

Audit Highlights



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

Background

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

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

Purpose of Audit

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

Audit Recommendations

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

The Division accepted the eight recommendations.

Recommendation Status

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

Division of Industrial Relations

Department of Business and Industry

Summary

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

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

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

Key Findings

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

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

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

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

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

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This report contains the findings, conclusions, and recommendations from our completed audit of the Department of Business and Industry, Division of Industrial Relations. 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 eight recommendations to improve compliance with state law over the collection of fines and penalties, to ensure personally identifiable information is safeguarded, and to improve the monitoring of information systems. 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 1, 2012
Carson City, Nevada

Division of Industrial Relations

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Introduction

Background

The mission of the Division of Industrial Relations is to promote the health and safety of Nevada employees and ensure that injured employees receive all benefits to which they are entitled. The Division is organized under the Department of Business and Industry.

The Division is comprised of the Office of the Administrator, Office of the Attorney, and four operating sections as follows:

- Workers' Compensation Section (WCS) – Regulates Nevada's workers' compensation programs to ensure compliance with the mandatory coverage provisions required by the Nevada Industrial Insurance Act.
- Occupational Safety and Health Administration (OSHA) – Conducts inspections and investigations to enforce occupational safety and health standards under the Nevada Occupational Safety and Health Act.
- Mine Safety and Training Section (MSATS) – Provides mine inspection, technical assistance, consultation, and safety training to protect Nevada's miners.
- Safety Consultation and Training Section (SCATS) – Assists Nevada's employers to develop and implement effective safety and health programs, reduce workplace hazards, and offer health and safety training sessions for employers and employees.

Prior to fiscal year 2012, the Division included an Administrative Services Unit, which administered the Division's accounting functions. In addition, the Division had information technology and personnel positions. As a result of actions taken during the 2011 Legislative Session, the accounting and information technology sections were centralized within the Department of Business and Industry and the personnel position was transferred to the Department of Administration.

The Division also includes an advisory council and several boards to assist in the administration of programs. The following provides an explanation of the council and boards' responsibilities:

- Advisory Council – Conducts studies or investigations concerning the organization and administration of the Division and makes recommendations to the Administrator. In addition, the council is responsible for approving the removal of the Division's statutorily expired debt.
- Occupational Safety and Health Review Board – Provides administrative review for contested citations issued by the Division.
- Board for Administration of Subsequent Injury Account for Self-Insured Employers – Adopts regulations for the establishment and administration of assessment rates, payments, and penalties relative to the Subsequent Injury Account for Self-Insured Employers.
- Board for Administration of Subsequent Injury Account for Associations of Self-Insured Public or Private Employers – Adopts regulations for the establishment and administration of assessment rates, payments, and penalties relative to the Subsequent Injury Account for Associations of Self-Insured Public or Private Employers.

Staffing and Budgets

The Division maintains offices in Carson City, Henderson, and Reno, with additional offices for the Mine Safety and Training Section in Elko, Tonopah, and Winnemucca. For fiscal year 2012, the Division had a total of 214 authorized positions. The Division's largest section is OSHA with 102 positions.

The Division's primary source of funds is an assessment levied on all self-insured employers, associations of self-insured employers, and private carriers of workers' compensation. During fiscal year 2011, the Division had total revenues and expenditures of nearly \$18.2 million.

Scope and Objectives

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.

This audit included a review of the Division of Industrial Relations' activities related to the Occupational Safety and Health Administration, Workers' Compensation Section, and VERSA information system occurring during fiscal year 2011, and assessments occurring during fiscal year 2010. The objectives of this audit were to determine whether internal controls at the Division:

- Ensure assessments are accurate and timely and state laws governing collections are followed.
- Provide reasonable assurance that information systems facilitate timely inspections of mechanical objects (boilers, elevators, and other equipment), ensure the timely processing of workers' compensation claims, and protect personally identifiable information.

Improvements Needed Over Collection of Fines and Penalties

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

Debt Not Turned Over Timely to the State Controller's Office

The Division did not turn over past due fines and penalties in accordance with time limits specified in statute. Our testing identified past due administrative fines and penalties, totaling \$180,000, which were not turned over to the Controller's Office. Statute requires most agencies to assign debt to the Controller's Office for collection no later than 60 days after the debt becomes past due. Timely transfer of debts does not guarantee collection; however, the likelihood of collecting a past due debt decreases as the debt gets older.

Workers' Compensation Collection Testing

The Workers' Compensation Section did not transfer past due fines and penalties to the Controller's Office as required by state law. Of the 42 cases included in our testing, 35 should have been turned over for collection. All 35 of the cases included in our sample that should have been turned over to the Controller's Office were either late or not sent at all. We found only 11 of the 35 cases had been turned over at the time of testing. These cases included nine from the Carson City Office and two from the

Henderson Office. However, on average these 11 cases were turned over 6 months late.

Of the 35 cases, we found 24 with past due fines and penalties totaling \$65,500 that had not been turned over to the Controller's Office for collection. At the time of testing, the investigation phase for these cases had been completed an average of 2½ years earlier. Much of the delay in turning debt over for collection resulted from supervisory reviews not being completed timely and demand letters not being sent. Supervisory review for these 24 cases took an average of 11 months after the investigations were completed. Finally, the Division had not sent demand letters for 19 of the 24 cases with past due fines and penalties. A demand letter is to be sent 35 days after the fine notification if the Division has not received payment. At the time of testing, the demand letters for these 19 cases were nearly 16 months overdue. All of these cases were from the Henderson Workers' Compensation Office.

Division management and staff reported changing procedures to correct the lag time between the completion of investigations and supervisory approval. However, more needs to be done to ensure demand letters are sent and past due debt is turned over to the Controller's Office.

OSHA Collection Testing

Our testing of 25 OSHA investigations identified 12 cases with past due fines. In total, over \$115,000 of past due debt had not been transferred timely to the State Controller. The Henderson OSHA Office accounted for 9 of the 12 past due fines. On average, the fines were 6 months late in being turned over to the Controller's Office. Our testing identified three past due fines in the Reno office. At the time of our testing, the fines were 9, 51, and 619 days past the 60-day requirement.

Failure to timely transfer past due accounts inhibits the ability of the Controller's Office to use all collection efforts available. For example, the Debt Offset Program is an effective tool to intercept state payments to vendors with delinquent debt. Under this program, a vendor can be put in a hold status which will cause

any payment made to the vendor to be rejected. The amount of the payment is then applied to the outstanding debt due to the State. The Controller's Office Debt Collection Policies and Procedures require agencies to use the Debt Offset Program to ensure payments are not issued to persons owing the State.

Accounts Receivable Reports Not Reliable or Complete

The Workers' Compensation and OSHA Sections did not maintain complete or accurate aged accounts receivable reports of administrative fines and penalties owed to the Division. An aged accounts receivable report shows how long debts owed the Division have been outstanding. It also assists Division staff with identifying outstanding debt needing transfer to the Controller's Office.

Our review of the collection process found that the OSHA Section did not maintain a comprehensive aged accounts receivable list. OSHA maintained health and safety case logs that did not specify all of the necessary information needed for an aged accounts receivable listing. For example, the logs did not specify whether a case was administratively contested and thus had collection efforts halted.

The Workers' Compensation Section was able to provide an aged listing of their fines and penalties from their in-house computer system. However, the report produced was not accurate or complete. As a result, the Section was relying on a report that did not contain all receivable amounts. In total, we identified 189 cases with a receivable amount, which were not included in the Section's report. Receivable amounts were not included in the report for several reasons as described below:

- 85 cases were opened before implementation of the Division's computer system.
- 48 cases were not currently assigned to an investigator in the computer system.
- 56 cases were not included because the current receivable amount did not match the original amount of the fine due to the employer making payments.

State law and Controller's Office policies and procedures require agencies to record receivables in the state accounting system or maintain a subsidiary ledger and report receivables on a quarterly basis. Without a complete and accurate receivables list, neither the Division nor the State have accurate accounts receivable information. Best practices specify that accounts receivable should be recorded in a manner that permits analysis of the aging of the receivable. For example, receivables should be categorized as current, 30 to 60 days old, 61 to 90 days, etc. The age of debts owed is a good indicator of how successful an agency is at collecting debt.

Improved Policies and Procedures Needed

Most collection problems identified in this report stem from inadequate policies and procedures. For example, the OSHA Section does not have an approved set of collections policies and procedures. The Workers' Compensation Section has adopted policies and procedures. However, the policies and procedures adopted are not consistent with state collection laws.

State law requires agencies to assign debt to the Controller's Office no later than 60 days after becoming past due. Additionally, the Controller's Office requires agencies to develop policies and procedures that adhere to the state law. The law allows agencies to petition the Controller's Office for an exemption to the 60-day requirement. However, the Division does not have such a request currently outstanding for their OSHA and Workers' Compensation Sections.

Although state collection laws provide some guidance, OSHA has not clarified the laws and regulations for their collections staff. Specifically, OSHA has not adopted a formal set of policies and procedures for identifying when to transfer past due fines and penalties to the Controller's Office. Staff responsible for OSHA's collection process rely on policies and procedures from the Workers' Compensation Section and a set of two-year-old draft policies and procedures, compiled for the OSHA Section, for guidance.

The Workers' Compensation Section has adopted policies and procedures for collecting outstanding fines. However, the policies

and procedures adopted were not sufficient to ensure the timely transfer of past due fines and penalties to the Controller's Office in compliance with state laws. The Section's current policies allow outstanding debt to be a minimum of 95 days past due before turning it over to the Controller's Office, rather than the 60 days allowed by state law. The Section's policy allows the following timeline for collections:

- 1) Debt Due Date: Payment is due 35 days from the date the employer is notified of the violation.
- 2) Collection Effort: If payment is not received by the due date, the debt is considered past due. A demand letter is then sent to the employer demanding payment within 35 days.
- 3) Division Policy for Forwarding to the State Controller: Section staff has 60 days, from the date of their last collection effort to turn the debt over to the Controller's Office.

Division management is in the process of revising collection policies and procedures.

Recommendations

1. Establish controls to ensure the accuracy of accounts receivable information.
2. Develop comprehensive aged accounts receivable lists for each of the Division's sections.
3. Establish controls to ensure debt is turned over to the State Controller's Office for collection in a timely manner.

Personally Identifiable Information Not Adequately Protected

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

Social Security Numbers Stored on Division Databases

The Division stored unencrypted personally identifiable information in several of its application databases. Since our discovery, the Division has removed one of the databases from its server. In addition, the Division is working with a software vendor to remove social security numbers from its database. NRS 603A.210 specifies that agencies that maintain records which contain personal information of a resident of the State shall implement and maintain reasonable security measures to protect those records from unauthorized access, acquisition, destruction, use, modification, or disclosure.

Unencrypted Social Security Numbers Transmitted Electronically

The Division sends and receives unencrypted emails containing claimants' social security numbers. Emails were sent to and received from insurance providers. Social security numbers provide a unique identifier to assist in the detection of fraud. The Division lacks a process to ensure emails containing social security numbers or other personally identifiable information are adequately protected. NRS 603A.215 specifies that an agency is not to transfer any personal information electronically, unless encryption is used to ensure the security of the electronic transfer.

Recommendations

4. Ensure social security numbers and other sensitive information are adequately safeguarded.
5. Ensure the removal of unnecessary fields and databases containing social security numbers from the Division's servers. In addition, continue to work with the software vendor to remove social security numbers from its database.
6. Encrypt emails containing personally identifiable information.

Improvements Needed in Oversight of Information System

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

Inefficiencies Exist With VERSA Data and Reports

Division management and staff noted problems with the VERSA system. Some of these include:

- The system lacks sufficient reporting capabilities resulting in staff using other programs to create reports. Some Division staff maintain separate Excel spreadsheets or Access databases to monitor collection efforts. The creation of these spreadsheets and databases requires dual entry of information.
- Updating ownership of boilers can be time consuming. When a business changes ownership, the record of each individual boiler must be accessed to make the change, rather than simply changing the company information and having all boilers automatically updated. This is important, as some large businesses will have dozens of boilers, resulting in a time consuming process for Division staff to complete.
- The system contains a report listing all elevators and boilers due for inspection in a given month. This inspection report was not accurate. In order to make the report accurate, staff had to use the incorrect date to run the report 1 day before the start of the next month. If run

on the first day of the month, the report ignores day 1, possibly missing an elevator or boiler due for inspection.

Further complicating proper oversight of the system is the lack of a prioritized approach to resolving current, known issues. The vendor the Division is working with maintains a support ticket status report, which identifies known problems or updates needed with VERSA and the status of those problems. As of December 2011, there were a total of 35 open ticket items dating back to September 2010 requiring attention. Without a prioritization of known issues, there is an increased risk that problems will not be resolved timely, or at all.

Division management continues to work with the vendor, attempting to resolve problems associated with the system. However, they believe that additional solutions will come with additional costs.

While Division management and staff are not satisfied with VERSA, they feel with some additional changes the system will be workable enough to meet the needs of the Workers' Compensation Section. However, according to Division management, the vendor claims a complete rewriting of the program would be required to address all the Division's concerns with the Mechanical Unit's portion of the system. As a result, Division management is considering replacing VERSA with another system to meet the needs of the Mechanical Unit.

**Original
Contract Terms
Not Enforced**

Improvements are needed over management of the current VERSA system. In addition, any future system development efforts need stronger oversight. This includes ensuring contractors are held to standard contract provisions.

The VERSA information system was purchased for \$548,000 in 2008. The contractor was selected from a list of vendors and included systems for several Department of Business and Industry agencies. Standard information system contracts include items that hold vendors accountable for the quality of their work and ensure a better product. Two common contract provisions require comprehensive end user testing and a holdback clause. Both of these were included in the VERSA contract.

End user acceptance testing is critical to ensure the product works as intended and provides for feedback from those using the system. A holdback provision ensures some monies are not paid to the vendor until the system functions as specified in contract. However, Division officials indicated these key provisions were never enforced. As the VERSA system was implemented under a prior administration, current management was unable to explain why these provisions were not enforced.

To ensure future development efforts have proper oversight, the Division should require contractors to adhere to all contract provisions. This should include having a project manager to monitor the contractor, frequent reports to management, ensuring sufficient time for critical steps such as end user acceptance testing, and prioritization of problems.

Recommendations

7. Develop strategies to improve management of current and future information systems.
8. Prioritize open support ticket items.

Appendix A

Audit Methodology

To gain an understanding of the Division of Industrial Relations, we interviewed Division staff and reviewed statutes, regulations, and policies and procedures. We also reviewed financial information, prior audit reports, budgets, and legislative committee minutes. Furthermore, we documented and reviewed internal controls relative to the Division's assessment process and operating sections.

To determine if internal controls ensure assessments are timely and accurate, we discussed the assessment process with Division staff and management and reviewed policies and procedures. We verified all licensed workers' compensation insurers were included in the annual assessment by comparing the assessment calculation spreadsheets to insurer lists provided by the Division of Insurance for 10 randomly selected insurers. Further, we verified the annual assessment calculations by independently calculating the estimated and final assessments for 10 randomly selected insurers, and by reviewing the mathematical accuracy of the assessment spreadsheets. Finally, we sampled 30 insurers and verified the accuracy of each individual insurer's final assessment refund or payment.

To determine if internal controls ensure state laws governing collections were followed we compiled accounts receivable lists from logs, database reports, and observation of physical files. We then verified the reasonableness and completeness of the auditor compiled accounts receivable lists. From the auditor compiled accounts receivable lists, which contained 1,495 past due cases, we randomly selected 77 administrative fines, premium penalties, or uninsured employers' workers compensation account medical payments to determine collection efforts pursued by the Division. Of the 77 collection items sampled, 42 were selected from the Workers' Compensation Section, 25 were selected from the

OSHA Section, and 10 from the Uninsured Employers' Workers' Compensation Account.

To determine if the Division's information system efficiently maintains and reports data, we observed staff performing routine activities of entering and extracting data from the computer system. We reviewed the Division's requirements document, vendor contract, help desk tickets, and contractor's study. We reviewed vendor payment information in the state accounting system. We discussed system problems and potential resolutions with Division management and staff.

To determine if internal controls provide reasonable assurance that personally identifiable information is protected we observed the Division's databases and identified which ones contained social security numbers. We reviewed the data containing social security numbers for proper encryption. We discussed potential security solutions with Division Management and staff.

Our audit work was conducted from May 2011 to May 2012. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division of Industrial Relations. On July 17, 2012, we met with agency officials 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 16.

Contributors to this report included:

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Appendix B

Response From the Division of Industrial Relations

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DEPARTMENT OF BUSINESS AND INDUSTRY
DIVISION OF INDUSTRIAL RELATIONS
OFFICE OF THE ADMINISTRATOR

July 27, 2012

Paul V. Townsend, CPA
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Dear Mr. Townsend:

Please see the attached response to your letter of July 11, 2012, requesting a written statement of explanation to your preliminary audit report on the Division of Industrial Relations (DIR). DIR accepts all eight recommendations.

In accepting these recommendations, we would like to clarify that as a result of legislatively approved centralization effective on October 1, 2011, which transferred fiscal staff and Information Technology (IT) staff of our Administrative Services Unit (ASU) to the Business & Industry Director's office (B&I), it will be necessary to obtain significant assistance from such staff. Fiscal staff from ASU, now housed in B&I, continues to play a role in the Division's accounts receivable and debt collect functions that are the focus of recommendations one through three. Former Division IT employees that are now part of B&I will play a key role in resolving recommendations four through eight.

In accordance with the due date outlined in your transmittal letter, the following are the Division's responses to the provided audit recommendations.

Recommendation 1: Establish controls to ensure the accuracy of accounts receivable information.

Response: The Division concurs with this recommendation. A review of existing accounts receivable procedures in the Workers' Compensation Section (WCS) (last revised on November 1, 2006) and Nevada OSHA (contained in Chapter 6 of the Nevada Operations Manual last revised in 2010) has already commenced. Such review will clarify the role of former ASU Division fiscal staff that is now part of B&I. This comprehensive review will also incorporate manual reconciliation best practices. Once such revisions are completed, this will allow for accurate handling of accounts receivable. Additionally, after the revised procedures are finalized, DIR will hold training classes on accounts receivable reporting for applicable staff.

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

Response: The Division concurs with this recommendation. The Division will develop a solution for consistent and comprehensive reporting of aged accounts receivable lists as part of the review of existing accounts receivable procedures. Information technology and accounting systems utilized by the DIR will be evaluated and modified to the degree possible.

Recommendation 3: Establish controls to ensure debt is turned over to the State Controller's Office for collection in a timely manner.

Response: The Division concurs with this recommendation. The Division will review applicable statutes and regulations and adjust existing internal procedures for both WCS (last revised on November 1, 2006) and Nevada OSHA (last revised in 2010) accordingly to ensure debt is turned over to the State Controller's Office for collection in a timely manner. When such revisions to internal procedures are completed, DIR will hold training classes on debt procedures for applicable staff.

Recommendation 4: Ensure social security numbers and other sensitive information are adequately safeguarded.

Response: The Division concurs with this recommendation. Where DIR has the legal authority to collect Social Security Numbers (SSNs) and there is a valid business/program need to collect this information, DIR will remove or mask the five leading digits of all existing SSNs in Division databases. DIR will work on establishing a budget and plan with IT staff of B&I that aligns with their on-going efforts to evaluate options for fixing the problem of SSNs and other sensitive information from a departmental standpoint.

Recommendation 5: Ensure the removal of unnecessary fields and databases containing social security numbers from the Division's servers. In addition, continue to work with the software vendor to remove social security numbers from its database.

Response: The Division concurs with this recommendation. In situations where Social Security Numbers (SSNs) are contained in databases without a valid business/program need or the authority to do so, DIR will remove or mask SSNs that are currently stored in such databases or in electronic documents. DIR will work with IT staff of B&I to evaluate options for fixing the problem, including establishing a budget and plan as well as securing necessary spending authority.

Recommendation 6: Encrypt emails containing personally identifiable information.

Response: The Division concurs with this recommendation. DIR will work with IT staff of B&I on a plan that aligns with their on-going departmental encryption efforts to secure personally identifiable information. In conjunction with insurance providers with whom DIR shares personally identifiable information, a process to encrypt emails that the Division sends and receives containing Social Security Numbers (SSNs) and other sensitive information will be

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instituted. Once the best course of action is determined, DIR will seek to secure any spending authority that may be necessary to implement the email encryption process.

Recommendation 7: Develop strategies to improve management of current and future information systems.

Response: The Division concurs with this recommendation. With the assistance of IT staff from B&I, DIR has been working with Iron Data (VERSA) to develop system fixes and install version upgrades to the system as directed by the Interim Finance Committee at the December 17, 2010 meeting, when the Division previously sought spending authority to replace the Mechanical Unit portion of the VERSA system. DIR has come to the conclusion that significant issues inherent to the core capability of the Mechanical Unit portion of the system have led the Division to seek a replacement system. In procuring a replacement system, DIR plans to perform a detailed evaluation to determine system requirements as they relate to business needs. A comprehensive approach will be utilized to procure a new Mechanical Unit information system that will include close oversight to see that the vendor meets contract provisions and that end users are fully engaged in acceptance testing.

Recommendation 8: Prioritize open support ticket items.

Response: The Division concurs with this recommendation. With assistance from IT staff of B&I who oversees this process on behalf of the Division, DIR will work with Iron Data (VERSA) to prioritize the list of help ticket items. The Help Ticket Report has already been modified to better identify items and help facilitate the tracking of such items to resolution. The IT/DIR team will assess options for fixing support ticket items, including establishing a budget and plan, as appropriate. As some of the support ticket items involve significant financial expenditures, it is possible some items of a higher priority will need to be phased in over time.

We appreciate the opportunity to respond to the recommendations of your audit report. If you have any further information needs, please feel free to contact me.

Sincerely,



Donald E. Jayne, CPCU
Administrator, DIR

Enclosure

cc: Terry Johnson, Director
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 Division of Industrial Relations' Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Establish controls to ensure the accuracy of accounts receivable information	<u> X </u>	<u> </u>
2. Develop comprehensive aged accounts receivable lists for each of the Division's sections.....	<u> X </u>	<u> </u>
3. Establish controls to ensure debt is turned over to the State Controller's Office for collection in a timely manner	<u> X </u>	<u> </u>
4. Ensure social security numbers and other sensitive information are adequately safeguarded	<u> X </u>	<u> </u>
5. Ensure the removal of unnecessary fields and databases containing social security numbers from the Division's servers. In addition, continue to work with the software vendor to remove social security numbers from its database	<u> X </u>	<u> </u>
6. Encrypt emails containing personally identifiable information	<u> X </u>	<u> </u>
7. Develop strategies to improve management of current and future information systems	<u> X </u>	<u> </u>
8. Prioritize open support ticket items.....	<u> X </u>	<u> </u>
TOTALS	<u> 8 </u>	<u> 0 </u>