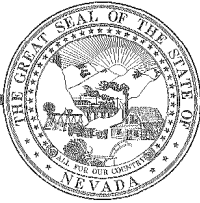


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Carson City, Nevada

We have completed an audit of the Office of the Military. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Office of the Military for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA
Legislative Auditor

January 30, 2008
Carson City, Nevada

STATE OF NEVADA
OFFICE OF THE MILITARY

AUDIT REPORT

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EXECUTIVE SUMMARY

OFFICE OF THE MILITARY

Background

The Office of the Military is composed of the Nevada Army and Air National Guards and serves two missions. One mission is to provide trained and ready units to respond to federal mobilizations, both foreign and domestic. These mobilizations are directed by Congress or the President and include war and counter drug activities. The second mission involves providing a regulated militia for Nevada in support of the state constitution and Governor's office. State missions entail protecting the lives and property of the public during times of emergency or disaster.

Statutory authority for the Office is found in Nevada Revised Statutes Chapter 412. The Governor is the Commander in Chief of the Nevada National Guard and appoints the Adjutant General. Under the direction of the Governor, the Adjutant General is responsible for the supervision of all matters pertaining to the administration, discipline, mobilization, organization and training of the Guard. As of March 29, 2007, the Nevada Guard reported having 3,600 members.

In addition to guard members, the Office employs state employees. At the beginning of fiscal year 2007, the Office had 138.5 authorized, full-time equivalent positions. These employees provide administrative, security, firefighting, and maintenance services at facilities throughout the State.

Purpose

The purpose of this audit was to evaluate the Office of the Military's financial and administrative practices including whether these practices complied with laws, regulations, and policies. This audit focused on activities for the 18-month period ended December 31, 2006, and through August 2007 for certain issues.

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Results in Brief

Although the Office of the Military improved its administrative operations following our 2001 audit, some financial and administrative functions need additional improvements. For example, some payroll and personnel activities did not comply with laws and regulations. In addition, some textbook and tuition reimbursements were processed incorrectly and did not always comply with Office policies. Finally, contracting requirements were not followed or properly documented, and procurements were made before properly authorized. Additional management controls are needed to correct these problems.

Principal Findings

- For 10 of 49 applicable timesheets tested, shift differential hours were not recorded correctly. For example, some employees did not record shift differential hours when working a qualifying shift and others recorded more shift differential hours than eligible or for non-qualifying shifts. These coding errors resulted in incorrect payments to employees. Although policies and procedures detail which staff members are responsible for reviewing timesheets, they do not specifically address how to review timesheets, or the requirements for shift differential pay. (page 11)
- In calendar year 2006, 8 of 45 employees with recorded military leave exceeded the 15 shifts allowed by state law, and documentation for 7 employees was not available to support all military leave taken. In addition, two employees deployed overseas did not receive any of the allowed 15 shifts of paid military leave in 2006. The importance of monitoring military leave was addressed in our prior

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audit. However, the Office does not have formal policies and procedures to govern the use of military leave. Without adequate controls over military leave, the Office cannot ensure benefits provided to servicemen and women are administered equitably and not misused. (page 12)

- Overtime was not approved in advance for 10 of 45 timesheets tested with recorded paid overtime or compensatory time. For half the exceptions, no documentation of approval was found, or approval was documented after overtime was worked. The other five exceptions included paid overtime that was approved in advance by supervisors and not the Administrative Services Officer as specified in Office policy. Proper approval of overtime is important to help management monitor its use. In addition, review and approval of overtime helps ensure that overtime expenditures are necessary. (page 14)
- The Office did not ensure employees' performance evaluations were performed timely and by a qualified rater, and compensatory time agreements were not completed for some employees. For 27 of 40 employee files tested, probationary or annual evaluations were not performed timely. For example, two employees have never received an annual performance evaluation and six employees never received their 11-month probationary evaluations. Furthermore, three raters performed employee evaluations without completing the required appraisal training. In addition, 8 of 40 employee files tested did not have agreements to accept compensatory time in lieu of paid overtime. These employees have all accrued compensatory time. Compliance with personnel laws and requirements is important to encourage successful performance, resolve performance problems, and ensure compliance with state and federal overtime laws. (page 14)
- Some guard members were not correctly reimbursed for their summer tuition expenses. For 10 of 25 tuition

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reimbursements tested, the credit-hour cost reimbursed was not correct. This resulted in six members being overpaid a total of \$1,461 while four members were underpaid a total of \$291 for their tuition costs. In addition, the accuracy of two reimbursements could not be determined from the supporting documentation provided. Reimbursements were processed incorrectly because the Office relies on federal employees to process them with little review by state employees. Without adequate controls, the Office has little assurance reimbursement amounts are correct. (page 17)

- Office policies were not always followed for education reimbursements. Tuition and textbook reimbursements were processed when required documentation was not provided or applications were submitted after deadlines. In addition, some applicants were reimbursed for non-required textbooks or without achieving the minimum grade required. Compliance with established policies is necessary to help ensure reimbursements are processed correctly and equitably. (page 18)
- The Office did not use contracts when obtaining all services. Instead of contracts, purchase orders were used to procure these services. We tested services provided to the Office by 20 vendors whose cumulative fiscal year payments exceeded \$2,000. For 6 of these 20 vendors, the Office did not use contracts when obtaining services totaling \$27,356. In addition, the Office did not use a contract to procure services provided by the State of Arizona to Nevada's Challenge Program. These services cost \$134,400 in fiscal year 2006 and were obtained through a memorandum of understanding dated July 2002. Written contracts are important to help ensure the quality, timeliness, and cost of services. (page 20)
- The Office amended a contract after 4 years without soliciting additional bids. In addition, for 6 of the 20

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vendors tested, documentation was not maintained showing services were obtained through open competition. Although the Office indicated multiple quotes were solicited, we only found the price quote from the winning vendor in the Office's files. State policies require agencies re-bid contracts every 4 years and obtain three bids when possible. Open competition helps ensure the best price or the best overall value for money spent. Furthermore, documentation of open competition demonstrates state work was awarded fairly. (page 21)

- We reviewed 10 contracts as part of our vendor testing. For 4 of the 10 contracts, workers' compensation or general liability insurance coverage did not meet the minimum limits required by the contracts. In addition, the Office did not have documentation showing one vendor maintained insurance coverage during the contract period. Although contract monitors usually ensured contractors maintained current insurance, they did not review insurance certificates to ensure compliance with contract limits. (page 22)
- As part of our contract testing, we found seven purchase orders were approved after vendor work was completed. In some instances, vendor invoices showed work was completed almost a week before purchase orders were authorized. Office procurement policies and procedures were not followed by Office personnel. Without proper approval of expenditures, unnecessary purchases could occur and budget authority could be exceeded. (page 22)

Recommendations

This report contains eight recommendations to improve the Office's financial and administrative practices. Three recommendations address improving controls over

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payroll activities. One recommendation relates to monitoring management reports for completing performance evaluations and receiving appraisal training. In addition, one recommendation was made to ensure training and oversight of personnel that process education reimbursements. Two recommendations address oversight and training of staff on contracting and purchasing requirements. We also made one recommendation to improve the monitoring of budget category expenditures. (page 29)

Agency Response

The Office, in response to our audit report, accepted the eight recommendations. (page 28)

Introduction

Background

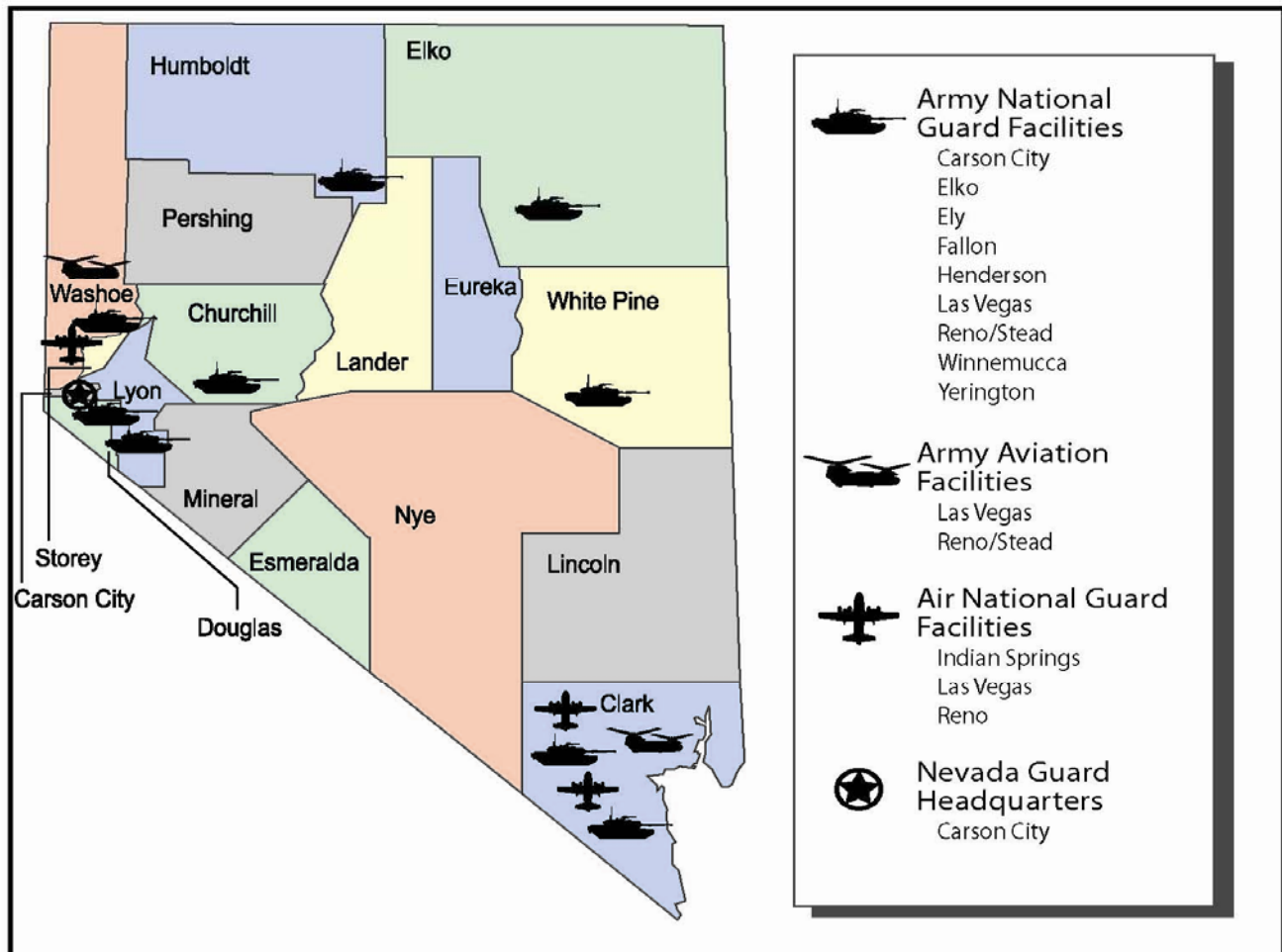
The Office of the Military is composed of the Nevada Army and Air National Guards and serves two missions. One mission is to provide trained and ready units to respond to federal mobilizations, both foreign and domestic. These mobilizations are directed by Congress or the President and include war and counter drug activities. The second mission involves providing a regulated militia for Nevada in support of the state constitution and Governor's office. State missions entail protecting the lives and property of the public during times of emergency or disaster.

Statutory authority for the Office is found in Nevada Revised Statutes Chapter 412. The Governor is the Commander in Chief of the Nevada National Guard and appoints the Adjutant General. Under the direction of the Governor, the Adjutant General is responsible for the supervision of all matters pertaining to the administration, discipline, mobilization, organization, and training of the Guard. As of March 29, 2007, the Nevada Guard reported having 3,600 members.

In addition to guard members, the Office employs state employees. At the beginning of fiscal year 2007, the Office had 138.5 authorized, full-time equivalent positions (FTE's). These employees provide administrative, security, firefighting, and maintenance services at facilities throughout the State.

The headquarters for the Nevada National Guard is located in Carson City. The Guard also occupies 14 armories and aviation facilities throughout the State. Exhibit 1 shows guard facilities throughout the State by type and location.

**Nevada National Guard Facilities
By Type and Location**



Source: Nevada National Guard Biennial Report 2005-2006.

Funding for the Guard is provided primarily through federal funding and state General Fund appropriations. The Office’s operating budget received a total of \$10 million and \$12 million in fiscal years 2006 and 2007. Exhibit 2 shows fiscal year 2006 and 2007 receipts by source.

Exhibit 2

Operating Budget Funding By Source Fiscal Years 2006 and 2007

Description	FY 2006	FY 2007
General Fund Appropriations ⁽¹⁾	\$2,217,557	\$ 2,750,043
Federal Receipts ⁽²⁾	\$6,318,253	\$ 8,705,480
Intergovernmental Transfers ⁽³⁾	\$1,462,773	\$ --
Miscellaneous ⁽⁴⁾	\$ --	\$ 409,977
Totals	\$9,998,583	\$11,865,500

Source: State accounting system.

(1) Net of reversions and balance forward.

(2) Net of amounts carried forward.

(3) Federal grants from the Division of Emergency Management for homeland security operations, including security fencing and radio equipment.

(4) Rental income, excess property sales, and a transfer from the Interim Finance Committee.

Payroll costs account for approximately half the Office's operating expenditures. For fiscal years 2006 and 2007, the Legislature approved authority to receive federal funds in the amounts of \$2.4 million and \$2.7 million to hire 57 new FTE's. These new employees are state security employees that provide 24-hour coverage to the armories in Stead, Carson City, and Clark County. Exhibit 3 shows fiscal years 2006 and 2007 operating expenditures by type.

Exhibit 3

Operating Expenditures By Type Fiscal Years 2006 and 2007

Description	FY 2006	FY 2007
Personnel Services	\$4,788,049	\$ 6,907,529
Operating	\$2,452,506	\$ 2,539,362
Utilities	\$1,806,476	\$ 2,084,996
Capital Outlay	\$ 884,400	\$ 178,663
Travel	\$ 67,152	\$ 154,950
Totals	\$9,998,583	\$11,865,500

Source: State accounting system.

Scope and Objective

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 218.737 to 218.893. 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 focused on the Office's activities for the 18-month period ended December 31, 2006, and through August 2007 for certain issues. Our objective was to evaluate the Office of the Military's financial and administrative practices, including whether these practices complied with laws, regulations, and policies.

Findings and Recommendations

Although the Office of the Military improved its administrative operations following our 2001 audit, some financial and administrative functions need additional improvements. For example, some payroll and personnel activities did not comply with laws and regulations. In addition, some textbook and tuition reimbursements were processed incorrectly and did not always comply with Office policies. Finally, contracting requirements were not followed or properly documented, and procurements were made before properly authorized. Additional management controls are needed to correct these problems.

Additional Controls Needed for Payroll and Personnel Functions

The Office's controls over its payroll and personnel functions can be improved to provide greater assurance that employees receive proper compensation for their services and personnel requirements are met. Our audit found shift differential hours were recorded incorrectly, military leave was not monitored effectively, and employee overtime was not always approved in advance. In addition, personnel requirements were not always followed. Properly administering payroll and personnel functions is important to ensure employees are compensated correctly for the work they perform and employee performance is monitored and documented.

Shift Differential Hours Recorded Incorrectly

For 10 of 49 applicable timesheets tested, shift differential hours were not recorded correctly. These coding errors resulted in incorrect payments to employees. Although the Office had policies and procedures detailing which staff members were responsible for reviewing timesheets, they do not specifically address how to review timesheets, or the requirements for shift differential pay.

Shift differential pay provides an adjustment equivalent to 5% of an employee's normal rate of pay. An employee receives shift differential pay for working a qualifying shift. State regulations define a qualifying shift as one where the employee worked at least an 8-hour shift with four or more hours between 6 p.m. and 7 a.m.

The details of the errors we observed during testing and the action taken by the Office are as follows:

- For 7 of 10 exceptions, employees did not record shift differential hours when working a qualifying shift or recorded the hours incorrectly. Three of these exceptions were the result of one employee working qualifying shifts for over 6 months and not recording differential pay. The Office eventually identified these errors and corrected this employee's pay for the hours worked. However, errors for the other four employees were not detected and corrected.
- For 3 of 10 exceptions, employees recorded more shift differential hours than eligible or recorded shift differential hours for non-qualifying shifts. For example, one employee recorded 14½ hours of shift differential when 4 hours of that shift did not fall between 6 p.m. and 7 a.m. Another employee worked a qualifying 10-hour shift, but recorded 12 hours of shift differential. These errors were not detected by office staff.

The Office has developed policies and procedures to establish responsibilities for timesheet review. However, these controls do not specifically address the process for reviewing timesheets, or the requirements for shift differential pay. Because the Office did not have adequate controls for processing timesheets with recorded shift differential, errors occurred resulting in incorrectly compensating some employees.

Military Leave Not Monitored Effectively

In calendar year 2006, several employees received more military leave than allowed by law while others did not receive military leave to which they were entitled. Furthermore, the Office did not have documentation to show employees were serving under orders for all military leave used. Without adequate controls over military leave, the Office cannot ensure benefits provided to our servicemen and women are administered equitably and not misused.

State law provides that employees of the State that are active members of the armed forces or Nevada National Guard receive paid leave while serving under orders. This leave is limited to 15 working days each calendar year. For employees that work 10-, 12-, and 24-hour shifts, the Department of Personnel interpreted a working day as one shift. Military leave allows state employees to receive up to 15 days with pay and without using annual leave each year while serving under orders in the National Guard.

Exceptions observed during our testing of 45 employees with recorded military leave in calendar year 2006 include the following:

- **Eight employees exceeded the 15 shifts allowed by state law. For example, one employee received 19 shifts of paid military leave while two other employees received 18 shifts.**
- **Two employees deployed overseas did not receive any paid military leave in 2006. Agency staff indicated they did not realize these employees were eligible for military leave.**
- **Seven employees did not have documentation to support all military leave taken. For these employees, documentation was missing to show the employees were under orders during the time military leave was used.**

We also observed two employees used military leave for days when they were not under orders. For example, one employee took military leave the day after a drill ended while another employee that went to the same drill and had a similar work schedule the next day did not take military leave. The employee's shift was scheduled to begin at 5 p.m. the day after his drill ended. Another employee used military leave for his shift scheduled the day before a drill. This employee's scheduled shift ended at 6 p.m. the night before drill began.

Office staff indicated the Department of Personnel informed them an employee can use military leave before or after military duty—if the employee would not have sufficient time to receive adequate rest. In the two examples mentioned above, Office staff believed the employees had adequate time to rest and should not have received paid military leave for these days.

The recording of military leave was a finding in our prior audit. We found military leave was not always recorded when used. In addition, employees working non-standard or 24-hour shifts received less than the 15 days of military leave required by law because Office policy only allowed 120 hours of military leave. Our recommendation suggested the Office work with the Department of Personnel to resolve payroll issues relating to the use of military leave.

Based on our review, the Office did work with Personnel and resolved how many shifts of military leave are allowed and what shifts qualify for military leave. However, the Office does not have formal policies and procedures to govern the use of military leave. Developing policies and procedures for military leave is necessary to ensure benefits provided to servicemen and women are administered equitably and not misused.

Overtime Not Approved in Advance

Overtime was not approved in advance for 10 of 45 timesheets tested with recorded paid overtime or compensatory time. For half the exceptions, no documentation of approval was found, or approval was documented after overtime was worked. The other five exceptions included paid overtime that was approved in advance by supervisors and not the Administrative Services Officer. Proper approval of overtime is important to help management monitor its use and ensure overtime expenditures are necessary.

NRS 284.180(10) requires all overtime be approved in advance by the appointing authority or his designee. The Office has also established policies and procedures requiring the Administrative Services Officer (ASO) approve overtime. However, the ASO indicated that because of workload issues, verbal authority was given to unit supervisors to approve overtime.

Proper approval of overtime is important to help management monitor its use and control payroll expenditures. Although supervisors direct employee work assignments, they may not understand or monitor the Office's budget. Therefore, the Office needs to ensure authority to approve overtime is given to employees at the appropriate level that help manage the budget.

Personnel Requirements Not Always Met

The Office did not ensure employees' performance evaluations were performed timely and by a qualified rater. In addition, compensatory time agreements were lacking for some employees tested. Compliance with personnel laws and requirements is important to encourage successful performance, resolve performance problems, and ensure compliance with federal overtime laws.

Performance Evaluations Not Performed Timely

For 27 of 40 employee files tested, probationary or annual evaluations were not performed timely. For example, the Office did not have documentation showing a performance evaluation has ever been performed for one probationary employee. Furthermore, 14 employees received their 3- and 7-month probationary evaluations on the same day. On average, these employees received their 3-month probationary evaluations 162 days after the due dates.

Although some of these employees received timely 11-month probationary evaluations, six employees did not receive an 11-month probationary evaluation. These employees have now attained permanent status. Exhibit 4 shows due dates and elapsed times for six employees with past due 11-month evaluations.

Exhibit 4

**Employees' Probationary Evaluations
Elapsed Time For Employees With Overdue 11-Month Evaluations**

Employee	Due Date 11-Month Evaluation	Days Late (as of 08/31/07)
A	02/27/07	185
B	06/24/07	68
C	05/12/07	111
D	03/03/07	181
E	02/27/07	185
F	04/22/07	131
Average		144

Source: Auditor analysis of the Human Resource Data Warehouse and review of Office files.

In addition to probationary evaluations, annual evaluations were not performed timely. For 8 of 40 employee files tested, annual evaluations were required. Two employees have not received evaluations in over 2 years. For one of these employees, the last evaluation received was his 11-month probationary evaluation in 2005. Furthermore, the average elapsed time between annual evaluations was 17 months for the six remaining employees.

State law requires probationary reports be completed for the 3rd, 7th, and 11th months of employment if a classified employee has a 12 month probationary period. In addition, an annual performance evaluation is to be completed at the end of every 12th month after a classified employee attains permanent status.

Although the Office tracks performance evaluation due dates, management does not hold supervisors accountable for completing evaluations. Personnel staff use a spreadsheet to track evaluation due dates and remind supervisors to perform evaluations. In addition, personnel staff provide management with a list of supervisors that did not complete performance evaluations. However, some supervisors still did not complete evaluations or performed evaluations late.

Evaluations Performed By Non-Qualified Raters

Three raters performed employee evaluations without completing the mandated employee evaluation training. The Office does not have documentation showing two raters have ever taken the required training. These raters continue to perform evaluations.

NRS 284.338 requires employees that prepare a report on the performance of other employees receive training provided or approved by the Director of the Department of Personnel. Compliance with this law is important to ensure performance evaluations are completed by qualified raters whose evaluations will provide the legal or regulatory basis for personnel actions.

Our prior audit found performance evaluations were not completed timely and supervisors had not taken the required performance appraisal training. We recommended the Office develop policies and procedures to ensure timely performance evaluations and completion of required evaluation training. Although policies and procedures were developed, management has not held supervisors accountable to complete all performance evaluations and required appraisal training.

Compensatory Agreements Not Completed

Eight of 40 employee files tested did not contain agreements to accept compensatory time in lieu of paid overtime. These employees have all accrued compensatory time. One employee accrued over 325 hours during the scope of our audit. After bringing this to management's attention, each of the employees identified was required to complete an agreement.

Management believed it was an oversight that compensatory agreements were not completed. As part of its process now, the Office uses a checklist to help ensure required documentation is completed and included in employees' personnel files. In addition, the Office indicated it is in the process of reviewing all employees' personnel files to see that agreements are present.

NRS 284.181 authorizes agencies to enter into agreements with state employees for the provision of compensatory time instead of paid overtime. In addition, NAC 284.250(2) requires employees to have an agreement when accruing compensatory

time in lieu of cash payments for overtime. Compliance with overtime laws is necessary to ensure the State is not monetarily liable to employees for overtime worked.

Recommendations

1. Develop adequate controls for reviewing timesheets so recorded shift differential complies with state regulation.
2. Develop policies and procedures to ensure the use of military leave complies with state law and Department of Personnel policies.
3. Review overtime approval forms to ensure advance approval of overtime, and ensure the delegation of approval authority is maintained at the appropriate level.
4. Monitor reports regarding delinquent performance evaluations and supervisor training, and hold supervisors accountable.

Better Oversight of Education Reimbursement Programs Needed

The Office needs better oversight of its tuition and textbook reimbursement programs. Specifically, tuition reimbursements were not always processed correctly and Office policies regarding reimbursement eligibility were not always followed. Reimbursements were processed incorrectly because the Office relies on federal employees to process them with little review by state employees. Without adequate controls, the Office does not have assurance reimbursement amounts are accurate and all guard members are treated equitably.

Reimbursements Processed Incorrectly

Some guard members were not correctly reimbursed for their summer tuition expenses. This resulted in some members being paid less than their tuition costs while others were reimbursed more than they paid for tuition. For example, two students were reimbursed for the same class twice. One of these students was reimbursed different amounts each time.

State law requires that the Adjutant General not pay more than 100% of universities' consolidated fees, or community colleges' credit-hour costs each semester

for active members of the Guard who attend institutions within the Nevada System of Higher Education. To comply with state law, the Office has developed a reimbursement application form that requires commanders certify the student is a member in good standing with the Guard. In addition, the application form reports the credit-hour cost paid by the student, excluding books and special fees.

For 10 of 25 tuition reimbursements tested, the credit-hour cost reimbursed was not correct. In addition, the accuracy of two reimbursements could not be determined from the supporting documentation provided. Exhibit 5 shows the difference between credit-hour costs paid and reimbursements received for the 10 students with supporting documentation.

Exhibit 5

**Student Tuition Reimbursements
Difference Between Credit-Hour Cost and Reimbursement**

Student	Reimbursement	Credit-Hour Cost Paid	Difference Between Reimbursement and Credit-Hour Cost
A	\$2,310	\$1,680	\$ 630
B	\$ 732	\$ 417	\$ 315
C	\$ 438	\$ 156	\$ 282
D	\$ 521	\$ 315	\$ 206
E	\$ 231	\$ 215	\$ 16
F	\$ 173	\$ 161	\$ 12
Overpaid Total			\$1,461
G	\$ 430	\$ 652	\$ (222)
H	\$1,227	\$1,261	\$ (34)
I	\$ 850	\$ 873	\$ (23)
J	\$ 282	\$ 294	\$ (12)
Underpaid Total			\$ (291)

Source: Auditor analysis of tuition reimbursements.

Proper review of tuition applications is necessary to ensure accurate reimbursement of guard members' tuition costs, especially as more guard members take advantage of this program. For the 18 month period ending December 31, 2006, the Office processed 88 tuition reimbursements totaling over \$40,000.

Office Policies Not Followed

Office policies were not always followed for reimbursements. Tuition and textbook reimbursements were processed when required documentation was not provided or applications were submitted after deadlines. In addition, some applicants were reimbursed for non-required textbooks or without achieving the minimum grade

required. Compliance with established policies is necessary to help ensure reimbursements are processed correctly and equitably.

For tuition and textbook reimbursements, the Office's policies require applications be received before the deadlines, supporting documentation be provided with the applications, and a minimum grade of C be achieved for each class being reimbursed. In addition, textbook reimbursements are to be given only for required textbooks. Exhibit 6 shows the number of exceptions to the Office's policies for the 25 tuition and 25 textbook reimbursements we reviewed.

Exhibit 6

**Exceptions to Policies for Reimbursements Tested
Fiscal Years 2006 and 2007 Tuition and Textbook Reimbursements**

	Applications Received After Deadline	Lacked Supporting Documentation	Minimum Grade Not Achieved	Non-Required Textbook Reimbursed	Total
Tuition	5	2	1	N/A	8
Textbook	0	12	1	2	15
Total	5	14	2	2	23

Source: Auditor analysis of reimbursement records.

Tuition and textbook reimbursements were not processed correctly because the Office has not developed policies and procedures for reviewing the applications and supporting documentation submitted. In addition, federal employees were relied upon to review and approve reimbursements. These federal employees administer federal education programs like the G.I. Bill, but did not follow all the requirements for state programs. Once applications were approved, the Office's administrative staff only checked for mathematical errors before processing the reimbursements.

The Office of the Military needs to ensure federal employees are trained regarding state requirements for reimbursements and develop policies and procedures for state administrative personnel to verify reimbursements. Without adequate controls, the Office has little assurance reimbursement amounts are correct and all students seeking reimbursement are treated equitably.

Recommendation

5. Ensure federal employees are trained regarding state requirements for reimbursements and develop policies and procedures for state administrative personnel to verify reimbursements.

Monitoring of Contract and Expenditure Activities Can Be Improved

The Office can improve its monitoring of contract and expenditure activities. Although the Office has developed policies and procedures for these activities, some services were performed without written contracts or documentation of competitive bidding, and some contractors lacked adequate insurance coverage. In addition, procurements were made before authorized and the Office exceeded its expenditure authority in one budget category. Proper management oversight is important to ensure contract and expenditure activities comply with laws and regulations.

Services Obtained Without Contracts

The Office did not use contracts when obtaining all contractor services. Instead of contracts, purchase orders were used to procure some services. Written contracts are required by state law for services provided by independent contractors and are important to help ensure the quality, timeliness, and cost of services.

We tested services provided to the Office by 20 vendors whose cumulative fiscal year payments exceeded \$2,000. For 6 of these 20 vendors, the Office did not use contracts when obtaining services totaling \$27,356. These services were procured through the use of purchase orders, even when contracts were used to procure similar services from the vendors. Examples of services obtained without contracts include the following:

- **Plumbing services totaling \$9,073 were procured through purchase orders to the same vendor in fiscal year 2006. Three of the purchase orders totaled \$4,680 and were for installation of irrigation pumps at the Carson Armory. The pumps were used to spread fertilizer and bug killer to plants through sprinkler pipes. The Office first tested the new product to see if it would work before installing it on other pipes. In addition, the Office discovered after installing the second pump that some planter areas at the armory were serviced by a different pipe, and a third pump was required.**

- Services to fire protection systems totaling \$6,248 were procured through purchase orders to the same vendor in fiscal year 2006. These services included inspection, testing, and repair of fire protection systems.
- Flooring services totaling \$3,365 were procured from the same vendor in fiscal year 2006. These services included the installation of carpet and other flooring material. Only some of the vendor's services were procured through contract. For example, the Office used a contract for one project totaling \$1,040, but used a purchase order for another project totaling \$1,950.

In addition to the examples noted above, the Office did not use a contract to procure services provided by the State of Arizona. Arizona was paid \$134,400 in fiscal year 2006 for services provided to Nevada's Challenge Program. The Office obtained these services through a memorandum of understanding dated July 2002 and signed by Arizona's and Nevada's Adjutant Generals.

State laws require written contracts for services provided by independent contractors, and between public agencies if expenditures are greater than \$2,000. In addition, the expenditure amounts for the services tested required that contracts be filed with and approved by the Clerk of the Board of Examiners. Furthermore, the amount of the agreement with Arizona required that agreement be approved by the Board of Examiners.

Our prior audit of the Office included the same finding regarding services obtained without contracts. We found the Office did not have adequate procedures detailing what types of products and services must be obtained by contract. Therefore, we recommended the Office revise its procedures to ensure services were obtained by contract when required. Although the Office revised its procedures, procurement activities were not monitored to ensure compliance with these procedures.

Requirements for Open Competition Not Followed or Documented

The Office amended a contract after 4 years without soliciting additional bids. In addition, documentation was not maintained showing vendor services for 6 of the 20 vendors tested were obtained through open competition. Although the Office indicated multiple quotes were solicited, we only found the price quote from the winning vendor in the Office's files. State policies require agencies obtain three bids when possible and re-bid contracts every 4 years. Open competition helps ensure the best price or the best overall value for money spent. Furthermore, documentation of open competition

demonstrates compliance with state requirements and shows state work was awarded fairly.

Contract Insurance Requirements Not Monitored

We reviewed 10 contracts as part of our vendor testing. For 4 of the 10 contracts, workers' compensation or general liability insurance coverage did not meet the minimum limits required by the contracts. In addition, the Office did not have documentation showing one vendor maintained insurance coverage during the contract period. Although contract monitors usually ensured contractors maintained current insurance, they did not review insurance certificates to ensure compliance with contract limits.

The Office has developed policies and procedures to verify contractors' insurance coverage. Office policies and procedures state in part:

All contracts must include appropriate insurance certificates to support the insurance requirements...of the contract. Insurance certificates will be reviewed to ensure that they meet the minimum limit requirements as described in...the contract....Insurance certificate reviews as described above will be performed by each level of the contract process; Contract Initiator, Contract Monitor, and ASO.

Despite these requirements, insurance certificates were not reviewed and management did not ensure compliance with Office policies and procedures.

Proper insurance coverage helps protect the State and contractors in the event of negligence or accident. If proper insurance coverage is not verified, the State may not have adequate protection against unanticipated liabilities. In addition, not ensuring contractors carry required levels of workers' compensation coverage could increase costs to Nevada insurers through increased costs to the uninsured employers' claim fund.

Procurements Made Before Authorized

As part of our contract testing, we found seven purchase orders were approved after vendor work was completed. In some instances, vendor invoices showed work was completed almost a week before purchase orders were authorized. Although the Office has established procurement policies and procedures, they were not followed by Office personnel. Without proper approval of expenditures, unnecessary purchases could occur and budget authority exceeded.

The Office's procedures require employees to contact regional managers or state administrative office personnel to obtain a purchase order number. According to management, the authorization date for purchases is when the purchase order number is issued. The invoice date should never be before the authorized date.

The same finding was reported in our last audit. As a result, we recommended the Office review purchase orders to ensure purchases are authorized and approved by employees acting within their scope of authority. Despite this recommendation, management review is still not sufficient to ensure Office procedures are followed.

Category Expenditure Authority Exceeded

A review of fiscal year 2006 journal vouchers found the Office initially exceeded its authority in one budget category by approximately \$38,531. The Office coded these expenses to other categories until the Interim Finance Committee (IFC) authorized a work program revision. After receiving approval, the Office used a journal voucher to correctly recode the expenditures. Exceeding category budget authority violates state laws for controlling expenditures and increases the risk funds will not be used for the purposes authorized by the Legislature.

Based on the amount, the State Budget Act requires revisions to work programs be approved by the IFC before any appropriated or authorized money is encumbered. This requires agencies receive approval before expending funds beyond the current work program amount, which the Office did not do. Instead the Office obligated the funds first, then requested approval.

Management stated it was necessary to code the \$38,531 in expenditures to other categories because utility costs increased and utility companies threatened to turn off services if bills were not paid. However, approximately \$5,000 of the \$38,531 was not for utility costs. These expenditures included equipment rentals, air filters, paint supplies, traffic signs, shower faucets, and custodial supplies.

In addition, proper monitoring of the budget category expenses would have allowed the Office to request approval before the work program was exhausted. A review of fiscal year 2005 expenditures showed the Office expended \$702,989 in this category. However, the fiscal year 2006 beginning work program was \$565,236. Furthermore, the Budget Status Report showed the Office's remaining authority for the

category was about \$218,299 as of February 3, 2006, and some January utility payments had not been posted.

We analyzed fiscal year 2006 utility payments for this category and found they averaged approximately \$45,000 a month. If the Office had monitored the category's expenditures and authority level, a work program revision could have been submitted for review by the IFC before April 2006. Because the work program revision was not submitted until the end of April, the IFC did not approve the revision until June 2006.

Recommendations

6. Provide additional management oversight to ensure compliance with state contracting laws and requirements, and train staff regarding Office policies and procedures.
7. Instruct employees regarding procurement policies and procedures, and review purchase orders to ensure compliance.
8. Establish adequate controls to monitor budget category expenditures and ensure expenditure authority is not exceeded.

Appendices

Appendix A Audit Methodology

To gain a general understanding of the Office of the Military, we reviewed applicable state laws and regulations, policies and procedures, and Office reports and statistical information. In addition, we reviewed prior audit reports, legislative and executive budgets, legislative committee minutes, and state accounting records. We also interviewed management and staff. Finally we reviewed the Office's processes for performing purchasing, contracting, payroll, personnel, federal reimbursement, and tuition and textbook reimbursement activities.

To determine if payroll and personnel activities were administered correctly, we randomly selected 40 employees from the Office's employee roster and 4 pay periods. When randomly selecting pay periods, we included in our sample population pay periods between June 1 and December 31, 2006. This provided the most recent sample for our audit scope and ensured inclusion of the new security personnel hired at the beginning of calendar year 2006.

After generating our random samples, we then tested the 160 timesheets that corresponded to the employees and pay periods selected. First, we determined if the timesheets were accurate and reconciled to the Human Resource Data Warehouse. Second, we tested whether timesheets were signed by supervisors and included details of hours and days worked. Finally, we checked whether overtime was approved in advance and any shift differential hours were properly recorded.

In addition, we reviewed personnel files for the 40 employees randomly selected. We determined if employees had written performance standards and compensatory time agreements. Furthermore, we reviewed employees' performance evaluations. For probationary employees, we tested whether their 3rd, 7th, and 11th month evaluations were performed, and we analyzed the time that transpired between the evaluation due date and the date performed. For employees requiring annual evaluations, we reviewed the two most recent evaluations and analyzed the elapsed time between these

evaluations. We also examined supervisors' training certificates to check whether or not they completed the required appraisal training before evaluating the employees tested.

To determine if the Office properly administered military leave, we queried the Human Resource Data Warehouse for all Office employees that received military leave in calendar year 2006. For the 45 employees identified, we reviewed calendar year 2006 timesheets and counted the number of shifts where military leave was used. We also reviewed supporting documentation to determine if the employees were under orders for the days when military leave was used. To test if all eligible employees received military leave, we queried the Human Resource Data Warehouse for employees that recorded military leave without pay in 2006 and compared these employees to those that received military leave.

To test if the Office correctly managed procurement and contracting activities, we randomly selected 20 vendors, excluding utility vendors, whose cumulative fiscal year payments exceeded \$2,000. We reviewed Office documentation to determine if bids were solicited, a contract was used, and Board of Examiner approval was obtained. We also checked if services began after the contract effective date and payments did not exceed contract amounts. For procurements where the Office used purchase orders instead of contracts, we compared payments to contractors' quotes and purchase order authorization dates to vendor invoice dates. In addition, we tested if contractors' certificates of insurance were documented and complied with contract terms.

To determine if tuition and textbook reimbursements were processed correctly, we randomly selected 25 tuition and 25 textbook reimbursements. We verified the recipient was an active member of the Guard for the semester being reimbursed. For tuition reimbursements, we reviewed supporting documentation and verified members were reimbursed the credit-hour cost for the semester. For tuition and textbook reimbursements, we also reviewed supporting documentation to test compliance with agency policies—including whether or not applications were received before deadlines, minimum grades were achieved, and textbooks were required for the classes.

To evaluate if the Office had adequate controls over expenditure activities, we verified only current employees had access to the Integrated Financial System and that

employees' authorization levels were appropriate. In addition, we randomly selected 40 payments, excluding payroll and assessments, and determined if the expenditure was posted to the proper fiscal year and was authorized before purchase. We also evaluated compliance with applicable purchasing and contracting policies per the State Administrative Manual.

To test if journal vouchers were used to correctly code expenditures, we reviewed all journal vouchers posted during our audit scope. We ensured all journal vouchers used were evaluated by comparing the journal vouchers in the Office's files with those posted in IFS. After comparing the list of journal vouchers to IFS, we reviewed each journal voucher to determine if the expenses were coded to the appropriate category.

Finally, we reviewed the Office's practices for safeguarding its assets. We obtained an inventory list of fixed assets registered with the Purchasing Division and randomly selected a total of 30 items at the Office's facilities in Carson City, Reno, and Stead. These items were checked to verify they contained state property tags and were located at the correct facility. In addition, we judgmentally selected a total of 28 items located at the facilities mentioned above and traced them to Purchasing's inventory list. Our judgmental selection was based on the number of items at each facility and the value of the assets.

Our audit work was conducted from February to September 2007, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Adjutant General of the Office of the Military. On January 16, 2008, we met with Office 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 28.

Contributors to this report included:

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Appendix B
Response From the Office of the Military



JIM GIBBONS
Governor

STATE OF NEVADA OFFICE OF THE MILITARY

OFFICE OF THE ADJUTANT GENERAL
2460 FAIRVIEW DRIVE
CARSON CITY, NEVADA 89701-6807



CYNTHIA N. KIRKLAND
Major General
The Adjutant General

January 18, 2008

Mr. Paul V. Townsend, CPA
Legislative Auditor
Legislative Council Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

RE: AUDIT OF OFFICE OF THE MILITARY –
Statement of Explanation to the Audit Report

Having thoroughly reviewed the audit report prepared by your staff for the audit they recently completed on our office, I am in complete agreement and fully support and accept their findings and recommendations.

The review of our processes for performing purchasing, contracting, payroll, personnel, federal reimbursement, and tuition and textbook reimbursement activities was thorough and comprehensive. It has provided my staff with excellent training and insight as to the required corrections and necessary improvements to insure compliance with laws, regulations and policies established by the Legislature and State Officials.

I have enclosed the copy of "Agency Response to Audit Recommendations" appropriately annotated as your requested.

The professionalism and assistance provided by your staff was outstanding. We greatly appreciate their efforts on behalf of our agency.

Sincerely,


Cynthia N. Kirkland
Major General
The Adjutant General

MLC:tbn
Enclosure (1)

**Office of the Military
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop adequate controls for reviewing timesheets so recorded shift differential complies with state regulation.....	<u> X </u>	<u> </u>
2	Develop policies and procedures to ensure the use of military leave complies with state law and Department of Personnel policies	<u> X </u>	<u> </u>
3	Review overtime approval forms to ensure advance approval of overtime, and ensure the delegation of approval authority is maintained at the appropriate level.....	<u> X </u>	<u> </u>
4	Monitor reports regarding delinquent performance evaluations and supervisor training, and hold supervisors accountable	<u> X </u>	<u> </u>
5	Ensure federal employees are trained regarding state requirements for reimbursements and develop policies and procedures for state administrative personnel to verify reimbursements.....	<u> X </u>	<u> </u>
6	Provide additional management oversight to ensure compliance with state contracting laws and requirements, and train staff regarding Office policies and procedures	<u> X </u>	<u> </u>
7	Instruct employees regarding procurement policies and procedures, and review purchase orders to ensure compliance	<u> X </u>	<u> </u>
8	Establish adequate controls to monitor budget category expenditures and ensure expenditure authority is not exceeded.....	<u> X </u>	<u> </u>
	TOTALS	<u> 8 </u>	<u> 0 </u>