 and 2016, in July 2016. Furthermore, throughout the audit we requested missing receipts be provided by the Executive Director, who provided some documentation to us as it was located. However, supporting documentation was not provided for all transactions requested including receipts for feed, veterinary services, merchandise, and payments to individuals for training, marketing, and transportation.

Recommendations

1. Implement methods to purchase feed at more competitive prices. Consideration should be given to purchasing less expensive types of feed and implementing a bulk purchasing program.
2. Actively seek to adopt out equine at the Horse Power rescue facility to reduce the number of animals cared for.
3. Work with the Nevada Department of Agriculture to obtain ownership records for equine at the Horse Power rescue facility.
4. Change ownership of equine supported by special license plate funding to the non-profit entity Horse Power.
5. Discontinue use of the Horse Power debit card for fuel and vehicle expenses.
6. Execute a contract between the Board and the Executive Director specifying, in detail, all compensation including business related expenses subject to reimbursement.
7. Reimburse travel expenses based on documentation. Travel logs should include the places traveled, with the date, time, mileage and business purpose of each trip.
8. Monitor and approve all travel reimbursement requests for accuracy, appropriateness, and compliance with agreements. A board member(s) independent from the person requesting reimbursement must perform the monitoring and approval.
9. Follow established methods and procedures regarding expenditure oversight.

10. Develop a line-item budget for Board review and approval. Periodically prepare, present, and review a comparison between budgeted and actual amounts.
11. Ensure financial information submitted to the Commission on Special License Plates includes all transactions.
12. Develop a record keeping system to ensure source documents are maintained and easily retrievable for all expenditures.

Grants to Others Have Declined and Award Process Is Inconsistent

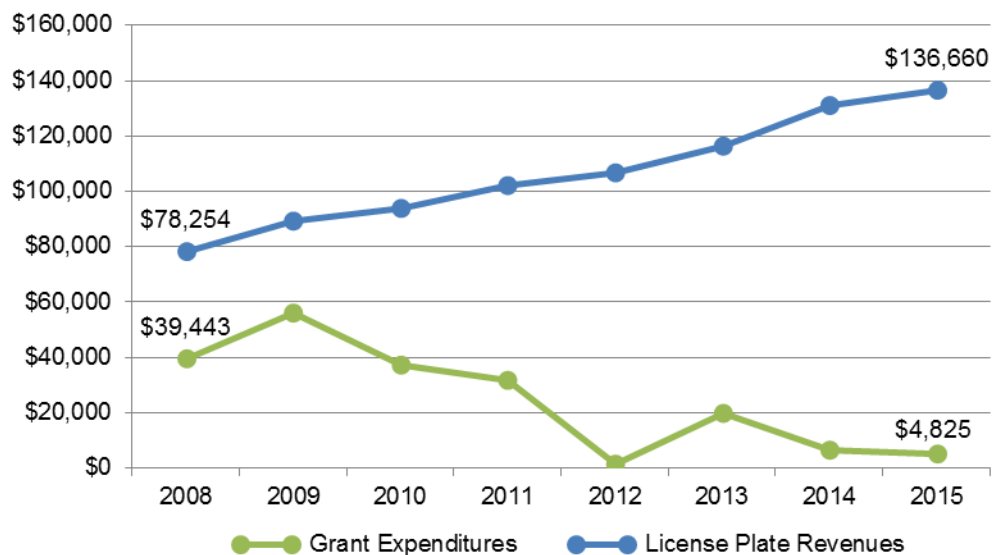
Grant funding to organizations and individuals who care for equine has sharply declined in recent years as Horse Power has increasingly spent funding on the support of a rescue facility operated by the Executive Director. Because funding has been redirected to support more equine at the facility, it is questionable if Horse Power is meeting the original intent of establishing a philanthropic program to financially aid others who care for equine, as was approved by the Commission in 2006. Furthermore, grant application and award processes are not sufficient to ensure opportunities are reaching potential grantees and applicants are treated fairly and consistently.

Funding Primarily Supports Horse Power's Rescue Facility

Horse Power has changed its operations from being a philanthropic organization providing funding to individuals, groups, and organizations who care for wild horses and burros to one that provides the actual care to these animals. As Horse Power's revenues from the sale and renewal of special license plates have increased, the amount of money awarded to others has declined significantly. Specifically, grant expenditures have declined over 90% from a high of \$56,303 in calendar year 2009, to only \$4,825 in 2015. The decline in funds granted to other organizations and individuals directly correlates to the establishment and expansion of a rescue facility operated by the Executive Director.

Exhibit 4 provides a historical perspective of the amount of grants awarded for calendar years 2008 to 2015 compared with the amount of special license plate receipts. In 2015, grant expenditures were about 3% of available revenue.

License Plate Revenues Compared to Grant Expenditures Exhibit 4 Calendar Years 2008 to 2015



Source: Auditor prepared from non-audited information submitted by Horse Power to the Commission on Special License Plates.

Note: Amounts noted above are based on reported amounts by calendar year and do not match those amounts shown in Exhibit 3 or 5, which are based on fiscal year.

Horse Power's original purpose as stated on its specialty license plate petition was to aid organizations, groups and individuals financially that help wild horses, burros, and estray. Bylaws provided to the Commission at the October 19, 2006, meeting reiterated this position and indicated funding would be accomplished through an application process. Furthermore, written testimony indicated the funding was intended to help wild horse communities throughout the State of Nevada by assisting with the care of wild equine and educating the public. As shown on page 22, Horse Power's original bylaws stated:

Horse Power is an organization exclusively for charitable purposes more specifically, to financially aid groups, organizations and individuals that have been caring for Wild, Estray or Second Chance Horses, Burros or Mules. Funding will be accomplished through an application process. All requirements must be met to apply. Approved applicants will be reviewed on a quarterly basis.

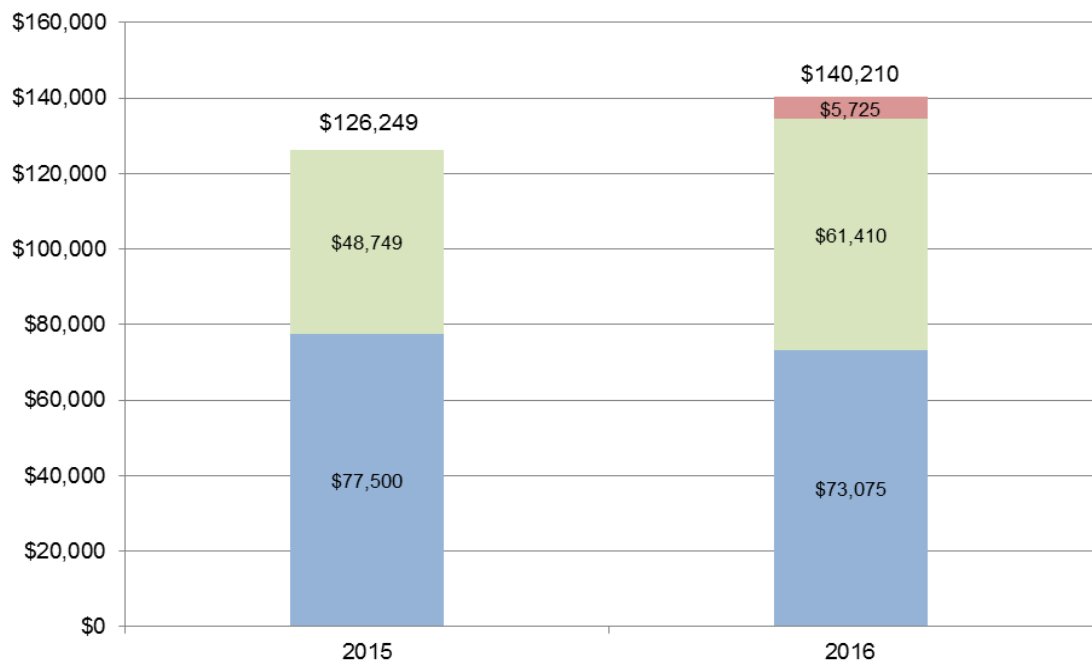
Appendix A on pages 21 to 23 contains documents submitted by Horse Power to the Commission in 2006.

Horse Power Emergency Rescue

Based on available equine ownership records and expenditures, the Executive Director began operating a rescue facility around 2011. At that time, annual costs to provide direct animal care were about \$15,000, according to documents filed with the Commission. By 2015, these costs had grown to over \$70,000. Some rescued equine came from the Bureau of Land Management and the Paiute Shoshone Tribe. The Executive Director maintains all equine were saved from slaughter. As part of our audit, we categorized expenditures into three main areas for fiscal years 2015 and 2016. Exhibit 5 shows that animal care is the most significant expenditure, followed by operating costs and grants.

**Horse Power Expenditures by Category
Fiscal Years 2015 and 2016**

Exhibit 5



- Grants – Due to the timing of grant payments, there were no grant expenditures made during fiscal year 2015.
- Operating Costs – Includes the Executive Director’s salary, equipment and facilities, fuel and vehicle repairs, equine transport, insurance, marketing, fees, supplies, and office expenses.
- Animal Care – Includes feed, livestock supplies, hoof care, veterinary services, and training.

Source: Auditor analysis of Horse Power’s financial records.

A more detailed presentation of revenues and expenditures is included in Exhibit 3 on page 3.

Funding for Horse Power is generated by the sale and renewal of license plates throughout the State. At one board meeting, it was noted that 75% of license plate revenue is generated from Southern Nevada; however, since funding is mostly used to support the operations of the rescue facility in Northern Nevada, very little, if any, funding is provided to support wild equine in other areas of the State.

Rescue facility operations have grown under the management of the Executive Director, who also serves as a board member. The Executive Director controls the rescue facility and equine, since both the property lease and animal ownership are in the name of the Executive Director. Because the strategic direction has changed from financially aiding those who care for equine to operating a rescue facility controlled by the Executive Director, we have included a recommendation on page 20 for consideration by the Commission.

Grant Process Not Fair or Transparent

Horse Power's grant awarding process needs improvement to ensure fair and consistent treatment of applicants. For instance, the application process limits the number of applicants because: 1) publication of funding opportunities is limited, 2) application requirements are burdensome, and 3) timeframes to submit applications are short. Furthermore, the Board does not have adequate policies and procedures detailing the process, including types of funding awarded, review of applications, exceptions, and emergency grant qualifications.

Grant requirements state that applicants need to:

1. Be a Nevada resident;
2. Agree to a background check;
3. Provide a 501(c)(3) letter of determination;
4. Have a minimum two years of rescue operations with proof;
5. Provide a copy of the previous year's tax return;

6. Submit a previous and current year approved budget; and
7. Supply three reference letters.

Horse Power's website and its applicant Regulations Agreement indicates that no exceptions will be made to these requirements.

Horse Power management indicated it publicizes funding opportunities on its website and its Facebook page at or near the time applications are to be accepted. However, publication in this manner limits potential applicants to those individuals who are familiar with the organization and its granting process. Horse Power could reach more potential applicants if it published opportunities in more places including news releases, relevant community forums, and appropriate businesses.

Management indicated grant application requirements were determined when Horse Power began operations and are based on best practices. However, some of the grant requirements are burdensome, such as the requirement for being a 501(c)(3) and agreeing to a background check. Requirements that are difficult to meet, such as 2 years' experience of rescue operations may deter prospective, deserving applicants from submitting applications.

Finally, timeframes to submit applications are unnecessarily short. Based on review of the entity's Facebook page and grant documentation, applications are only accepted for the first 15 days of October each year.

Applicants Subject to Inconsistent Review

Grant application review is not consistent since most applicants received funding without providing all required information. Horse Power represented it received five applications for funding from October 2013 to October 2015. This included one organization and four individuals. Funding was provided to all but one applicant who was denied due to untimely submittal and insufficient documentation. However, no applicant met all of the stated requirements and three applicants requested and received funding outside the stated application period under "emergency" circumstances. Exhibit 6 shows the five grant applications received and the related outcome.

Analysis of Grant Funding Applications and Awards

Exhibit 6

Grant Statistics	Applicants				
	1	2	3	4	5 ⁽¹⁾
Application Date	10/15/2013	1/21/2014	4/4/2015	10/15/2015	N/A
Emergency Circumstances	No	Yes	Yes	No	Yes
Application	Yes	Yes	Yes	Yes	No
Tax Exemption Letter	No	Yes	No	No	No
Tax Return	No	No	No	Yes	No
Budget	No	No	No	No	No
Reference Letters	No	No	No	Yes	No
Initial Review Determination by Executive Director	Denied	Forwarded to Board	Forwarded to Board	Approved by Director	Approved by Director
Minutes Show Board Approval Prior to Funding	–	Yes	Yes	No	No
Amount Funded	–	\$6,000	\$1,675	\$2,700	\$1,350 ⁽²⁾

Source: Auditor compilation from grant applications, Board minutes, and accounting records.

⁽¹⁾ Applicant 5 – Horse Power funding is providing support to an older equine with special needs on an ongoing basis by providing feed to the owner. While the Executive Director indicated no application was necessary, no written policies over the “Exceptional Care Program” exist, including exemptions from grant processes.

⁽²⁾ Applicant 5 – Awarded an ongoing feed allotment of \$150 per month, which totaled \$1,350 through June 30, 2016.

As shown in Exhibit 6, differences exist in how Horse Power reviews and approves grant applications. Initial application review is done by the Executive Director who decides whether the application will be brought forward to the Board. This process invites subjectivity into the grant awarding process since grant applicants known to the Executive Director may receive preferential treatment. However, Horse Power can mitigate this by requiring applicants inform the Board on the grant application about casual and family relationships between management, board members, and grant applicants.

Complicating matters further is that Horse Power does not have methods and procedures that provide sufficient guidance to ensure applicants are treated equally. Policies should address the different programs available to applicants, the requirements necessary to qualify for funding, exceptions to requirements that will be allowed, circumstances that qualify for “emergency” funding outside of the normal funding period, and detailed procedures regarding how grants will be reviewed and awarded. Best practices for awarding grants include clear terms and conditions, notification of conflicts of interest between applicants and a member of the granting organization, and panels for reviewing applications with specific criteria.

Recommendations

13. Develop and implement policies and procedures over grant activities to ensure an unbiased, fair process for providing funds to others.
14. Revise grant applications to obtain information regarding whether applicants are known to Horse Power management and board members.
15. Ensure all grant applications are brought forward and reviewed by the entire Board for merit with established criteria. Board discussions regarding grant merit should be sufficiently documented in board minutes.

Consideration for the Commission on Special License Plates

The Commission on Special License Plates may want to consider whether Horse Power is utilizing funding in a manner that meets the Commission's expectations based on the approved use as presented in 2006.

Appendix A

Original Submission to the Commission on Special License Plates for Plate Approval

EXHIBIT E - SpPlates Document consists of 12 pages.
 A copy of the complete document is available through the
 Research Library (775/684-6827 or e-mail
 library@lcb.state.nv.us). Meeting Date: 10/19/06

OCTOBER 19,2006

Chairman Dennis Nolan and Committee Members

My name is Sally Summers Founder of Horse Power
 The proposed Horse Power License Plate will establish
 a philanthropic program, that will financially aid groups, organizations
 and individuals that care for Wild, Estray or Second Chance, Horses,
 Burros or Mustang Mules. The funding is intended to help the Wild
 Horse communities through out the State of Nevada continue with the
 process of assisting in the care of Wild Equine and educating the public .
 For example, Equines that have been adopted by enlightened but
 inexperienced people have required hundreds of dollars in medical
 expenses just in hoof care, simply from lack of knowledge.
 Through the years many equines have been injured, because no funds were
 available many benevolent people have come to the rescue,
 often taking money out of their pockets and savings to ease the suffering,
 hunger, cruelty or abandonment suffered by these helpful friends.
 Our long term goals after our priorities are met, would be amenable to
 expand programs , if the revenue from this special license plate
 permitted such expansion.
 Through careful consideration our Board , Advisors and Council,
 come from all walks of life. They are successful business people
 with high levels of integrity and no affiliation in other Wild Horse
 Burro, or Rescue Groups.
 Funding from the proposed Horse Power Plate would be accomplished
 through an application process.
 We have produced, with the help of Nevada Artists an original painting
 intended for the proposed specialty plate, our spring board for fund raising
 The proposed plate design depicts a Nevada blue background with
 a white Mustang Stallion striking out for freedom calling to his herd.
 The background color graduates to deep turquoise behind two Burros
 below is the Stallion's herd racing towards him .The wording on the
 bottom of the proposed plate is.....see list.
 With the State Horse Quarter, it could be said.....NEVADA
 truly does have HORSE SENSE !

Thank You for Your Time

Sincerely,



Sally Summers, Founder Horse Power

Original Submission to the Commission on Special License Plates for Plate Approval (continued)

HORSE POWER BYLAWS

BYLAWS OF HORSE POWER

ARTICLE I ~ NAME, PURPOSE

SECTION 1: The name of the organization shall be HORSE POWER

SECTION 2: HORSE POWER is an organization exclusively for charitable purposes more specifically, to financially aid groups, organizations and individuals that have been caring for Wild, Estray or Second Chance Horses, Burros or Mules. Funding will be accomplished through an application process. All requirements must be met to apply. Approved applicants will be reviewed on a quarterly basis.

ARTICLE II ~ MEMBERSHIP

SECTION 1: Membership shall consist only of the members of the Board of Directors.

ARTICLE III ~ ANNUAL MEETING

SECTION 1: Annual Meeting. The date of the regular annual meeting shall be set by the Board of Directors who shall also set the time and place.

SECTION 2: Special Meetings. Special meetings may be called by the President or Executive Committee.

SECTION 3: Notice. Notice of each meeting shall be given to each voting member in writing, not less than ten days before the meeting.

ARTICLE IV ~ BOARD OF DIRECTORS

SECTION 1: Board Role, Size, Compensation. The Board is responsible for overall policy and direction of the Council, and delegates responsibly for day-to-day operations to the Council Director and Committees.

The Board shall have up to four members and not less than three members.

The Board receives no compensation other than reasonable expenses.

SECTION 2: Meetings. The Board shall meet once each quarter at an agreed time and place.

SECTION 3: Board Elections. Election of new members or election of current directors to another term will occur as the first item of business at the annual meeting.

Directors will be elected by a majority vote of the current Directors.

SECTION 4: Terms. All Board members shall serve two-year terms, but are eligible for re-election.

SECTION 5: Quorum. A quorum must be attended by at least 75 percent of the Board members before business can be transacted or motions made or passed.

SECTION 6: Notice. An official Board meeting requires that each Board member have written notice two weeks in advance.

SECTION 7: Officers and Duties. There shall be four Officers of the Board consisting of a President, Director, Treasurer and Secretary. Their duties are as follows: The President shall convene regularly scheduled Board meetings and shall preside or arrange for other members of the Executive Committee to preside at each meeting in the following order: Director, Treasurer, Secretary.

The Director will chair the committee on special subjects as designated by the Board.

Original Submission to the Commission on Special License Plates for Plate Approval (continued)

The Treasurer shall make a report at each Board meeting. Treasurer shall assist in the preparation of the budget, help develop fund raising plans and make information available to the Board members and the public.

The Secretary shall be responsible for keeping records of Board actions, including overseeing the taking of minutes at all Board meetings, sending out meeting announcements, distributing copies of minutes and the Agenda to each Board member, and assuring corporate records are maintained.

SECTION 8: Vacancies. When a vacancy on the Board occurs, nominations for new members may be received from present Board members by the Secretary in advance of a Board meeting. These nominations will be voted on at the next Board meeting. These vacancies will be filled only to the end of the particular Board member's term.

SECTION 9: Resignation, Termination, and Absences. Resignation from the Board must be in writing and received by the Secretary. A Board member shall be dropped for excess absences from the Board if s/he has three unexcused absences from Board meetings in a year. A Board member may be removed for other reasons by a three-fourths vote from remaining Directors.

SECTION 10: Special Meetings. Special meetings of the Board shall be called upon the request of the President or one-third of the Board. Notices of Special Meetings shall be sent by the Secretary to each Board member.

ARTICLE V ~ COMMITTEES

SECTION 1: The Board may create committees as needed, such as fundraising, compliance, etc. The Board appoints all Committee Chairs.

SECTION 2: Except for the power to amend the Articles of Incorporation and Bylaws, they shall have all the powers and authority, subject to the direction and control of the Board of Directors.

SECTION 3: Finance Committee. The Treasurer is the Chair of the Finance Committee, which includes all other Board members. The Finance Committee is responsible for developing and reviewing fiscal procedures, a fund-raising plan and an annual budget with staff or other Board members. The Board must approve the budget. Any major change in the budget must be approved by the Board. The fiscal year shall be the calendar year. Annual reports are required to be submitted to the Board showing income, expenditures and pending income. The financial records of the organization are public information and shall be made available to the membership, Board members and the public.

ARTICLE VI ~ AMENDMENTS

SECTION 1: These Bylaws may be amended when necessary by a majority of the Board of Directors. Proposed amendments must be submitted to the Secretary to be sent out with regular Board announcements.

Appendix B

Audit Methodology

To gain an understanding of the organization, we reviewed the statutes and regulations over special license plates. We also reviewed minutes from the Legislative Commission and the Commission on Special License Plates. Additionally, we reviewed annual submissions to the Commission on Special License Plates including balance sheets, methods and procedures, tax returns, and other applicable information. Furthermore, we documented and assessed internal controls over expenditures and grants.

We requested financial information from Horse Power including all transactions for fiscal years 2015 and 2016 and related invoices and receipts. We compared this information to general ledgers and bank statements to ensure all transactions were accounted for. Finally, we held discussions with current and former board members, and visited the rescue facility site.

To determine the reasonableness of feed purchases, we requested feed purchase and payment receipts. We compared receipts to feed transactions detailed in accounting ledgers. We reviewed delivery addresses when available and discussed unexpected variations with the Executive Director. Additionally, we calculated the average weekly and total yearly feed consumption based on total feed ordered and the number of animals supported at the facility. Next, we contacted feed vendors including direct growers and a retail establishment and requested pricing for different products including those certified as weed free. To determine past and future cost savings, we calculated cost differences, including delivery fees, between these providers and the vendor Horse Power currently utilizes. Finally, we contacted and discussed the purchase price and details regarding set up and take down of a structure that could protect feed when purchased in bulk.

To identify the number of equine supported at Horse Power's rescue facility, we contacted the Nevada State Department of Agriculture and requested all ownership documentation back to 2007. We also discussed the number of equine supported at the facility with the Executive Director and a former board member.

To determine the appropriateness of transactions, we prepared a complete listings of fuel transactions and other expenses and determined receipts that had not been provided. We reviewed receipts that were received for notations regarding the purpose and source of the transaction and for documented approval from the Treasurer. We also reviewed Horse Power's minutes for discussion and approval of the appropriateness of transactions. We discussed with the Executive Director whether a contract existed detailing the expenditures to be reimbursed and whether business travel was documented.

Next, we reviewed budgetary information submitted to the Commission on Special License Plates. We also reviewed board minutes for budgetary information presented, discussion, approval and any information regarding comparing budgeted to actual expenditures. We also reviewed board minutes from January 2013 through June 2016, for changes to members and to analyze board continuity.

Finally, to evaluate the grant process we reviewed Horse Power's grant application, website, and Facebook page. We discussed the grant process with the Executive Director. We requested a listing of grant applicants and recipients and determined whether applicants met application requirements. We also reviewed board minutes for discussion regarding grant applications and approvals.

Our audit work was conducted from July 2016 to February 2017. 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 Executive Director of Horse Power. On March 21, 2017, we met with Horse Power officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 27.

Contributors to this report included:

Diana Giovannoni, CPA
Deputy Legislative Auditor

Shannon Ryan, CPA
Audit Supervisor

Lilliana Camacho-Polkow, MBA
Deputy Legislative Auditor

Appendix C

Response From Horse Power

Rocky Cooper, CPA
 Legislative Auditor
 Nevada Legislative Counsel Bureau
 401 South Carson Street
 Carson City, NV 89701

March 31, 2017

Dear Mr. Cooper:

We have reviewed the Legislative Counsel Bureau's draft 2017 Audit Report completed for Horse Power. There is always room for improvement and learning. Having a true heart for endangered equine, Horse Power has endeavored to help.

Based on the review of the audit findings with subsequent recommendations and what fueled this audit, we are requesting a hearing.

Response to Summary and Key Findings

Our Mission Statement was constructed with the help of an Attorney, who is an expert in Non Profit & IRS Law. It is legally interpreted to be innocuous & virtuous, allowing growth for Horse Power and the equine community we serve.

We have down-graded quality of hay with a potential savings of \$4,800 per year, or more. Our attempts to train horses making them more attractive for adoption has been frustrating, however it is a national dilemma. We do have an adoption program in place with the intent to adopt horses in our care to forever homes. It's a long process in which we must also guard against those who want free horses, for resale/slaughter - Many of the animals in H.P.E.R. were slaughter bound, with no room at local rescues. Horse Power Board Members ask ourselves, "Would people that have our license plate, approve?" when making decisions.

Over the last 4 years we have re-homed close to 20 horses and fully intend to continue with reducing the number of horses, feed bill and work.

Horse Power does not own a vehicle, the vehicle used has been almost exhausted. Now limited to hauling a couple horses at a time due to heavy use. Fuel receipts were saved, use of Debit card for such use is in the Bylaws and approved by the Board. Approval for 2 instances of emergency truck repair, went through the Treasurer via phone calls to the Board. Some receipts-invoices did not get turned in due to a move of epic proportions and lack of cooperation from former Treasurer/Secretary, who retained hard copies. Many documents have been recovered, too late to be submitted as Audit had been completed.

Budgeting has been an overview process, now to be more detailed due to the addition of line item budgeting.

To expect that all dollars, even most, would simply pass through Horse Power's to others and not include Horse Power is not reasonable.

Most Non-Profits wait a number of years before they start the Granting process, allowing funds to accrue. Horse Power, started approving Grants one year after the Special License Plates were out.

The Grant Application was designed with the help of vetted experts, one statement in particular has been questioned. The applicant is asked to agree to a background check - a U.N.R. professor in Non Profit Management made the suggestion.

In the rescue world there are abusers of the innocent (animals & humans) and that "background check agreement" is there to protect the innocent. Wild/Feral Horse herds have increased with owners turning out horses to try to survive on the range, which is considered abuse. In all the years of that phrase being in place the only ones protesting were already questionable people. The professor was right.

Horse Power Grants are available to 501(c)3's, small rescues and those in the process of protecting Wild Horses and Burros from harm, constructed and written for all levels of

understanding.

Applications have dropped off in the past years from the original number of applicants (qualified or otherwise) and many small rescues have closed down from catastrophic illness and death. There are those claiming to ask for grants but not applying through the proper process. Since 2006,one applicant has been denied.

Another situation arising more commonly is the "emergency help" given to former applicants that have all paperwork previously submitted and approved and on file.

Based on the review of the audit findings with subsequent recommendations and what fueled this audit, we are requesting a hearing.

We accept eleven of the fifteen recommendations.
some of which were already in the process of implementation

Recommendation 1 - Accepted
Horse Power has down graded quality of hay, saving \$4,800 per year in cost

Recommendation 2 - Accepted
Horse Power, is in the process of implementing a Training Program that would help increase the the number of adoptions. Through our web site, social media, upcoming events and advertising this nationally slow endeavor should produce more adoptions. Adoption process is very similar to BLM, as new owners receive final paper work and brand inspection after one year of placement.

Recommendation 3 - Moot-Ownership is changed when adoption is completed. No animals have moved out of District- Recommendation is moot .

Recommendation 4 - Rejected- Due to Liability issues, (no law requiring this action) -Horse Power is not like the any other organization auditors have contacted including those who wrote complaint letters, claiming they adopt 15-16 horses out per year. There was no proof(paperwork) at time of gathering information that those numbers are factual

Recommendation 5 - With exception of emergencies - Accepted

Recommendation 6- Rejected Executive Director receives a stipend that amounts to less then minimum wage as a private contractor, receives a 1099 according to by-laws concerning compensation.

Recommendation 7- Accepted Receipts for Fuel have been retained, due to past Treasurer resignation not all were available for audit. Log has been kept since suggested. - See Recommendation 5

Recommendation 8 - Accepted - Already in place - former Treasurer did not abide correctly, discussed lack of reports with that Board member several times and the importance of performing according to HP Bylaws. Actually had to pay bookkeeper
One of the many reasons said board member resigned ?

AMENDMENT TO BYLAWS

HORSE POWER a Nevada non-profit corporation

Pursuant to the provisions of Article 9 of the Bylaws adopted December 28,2006

A. Article 5.9, Treasurer, is hereby amended to read as follows:

5.9 Treasurer

The treasurer shall keep or cause to be kept, in written form or in any other form capable of being converted into written form within a reasonable time, full and accurate accounts, recording all receipts, disbursements, and other financial transactions of the organization, which records shall belong to the organization. He or she shall render to the president, the chairman of the board, if any, and the trustees, at all regular meetings of the board and at such other times requested by them, an account of all his or her transactions as treasurer and of the financial condition of organization and he or she shall possess such other powers and perform such other duties as are usually incident to the office of the treasurer of a corporation, including responsibilities for seeing the proper filing of all organization tax and similar returns and reports. Quarterly reports including reviews of Operating Funds Account, where limited funds are deposited for debit card use, on a monthly basis. Insuring debit card transactions are appropriately and properly documented. Treasure monitors budget monthly, recommending adjustment to maintain budgetary goals, if necessary. In the absence of the treasurer, an assistant treasurer may be appointed by the board to perform such duties.

The foregoing Amendment approved by HORSE POWER board on
January 2nd, 2013

Recommendation 9 - Accepted- Part of Treasurer duties

Recommendation 10 - Accepted

METHODS & PROCEDURES for HORSE POWER

These Methods and Procedures are used to determine the use of money received and are approved by the board of directors. The board shall review and vote on the use of money received. The board shall also monitor expenditures and determine whether they meet budget expectations or whether adjustments to the budget must be made.

Recommendation 11 - Accepted

Recommendation 12 - Accepted

Recommendation 13 - Accepted The Procedures used for funding Non- Profit Groups, Organizations, Rescues or Individuals are through H.P.'s Application package. Once an applicant is approved by H.P. Board members, a check is issued for services needed. Businesses receiving checks must retain receipts and, when funds are exhausted, receipts are sent to H.P. Non-Profits receiving a check must send receipts to Horse Power as requested to insure compliance of Grant Agreement.

Recommendation - 14 - Accepted

Recommendation - 15 - Accepted

Sincerely,
Horse Power Board
Ben Zvenia - President
Joe Magee - Vice President- Treasurer
Janet Santana - Secretary
Sally Summers - Executive Director
Brad Dorton - Member
Jeff Barrow - Member

Horse Power's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Implement methods to purchase feed at more competitive prices. Consideration should be given to purchasing less expensive types of feed and implementing a bulk purchasing program.....	X	
2. Actively seek to adopt out equine at the Horse Power rescue facility to reduce the number of animals cared for.....	X	
3. Work with the Nevada Department of Agriculture to obtain ownership records for equine at the Horse Power rescue facility		X
4. Change ownership of equine supported by special license plate funding to the non-profit entity Horse Power		X
5. Discontinue use of the Horse Power debit card for fuel and vehicle expenses.....	X	
6. Execute a contract between the Board and the Executive Director specifying, in detail, all compensation including business related expenses subject to reimbursement		X
7. Reimburse travel expenses based on documentation. Travel logs should include the places traveled, with the date, time, mileage and business purpose of each trip	X	
8. Monitor and approve all travel reimbursement requests for accuracy, appropriateness, and compliance with agreements. A board member(s) independent from the person requesting reimbursement must perform the monitoring and approval	X	
9. Follow established methods and procedures regarding expenditure oversight	X	
10. Develop a line-item budget for Board review and approval. Periodically prepare, present, and review a comparison between budgeted and actual amounts.....	X	
11. Ensure financial information submitted to the Commission on Special License Plates includes all transactions.....	X	
12. Develop a record keeping system to ensure source documents are maintained and easily retrievable for all expenditures	X	
13. Develop and implement policies and procedures over grant activities to ensure an unbiased, fair process for providing funds to others	X	

14.	Revise grant applications to obtain information regarding whether applicants are known to Horse Power management and board members	<u> X </u>	<u> </u>
15.	Ensure all grant applications are brought forward and reviewed by the entire Board for merit with established criteria. Board discussions regarding grant merit should be sufficiently documented in board minutes.....	<u> X </u>	<u> </u>
TOTALS		<u> 12 </u>	<u> 3 </u>

Consideration for the Commission on Special License Plates

The Commission on Special License Plates may want to consider whether Horse Power is utilizing funding in a manner that meets the Commission’s expectations based on the approved use as presented in 2006.

Appendix D

Auditor's Comments on Agency Response

Horse Power, in its response on page 28, indicated it accepts 11 of 15 recommendations. However, based on our review of Horse Power's response, we counted 12 accepted recommendations. Therefore, Horse Power rejected three recommendations, including Recommendation No. 3 which is called "moot." Because of the rejected recommendations, we have provided our comments on some of the issues mentioned in Horse Power's response to inform the reader of our position and demonstrate why we believe our findings, conclusions, and recommendations, as stated in the report, are accurate and appropriate.

Grant Funding and Approval

1. Horse Power, in its response, states that "Applications have dropped off in the past years from the original number of applicants (qualified or otherwise) and many small rescues have closed down from catastrophic illness and death. There are those claiming to ask for grants but not applying through the proper process. Since 2006, one applicant has been denied." Also, in its response to Recommendation No. 13, Horse Power implies all grants are approved by the Board by stating, "Once an application is approved by HP Board members, a check is issued for services needed." (see pages 28 and 29)

Legislative Auditor's Comments

We believe a well-run and objective grant program would be able to award much more than 3% of available license plate revenue. As stated in the report on page 14, grant expenditures have declined over 90% from a high of \$56,000 in calendar year 2009, to only \$4,825 in 2015. This decline in funds granted to other organizations and individuals directly correlates to the establishment and expansion of a rescue facility operated by the Executive Director.

As indicated by the Executive Director, interest remains for grants, but few are applying through the proper process. This would confirm our statements on page 17 that application requirements are burdensome and timeframes to submit applications are short. Further, applicants may not apply because Horse Power's website and applicant Regulations Agreement states that no exceptions will be made to the requirements.

Furthermore, we have significant concerns regarding the objectivity of this process and do not agree that grant applications are approved by Horse Power's Board. As noted in Exhibit 6 on page 19, the Executive Director makes exceptions to grant requirements and has provided funding prior to Board approval, if any. Also, the initial review of grant applications is performed solely by the Executive Director who decides whether the application will be forwarded. This invites subjectivity into the grant awarding process since applications known to the Executive Director may receive preferential treatment and funding can be made without review or approval from any other member of the agency.

In conclusion, because little funding is granted to others and the awarding process is subjective, it is questionable whether Horse Power is meeting its original intent of establishing a philanthropic

program to financially aid others who care for equine, as approved by the Commission on Special License Plates in 2006.

Travel Reimbursement

2. In its response to Recommendation No. 8, Horse Power states, "Already in place – former Treasurer did not abide correctly, discussed lack of reports with that Board member several times and the importance of performing according to HP Bylaws." (see page 28)

Legislative Auditor's Comments

We do not agree this recommendation was in place and not being followed during our audit. Recommendation No. 8 relates to the monitoring and approval of travel reimbursement requests and states a board member independent from the requester must perform monitoring and approval of the requests. Treasurer duties as outlined in the organization's response do not address monitoring and approval of travel reimbursement requests.

As noted on page 8, Horse Power did not utilize travel reimbursement requests during our audit period. Corroborating this is Horse Power's response to Recommendation No. 7 that a "Log has been kept since suggested." (see page 28)

Equine Ownership

3. Horse Power in its response to Recommendation No. 3 states, "Moot – Ownership is changed when adoption is completed. No animals have moved out of District – Recommendation is Moot." (see page 28)

Legislative Auditor's Comments

We do not agree this is an appropriate response to our recommendation to obtain ownership records for equine at the rescue facility. As noted on page 7 of our report, Horse Power did not provide ownership records for the equine housed and cared for at its facility. We requested and obtained ownership records for 28 of the roughly 40 equine at the facility from the Nevada Department of Agriculture. The Nevada Department of Agriculture confirmed to us in writing that all equine with changes of ownership within Nevada must be documented with a brand inspection. Out-of-state horses are required to have an inspection from the state of origin or a health certificate. The exception to these requirements are equine foaled at the facility.

Furthermore, as noted on page 7 of our report, Horse Power does not have an effective adoption program. While Horse Power has accepted the recommendation to actively promote an adoption program, finding suitable homes will take time and some horses may never be adopted. As such, ownership records of all equine at the facility should be completed as soon as practicable, in compliance with NRS 565.040.

4. Horse Power rejected Recommendation No. 4 indicating, "Due to Liability issues, (no law requiring this action)." (see page 28)

Legislative Auditor's Comments

As stated in our recommendation, we believe Horse Power should be the owner of record for animals supported with its funding. Ownership of the equine is important for ensuring decisions regarding these animals can be made by the non-profit entity, Horse Power, in the event the

Executive Director is unavailable, not able to care for, or does not approve of decisions of the Board.

As noted on page 7 of our report, the Executive Director is the owner of the 28 equine with ownership records. Furthermore, the rescue facility is operated on land leased by the Executive Director. As a result, Horse Power has no authority to take any action regarding rescue facility operations or horses in its care even though the facility is funded almost exclusively with special license plate funds as shown in Exhibit 3 on page 3.

Finally, we do not agree that liability prevents the organization from being the owner of record for these animals. As noted on page 8 of our report, insurance specific to organizations of this type can be obtained for a minimal cost.

Executive Director Compensation

5. Horse Power's rejection of Recommendation No. 6 noted, "Executive Director receives a stipend that amounts to less than minimum wage as a private contractor, receives a 1099 according to by-laws concerning compensation." (see page 28)

Legislative Auditor's Comments

As noted in Recommendation No. 6, we believe a contract with the Executive Director detailing the nature and extent of the employment relationship is important. As noted on page 8 of our report, Horse Power allowed the Executive Director to purchase fuel and repairs for a personal vehicle with the organization's debit card of over \$5,400 in fiscal years 2015 and 2016. The appropriateness of these expenses could not be determined since the business necessity of these purchases was not documented. Without support substantiating business use, fuel and repairs for the Executive Director's vehicle could be deemed to be personal.

As stated on page 8 of our report, Horse Power does not have a contract with the Executive Director that details the nature and extent of expenses to be reimbursed. As a result, compensation, including benefits such as fuel and vehicle expenses, may be subject to sanctions from the Internal Revenue Service for amounts deemed to be "excess benefits". Contracts have other added benefits such as managing risk for both the Executive Director and board members, clarifying expectations and relationships, and ensuring property owned by the non-profit is returned if the relationship ceases.