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We have completed an audit of the Office of Attorney General. 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 Attorney General 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

November 17, 2008  
Carson City, Nevada

STATE OF NEVADA  
OFFICE OF ATTORNEY GENERAL

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **OFFICE OF ATTORNEY GENERAL**

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### **Background**

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The Office of Attorney General (Office) was established by Article 5 of the Nevada Constitution. The Office is responsible for providing legal services to the executive branch of state government. The mission of the Office is to serve Nevada by advising and defending its institutions, enforcing laws for the protection and benefit of its citizens, ensuring open government, and empowering through education outreach.

The Office has four locations throughout the State including Carson City, Las Vegas, Reno, and Ely. The Office accounted for funding sources of about \$58 million in fiscal year 2008 and expended approximately \$51 million.

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### **Purpose**

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The purpose of this audit was to determine if the Office's financial and administrative activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. This audit included a review of the Office's financial and administrative activities for the 18-month period from July 1, 2006, through December 31, 2007; although, certain testing was extended through August 25, 2008.

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### **Results in Brief**

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The Office substantially complied with state laws, regulations, policies, and procedures significant to its financial and administrative activities. However, better monitoring and updating of internal controls is necessary to ensure transactions are proper, accurate, complete, and in compliance with laws and regulations. Additional controls over revenue procedures will help ensure amounts received

## EXECUTIVE SUMMARY

### OFFICE OF ATTORNEY GENERAL

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are accurate and complete. In addition, improvements over the maintenance, reporting, collection, and write-off of accounts receivable are necessary. Furthermore, administrative controls can help the Office comply with requirements regarding employee evaluations, work performance standards, property and equipment, and access to information systems.

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## Principal Findings

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- Staff hours used in calculating the Attorney General's Cost Allocation Plan were not always properly accounted for. Through the plan, agencies are charged for certain costs of operating the Office based on the hours professional staff spend on providing services. However, we found about 20% of professional staff did not enter the minimum number of hours for fiscal year 2007. As a result, agencies charged for costs through the plan may be over or under-charged. (page 8)
- The database used for billing agencies auto liability insurance was not complete. Of ten agencies reviewed, we found four vehicles from three separate agencies were not listed in the database. The Office relied on agencies to submit auto additions and deletions. Compensating controls such as comparing agency fixed asset listings to Office records can help ensure the database used to bill agencies is accurate and complete. (page 9)
- The Office reported about \$1.8 million in accounts receivable at December 31, 2007. However, the information reported was neither complete nor accurate. The Office has not determined the total amount due from persons extradited to the State because its method of accounting for these amounts is cumbersome and inefficient. Furthermore, payments were not properly applied to accounts, a payment was double posted, and one payment was

## EXECUTIVE SUMMARY

### OFFICE OF ATTORNEY GENERAL

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applied to two accounts. These problems happened because the Office does not have comprehensive policies and procedures over the maintenance and reporting of accounts receivable. (page 11)

- Collection of outstanding receivable balances can be improved. Our analysis indicated the Office performed little or no routine collection efforts on 16 of the 30 accounts tested. Many different activities can be employed to collect various types of receivables; however, the Office has not adopted procedures related to this function. (page 12)
- Statutes require agencies to seek Board of Examiners' approval to designate accounts as uncollectible. However, the Office did not always identify uncollectible accounts, and when it did, fiscal staff removed them from state records without obtaining approval. Write-offs should occur after collection efforts have been exhausted and the account is considered to be uncollectible or the amount is too small to warrant further collection efforts. (page 13)
- Performance evaluation and work performance standard requirements were not always complied with. Half of the employees reviewed did not receive probationary or annual evaluations as required. Further, about 40% of employee work performance standards were either not prepared or reviewed annually. Office management indicated complying with personnel requirements has been a problem; however, the Office is taking steps to prevent future issues. (page 14)
- Property and equipment controls need improving. Our review of the Office's 2007 annual physical inventory revealed items not located by the Office remained on property and equipment lists, assets were found in different locations from where lists indicated they were, and documentation of the physical count of property and equipment was not

## EXECUTIVE SUMMARY

### OFFICE OF ATTORNEY GENERAL

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sufficient, reviewed by management, or retained. (page 15)

- 18 of 35 employees who terminated employment with the Office were not removed from having access to Office information systems or access was not disabled in a timely manner. The system contains sensitive client information and financial data; therefore, stronger controls are needed. (page 16)

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## Recommendations

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This audit report contains nine recommendations to improve the Office's financial and administrative activities. These recommendations include policies, procedures, and controls to improve the Office's accounting for revenues and accounts receivable. We also made recommendations to ensure compliance with administrative requirements over personnel, property and equipment, and access to information systems. (page 33)

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## Agency Response

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The Office, in response to the audit report, accepted the nine recommendations. (page 26)

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## Introduction

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### **Background**

The Office of Attorney General (Office) was established by Article 5 of the Nevada Constitution. The Office is responsible for providing legal services to the executive branch of state government. The Office represents the people of Nevada in criminal matters before the trial and appellate courts of Nevada and the United States; serves as legal counsel to state officers, and most boards, commissions, and departments; and assists the 17 district attorneys of the state and various city attorneys. The mission of the Office is to serve Nevada by advising and defending its institutions, enforcing laws for the protection and benefit of its citizens, ensuring open government, and empowering through education outreach.

The Office has an Administrative Division and four Bureaus including: Government Affairs, Public Affairs, Criminal Justice and Consumer Protection. There are offices in Carson City, Las Vegas, Reno and Ely. As of April 2008, the Office had 358 authorized full-time equivalent positions.

The Office maintained 19 budget accounts in fiscal year 2008. Exhibit 1 shows the Office's combined funding sources and expenditures for all budget accounts for fiscal years 2007 and 2008. Additional detail is provided in appendices B through E, which show funding sources and expenditures by individual budget account for these two fiscal years.

**Funding Sources and Expenditures  
All Budget Accounts  
Fiscal Years 2007 and 2008**

<b>Funding Sources</b>	<b>2007</b>	<b>2008</b>
Appropriations	\$ 22,854,001	\$ 14,062,034
Beginning Cash	9,567,097	10,417,351
Revenues	25,791,343	44,001,190
Transfers In	4,286,390	4,825,202
<i>Available Funding</i>	<u>62,498,831</u>	<u>73,305,777</u>
Less: Reversions	640,598	1,557,338
Less: Carryforwards	10,500,173	14,133,504
<b>Net Funding Sources</b>	<b><u>\$ 51,358,060</u></b>	<b><u>\$ 57,614,935</u></b>
<b>Expenditures</b>		
Personnel	\$ 27,190,569	\$ 29,042,285
Travel	305,708	433,644
Operating	2,524,917	2,742,343
Other <sup>(1)</sup>	17,843,185	9,529,419
Transfers Out	1,356,076	8,393,925
Budgetary Cost Reductions	-	412,314
<b>Total Expenditures</b>	<b><u>\$ 49,220,455</u></b>	<b><u>\$ 50,553,930</u></b>

Source: State Accounting System.

Note: Detail by budget account and fiscal year for funding sources and expenditures can be found in appendices B through E.

<sup>(1)</sup> Other expenditures include equipment, grants, information systems, tort claims, purchasing assessments, cost allocations, and miscellaneous expenses of the Office.

**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 provision 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 included a review of the Office's financial and administrative activities for the 18-month period from July 1, 2006, through December 31, 2007; although, certain testing was extended through August 25, 2008. The objective of the audit was to evaluate the Office's financial and administrative activities, including whether



activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

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## **Findings and Recommendations**

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### **Financial and Administrative Controls Can Be Strengthened**

The Office of Attorney General (Office) substantially complied with state laws, regulations, policies, and procedures significant to its financial and administrative activities. However, better monitoring and updating of internal controls is necessary to ensure transactions are proper, accurate, complete, and in compliance with laws and regulations. Additional controls over revenues will help ensure amounts received are accurate and complete. In addition, improvements over the maintenance, reporting, collection, and write-off of accounts receivable are necessary. Furthermore, administrative controls can help the Office comply with requirements regarding employee evaluations, work performance standards, property and equipment, and access to information systems.

#### **Certain Revenue and Expenditure Controls Need Improvement**

Controls over certain financial activities can be strengthened. Specifically, additional controls are necessary to ensure professional employees properly track client service hours which are the basis for the Attorney General's Cost Allocation Plan. In addition, improvements over the tracking of state-owned vehicles can provide assurance agencies are properly charged for auto insurance liability premiums. Furthermore, the cash receipting function should be adequately segregated. Good control systems provide reasonable assurance that an agency's objectives are achieved by ensuring the efficiency and effectiveness of operations, reliability of financial information, and compliance with laws and regulations.

#### **Controls Over Hours Used to Calculate Allocated Costs Needed**

Staff hours used in calculating the Attorney General's Cost Allocation Plan were not always properly accounted for. As a result, an agency's actual share of proportional costs calculated under the plan may be more or less than what they were charged. Because the plan provides a significant portion of the Office's funding, controls over staff hours are necessary to ensure it is accurate.

The Attorney General's Cost Allocation Plan is used to charge agencies who are not entirely funded by general fund appropriations for legal services rendered. The plan recovers certain biennial costs of operating the Office by charging agencies a proportional share of costs based on professional staff legal service hours. Time is tracked by a software program in increments of no less than six minutes to provide agencies with sufficient detail as to what actions have been performed on its behalf. The Office has determined that all professionals are expected to record at least 1,800 hours in the program per year.

Our review of hours entered by professionals for fiscal year 2007 indicated that many employees failed to enter the minimum number of work hours into the program. About 20% of professionals employed for the year, recorded less than 1,800 hours. For example, one Bureau reviewed showed 5 of 15 employees entered hours ranging from about 4 to 1,600 for fiscal year 2007.

Office policies and procedures do not address the reporting, monitoring and review of hours entered into the program. Therefore, each Bureau has different processes for these activities. Office management indicated that an internal committee has been formed to better manage, monitor, train, and enhance the system used to record employee hours. However, additional controls are necessary to ensure information used in the plan is accurate and complete.

#### Database Used For Billing Auto Liability Insurance Not Complete

Improvements are needed to ensure the database used to bill state agencies for auto liability insurance is complete. Of ten agencies reviewed, we found four vehicles from three separate agencies were not listed in the database. As a result, agencies were not billed for the risk of operating a vehicle. This occurred because the Office relied on agencies to report auto additions and deletions without having any compensating procedures in place to ensure its database was complete.

The State's self-funded liability insurance program is administered by the Office. State Administrative Manual Section 0504.8(A) states in part:

**All State owned motor vehicles must be covered for automobile liability via the self-funded auto liability program, administered through the Attorney General's Office.**

Therefore, the Office bills for, collects premiums, and handles all auto liability insurance claims for state-owned vehicles.

The Office uses a database to track all state-owned automobiles and the agency responsible for its operation. This database is used as the basis for billing agencies for auto liability premiums each fiscal year. Currently, auto additions and deletions must be remitted by each agency to be updated in the Office's database. However, agencies are not always timely in relaying this information. For example, information for one automobile was not submitted to the Office, and the agency was not billed for premiums, until 5½ years after it was purchased.

Compensating controls such as comparing agency fixed asset listings to Office records can help ensure the database used to bill agencies is accurate and complete. Controls would also provide assurance that agencies taking the risk of operating vehicles also incur the cost associated with that activity.

#### Better Segregation of Duties Needed Over Cash Receipts

The Las Vegas and Reno offices lack adequate segregation of duties over cash receipts. Segregation of duties is important because these offices processed cash and checks totaling approximately \$4.6 million in Las Vegas and \$130,000 in Reno during our audit period. Office managers at both locations endorse all checks, enter all checks into the check log, prepare the deposit, and take the deposit to the bank. Since only one person is involved in this process, there is an increased risk that a payment could become lost, stolen, or improperly recorded without being detected. Additionally, the Office may not be able to properly perform the cash receipting function in the event of key personnel turnover.

State accounting procedures recommend the responsibilities for receiving, accounting, and depositing of funds be segregated between employees to provide adequate internal control. Also, NRS 353A.020 requires agencies to appropriately segregate duties to safeguard the assets of the agency. No one individual should control all key aspects of a transaction or event.

#### Policies and Procedures Over Accounts Receivable Not Established

The Office does not have an effective or efficient system in place to manage its accounts receivable. While about \$1.8 million in accounts receivable were reported to

the Controller's Office at December 31, 2007, these balances were neither complete nor accurate. Further, collection was not pursued for about half of the accounts we reviewed. In addition, the Office did not always identify uncollectible accounts, and when it did, Board of Examiners' approval was not obtained. Even though some of the Office's receivables may be difficult to collect due to their age, or the inability of the debtor to pay, an effective accounts receivable management system can assist the Office in maximizing collections.

#### Accounts Receivable Are Incomplete and Inaccurate

Reporting the value of outstanding accounts is an important element of an effective receivable system; however, the Office cannot readily determine all receivables due and stated balances are not always accurate. The Office maintains several independent receivable ledgers; but, its maintenance of accounts related to extradited felons is cumbersome and inefficient. As a result, a listing or aging of amounts due was not able to be provided. Further, several balances reviewed on other ledgers were inaccurate because payments were posted incorrectly. Because of these weaknesses, reports submitted to the Controller's Office detailing the Office's accounts were understated.

NRS 353C.120 requires agencies provide to the Controller's Office periodic reports of debts owed the State. Even though quarterly reports were submitted to the Controller's Office for most types of receivables, the Office did not provide information regarding accounts related to extradited persons. These receivables are generated when law enforcement agencies travel out of state to retrieve persons with outstanding felony warrants in the State of Nevada. When the Office reimburses local law enforcement agencies for travel costs, they simultaneously establish a receivable for the amount in the name of the extradited person in a database.

While information regarding extradition receivables is maintained, the database is not organized in a manner that allows the Office to determine the total outstanding at any given time. For instance, the database does not account for payments that have been made. Over 2,500 payment files are maintained in individual spreadsheets and must be matched to the database to determine the amount currently owed. Furthermore, some account balances are maintained in a comment field that have to be

manually reviewed to determine the appropriate balance. With over 14,000 accounts in the database, manual review of each account to determine the appropriate balance is a cumbersome and inefficient task.

Furthermore, controls over other types of receivables did not ensure balances were correct. About 20% of the receivable accounts we reviewed were improperly stated in accounts receivable ledgers. Improper balances were the result of payments not being applied to accounts, a payment being double posted, and a payment being applied to two accounts.

These problems occurred because the Office does not have comprehensive policies and procedures over the maintenance and reporting of accounts receivable. Further, receivable ledgers are monitored by several positions without central oversight. While it is reasonable for those who are most knowledgeable about the events creating the receivable to maintain receivable ledgers, overarching policies and procedures are necessary to ensure receivables are properly accounted for.

#### Better Collection Efforts Needed

The Office can improve its efforts related to the collection of outstanding receivable balances. Our analysis of accounts receivable indicated little or no routine collection efforts were performed on 16 of the 30 accounts we tested. Many different activities can be employed to collect various types of receivables; however, procedures have not been adopted related to the collection of accounts.

As of December 31, 2007, a significant portion of the outstanding receivable balances were due from non-state government agencies for general and auto liability insurance premiums that were billed in September and October of 2007. Even though these accounts should be easier to collect than other receivables, several entities did not remit payment until June 2008 or later. This occurred because the collection of accounts was not actively pursued. As a result, we estimate the State lost about \$20,000 in interest earnings over this time period.

Amounts due the Office include fees owed for legal services provided to various boards and commissions, premiums due for general and auto liability insurance, restitution ordered during court proceedings, and costs related to returning extradited persons to the State. The State Controller's Office has issued policies and procedures

detailing different methods of collection that may be used by agencies to collect on outstanding balances. Because the likelihood of collecting varies based on the type of account, the Office should determine those activities that are most efficient and likely to result in the maximum recovery of funds for each account type.

#### Procedures Governing Write-Offs Necessary

Accounts receivable were not always identified for write-off and when they were, Board of Examiners' approval was not obtained. NRS 353C.220(1) states in part, "If an agency determines that it is impossible or impractical to collect a debt, the agency may request the State Board of Examiners to designate the debt as bad debt." However, the Office did not have policies and procedures in place to ensure uncollectible accounts were identified or processed in accordance with this statute.

The Office's extradition receivable database has over 14,000 records dating back to the 1980's. Because these receivables are due from individuals wanted on felony warrants, collection may be difficult and impractical. Furthermore, the whereabouts of these individuals may not be known; yet, the Office has not identified any of these accounts for write-down or write-off.

Additionally, when accounts receivable were identified for write-off, approval from the Board of Examiners was not obtained before officially removing the accounts from state records. Office fiscal staff removed 12 receivable accounts from state records with approval from senior management; however, state law requires the Board of Examiners designate the debts as uncollectible prior to this occurring.

An effective receivable management system should have policies and procedures addressing when an agency should write-off an uncollectible account. Write-offs should occur after all collection efforts have been exhausted and the account is considered to be uncollectible or the amount is too small to warrant further collection efforts.

#### Established Guidelines May Be Helpful

Guidelines issued by the State Controller's Office can be used to strengthen the accounts receivable process. These guidelines address minimum controls that should be employed by agencies in the maintenance, monitoring, write-off, and collection of accounts receivable. Some guidelines mentioned by the Controller's Office include:

- **An accounts receivable subsidiary ledger should be used and should include the beginning balance, charges for services, payments, and the outstanding balance.**
- **Effective collection actions include phone calls, arranging for payment plans, credit reporting, and collection agencies.**
- **Establishing minimum dollar thresholds for accounts receivable over 60 days delinquent to proceed for collection.**
- **Delinquent accounts greater than 90 days should be reviewed and considered for write-down or write-off.**
- **Requesting the Board of Examiners designate debts as bad debts after collection efforts have been exhausted, amounts are considered uncollectible, or balances are lower than the minimum dollar threshold.**

Incomplete policies and procedures and a lack of ongoing monitoring of internal controls were issues in our prior report of the Office in 1999. However, the Office indicated to us in September 2008 that it is in the process of developing office-wide procedures for all accounts receivable activity including collection efforts, account maintenance, and write-offs. These procedures will centralize the function of monitoring all accounts receivable under the Chief Financial Officer and are anticipated to be complete by January 2009.

### **Personnel Requirements Not Always Followed**

Adequate controls are not in place to ensure personnel requirements are met. Many of the classified employees reviewed lacked annual performance evaluations or current work performance standards. Requirements related to personnel are specified in state laws and regulations and include annual evaluations and review of work performance standards.

#### **Performance Evaluations Not Performed**

The Office did not complete performance evaluations for some of the employees tested. We reviewed personnel files for 20 classified employees and found 10 (50%) did not receive a performance evaluation in accordance with state law. For instance, two employees had not received any performance evaluations after being hired by the Office in 2005. NRS 284.340 requires annual evaluations for employees in the classified service that have attained permanent status and more frequent evaluations for probationary employees.



Evaluations serve several purposes: (1) evaluating an employee's effectiveness in performing assigned duties and responsibilities; (2) identifying factors which can improve job performance; (3) clarifying performance standards as they relate to the current job description; (4) assisting employees to develop additional knowledge, skills, and abilities for advancement; and (5) supporting or denying annual merit increases. In addition, the agency may not have recourse if an employee performs below standard and an evaluation has not been done.

Office management agreed that performing employee evaluations has been a problem. However, the Office is taking steps to mitigate these issues in the future.

#### Development and Review of Work Performance Standards Needed

Work performance standards were not developed for some classified employees and some standards were not reviewed on an annual basis as required. Of 20 classified employees tested, 8 (40%) did not have work performance standards for their current position, or the standards had not been reviewed on an annual basis. Problems occurred because the Office does not have sufficient procedures in place to ensure work performance standards are prepared and reviewed when necessary. State laws and regulations require agencies to develop work performance standards for each position and review them annually.

Work performance standards serve as a written statement of principal job assignments and the results expected from an employee. The lack of current work performance standards increases the risk that an employee is unaware of job elements and expected results for satisfactory performance. In addition, standards serve as the basis for evaluating an employee's performance. Consequently, without established standards for rating purposes, it would be difficult to fairly evaluate an employee's performance.

#### Better Controls Needed Over Fixed Assets

The Office can improve its processes over property and equipment. Our review of the Office's 2007 annual physical inventory revealed items that could not be located by the Office remained on property and equipment lists, assets were located in regions different from where lists indicated they were, and documentation regarding the physical count of property and equipment was not sufficient. Inadequate record keeping

increases the risk that theft, loss, or misappropriation of Office assets could occur and go undetected.

State law requires agencies conduct annual physical inventories and reconcile the results to the State's records. While the Office completed a physical count of property and equipment for most locations, it did not update 126 assets on property and equipment lists maintained by the State Purchasing Division. These lists show the last date an item was physically verified by an agency and should be updated each year an agency performs a count of its property and equipment. However, the Office did not update this data for some of its assets which could indicate items have been lost, misplaced, or improperly recorded. During our audit, we discovered some of these assets were located in regions different from that specified on property and equipment lists.

These problems occurred partly because assets ordered for the Reno office are delivered to the Carson City office, and staff are not modifying property and equipment lists maintained by the State Purchasing Division to reflect the actual location of the asset. In addition, the Office failed to adequately research those assets it could not find to determine if property disposition reports should have been completed to remove the assets from the inventory lists. We also found documentation supporting the physical count of property and equipment completed by the Office was not always sufficient, reviewed by management, or retained.

While the Office has policies and procedures regarding property and equipment, some are not always followed and others are not sufficient to ensure the physical verification of assets is thorough, complete, properly documented, and reviewed. Accurate property records are important for maintaining accountability and preventing loss or theft.

#### **Improvements Over Removing Employee Information System Access Needed**

Controls over removing former employee access to Office information systems need strengthening. We found the system had not been regularly updated to remove prior employees' access to the system. The system contains sensitive client information and financial data. Therefore, stronger controls in this area will help improve data integrity and ensure only authorized personnel have access to sensitive data.

The State's Information Technology Security Standards state in part:

**All data shall be protected by access controls, comparable to the level of classification, to ensure that it is not improperly disclosed, modified, deleted or rendered unavailable... A System/User Master List of all users and their respective user-ID codes shall be maintained, kept secured and up-to-date, reflecting all computer systems each person has access to so that their privileges may be expediently revoked on short notice... The Information Security Officer shall review the System/User Master List quarterly to verify accuracy...**

Our review of the list of system users identified 12 of 35 former employees' access was not removed, and 6 former employees were not removed in a timely manner. When an employee's access was disabled, it took the Office 53 days on average to remove the employee from the system.

## **Recommendations**

1. Review and modify policies, procedures, and controls to ensure the accurate accounting of staff hours used in the Attorney General Cost Allocation Plan.
2. Perform additional procedures to ensure the database used to bill agencies for automobile liability insurance is complete.
3. Ensure adequate segregation of duties exist in the Reno and Las Vegas offices concerning the receipt of money.
4. Develop comprehensive policies, procedures, and controls to ensure accounts receivable balances are accurate, complete, readily available, and reported properly.
5. Increase efforts to collect accounts receivable by developing policies and procedures over collection activities. Procedures should consider debt type, amount owed, and other information as necessary to ensure efforts are reasonable.
6. Develop policies and procedures for bad debt. Procedures should include the identification of uncollectible debt and the requirement to obtain the approval of the Board of Examiners prior to removal from state records.

7. Ensure performance evaluations and work performance standards are completed in accordance with state laws and regulations.
8. Revise and follow policies and procedures over property and equipment to ensure inventory records are accurate, complete, and properly reviewed.
9. Remove former employee access to information systems in a timely manner.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Office of Attorney General, we interviewed staff and reviewed applicable laws, regulations, policies, and procedures significant to the Office's operations. We also reviewed the Office's financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Office. Furthermore, we documented and assessed the Office's internal controls related to the outside bank account, accounts receivable, property and equipment, revenue, expenditures, personnel and payroll, and information systems.

To accomplish our objective, we determined if the outside bank account had been properly authorized, bank statement reconciliations had been performed and submitted to the Controller's Office, and the account was in the name of the State of Nevada. In addition, we randomly selected 10 disbursements and 3 replenishment checks, which were traced to supporting documentation.

Furthermore, to determine if the Office's accounts receivable records were complete and accurate we traced 30 receivables to Office records and source documents. Additionally, we reviewed collection efforts made by the Office, determined if reports submitted to the Controller were accurate and complete, and write-offs were processed in accordance with state law. We also reviewed the Office's maintenance of extradition accounts receivable.

We also reviewed property and equipment for compliance requirements, by determining whether the Office performed annual physical inventories. Based on the inherent risk of loss or misuse, we judgmentally selected 20 items on inventory lists from four of the Office's locations. Similarly, we selected 20 additional items to determine whether these items appeared on inventory lists. Six additional items were tested at the Reno office when items initially selected could not be located on the Office's inventory list.

We reviewed if the Office had adequate controls to ensure the accuracy of information used in calculating the Attorney General Cost Allocation Plan and the database used for billing auto liability insurance premiums. In addition, we randomly selected 40 revenue transactions for compliance with state laws and regulations. We judgmentally, based on the largest, selected 5 debit entries and reviewed for propriety. Additionally, we selected 2 months of cash receipts from each office location and reconciled them to bank deposits and the state accounting system.

Next, we randomly selected 40 non-payroll expenditure transactions and tested for proper recording, approval, and compliance with laws, regulations, policies, and procedures. We also reviewed 5 contract and 5 tort claim expenditures for compliance with requirements specific to these types of transactions. Additionally, we randomly selected 12 transactions and verified that they were recorded in the proper fiscal year. We also reviewed 5 credit entries and 5 journal vouchers for propriety.

In addition, to determine if the Office had complied with applicable personnel and payroll laws, regulations, and policies, we randomly selected 10 unclassified employees and verified their salaries agreed to the amount authorized in statute. We also verified these employees were not receiving compensation for overtime. Additionally, we randomly selected 20 classified employees and determined compliance with personnel requirements including whether performance evaluations had been conducted timely and work performance standards developed. We verified payroll transactions were processed correctly by randomly selecting 2 pay periods.

Finally, for access controls related to information technology, we compared the Office's active user list at August 25, 2008, against employees who terminated during calendar year 2008. We determined if former employees had been disabled from accessing the system and the time taken to perform this task.

Our audit work was conducted from March to September 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Attorney General. On November 5, 2008, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix F, which begins on page 26.

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Audit Supervisor

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Deputy Legislative Auditor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor

**Appendix B**  
**Funding Sources – Detail by Budget Account**  
**Fiscal Year 2007**

Account Description	Appropriations	Beginning Cash	Revenues	Transfers In	Available Funding	Less		Net Funding
						Reversions	Carryforwards	
Extradition Coordinator	\$ 663,240	\$ -	\$ 86,740	\$ -	\$ 749,980	\$ 2,571	\$ -	\$ 747,409
Attorney General Administrative Account	11,796,558	8,692	10,941,547	538,762	23,285,559	435,705	669,316	22,180,538
Special Fund	546,591	-	17,236	-	563,827	61,660	-	502,167
Private Investigators Licensing Board	-	454,599	537,984	-	992,583	-	471,835	520,748
AG Workers Compensation Fraud	-	484,325	94,671	3,671,525	4,250,521	114,117	377,409	3,758,995
Renewable Energy & Energy Conservation	-	62,529	125,000	-	187,529	-	82,822	104,707
Racketeering - Prosecution Account	-	125	-	-	125	-	125	-
Crime Prevention	225,055	-	52,697	-	277,752	16,740	-	261,012
AG Medicaid Fraud	1,000	911,002	1,797,956	-	2,709,958	1,000	1,155,363	1,553,595
Consumer Advocate	1,395,131	1,349,086	2,710,287	-	5,454,504	8,611	1,497,678	3,948,215
Unfair Trade Practices	-	450,000	48,306	-	498,306	94	450,000	48,212
Violence Against Women Grants	-	-	1,056,785	-	1,056,785	-	-	1,056,785
Council For Prosecuting Attorneys	100	15,514	194,339	10,540	220,493	100	23,938	196,455
Victims of Domestic Violence	-	132,300	87,769	65,563	285,632	-	28,038	257,594
Tort Claim Fund	8,226,326	5,178,069	4,445,815	-	17,850,210	-	5,093,197	12,757,013
Background Fee Holding Account	-	12,000	71,250	-	83,250	-	-	83,250
Court Settlements	-	508,856	1,385,356	-	1,894,212	-	650,452	1,243,760
Attorney General	-	-	2,137,605	-	2,137,605	-	-	2,137,605
<b>Totals By Funding Source</b>	<b>\$22,854,001</b>	<b>\$9,567,097</b>	<b>\$25,791,343</b>	<b>\$4,286,390</b>	<b>\$62,498,831</b>	<b>\$640,598</b>	<b>\$10,500,173</b>	<b>\$51,358,060</b>

Source: State Accounting System.



**Appendix C**  
**Expenditures – Detail by Budget Account**  
**Fiscal Year 2007**

Account Description	Personnel	Travel	Operating	Other <sup>(1)</sup>	Transfers Out	Total Expenditures
Extradition Coordinator	\$ 155,043	\$ 2,842	\$ 4,220	\$ 585,304	\$ -	\$ 747,409
Attorney General Administrative Account	19,185,816	175,011	1,918,137	901,574	-	22,180,538
Special Fund	-	-	-	502,167	-	502,167
Private Investigators Licensing Board	352,145	21,760	78,227	68,616	-	520,748
AG Workers Compensation Fraud	2,874,044	41,654	193,327	649,970	-	3,758,995
Renewable Energy & Energy Conservation	-	-	-	104,707	-	104,707
Racketeering - Prosecution Account	-	-	-	-	-	-
Crime Prevention	251,544	2,040	4,793	2,635	-	261,012
AG Medicaid Fraud	1,138,491	22,777	84,069	301,503	6,755	1,553,595
Consumer Advocate	2,850,697	39,281	139,670	918,567	-	3,948,215
Unfair Trade Practices	-	-	-	48,212	-	48,212
Violence Against Women Grants	-	-	-	951,224	105,561	1,056,785
Council For Prosecuting Attorneys	116,816	343	5,635	73,661	-	196,455
Victims of Domestic Violence	120,032	-	242	137,320	-	257,594
Tort Claim Fund	145,941	-	13,347	12,597,725	-	12,757,013
Background Fee Holding Account	-	-	83,250	-	-	83,250
Court Settlements	-	-	-	-	1,243,760	1,243,760
Attorney General	-	-	-	-	-	-
<b>Totals by Expenditure Type</b>	<b>\$ 27,190,569</b>	<b>\$ 305,708</b>	<b>\$ 2,524,917</b>	<b>\$ 17,843,185</b>	<b>\$ 1,356,076</b>	<b>\$ 49,220,455</b>

Source: State Accounting System.

<sup>(1)</sup> Other expenditures include equipment, grants, information systems, tort claims, purchasing assessments, cost allocations, and miscellaneous expenses of the Office.

**Appendix D**  
**Funding Sources – Detail by Budget Account**  
**Fiscal Year 2008**

Account Description	Appropriations	Beginning Cash	Revenues	Transfers In	Available Funding	Less		Net Funding
						Reversions	Carryforwards	
Extradition Coordinator	\$ 670,906	\$ -	\$ 78,546	\$ -	\$ 749,452	\$ -	\$ -	\$ 749,452
Attorney General Administrative Account	11,048,638	669,316	12,837,478	625,346	25,180,778	826,420	151,719	24,202,639
Special Fund	217,415	-	9,158	89,976	316,549	-	-	316,549
Private Investigators Licensing Board	-	471,835	550,812	-	1,022,647	-	391,247	631,400
AG Workers Compensation Fraud	-	377,409	79,379	3,959,994	4,416,782	370,504	416,958	3,629,320
Racketeering - Prosecution Account	-	125	-	-	125	-	125	-
Crime Prevention	225,005	-	51,224	-	276,229	4,890	-	271,339
AG Medicaid Fraud	100	1,155,363	2,419,977	-	3,575,440	-	1,746,213	1,829,227
Consumer Advocate	1,514,928	1,497,678	2,785,941	-	5,798,547	105,491	1,575,530	4,117,526
Unfair Trade Practices	-	450,000	654,627	-	1,104,627	-	450,000	654,627
Violence Against Women Grants	-	-	1,335,596	-	1,335,596	-	-	1,335,596
Council For Prosecuting Attorneys	100	23,938	217,678	9,367	251,083	100	29,914	221,069
Victims of Domestic Violence	-	28,038	90,447	140,519	259,004	-	785	258,219
High Tech Crime	384,942	-	444,697	-	829,639	249,933	-	579,706
Tort Claim Fund	-	5,093,197	4,102,004	-	9,195,201	-	5,887,145	3,308,056
Background Fee Holding Account	-	-	77,025	-	77,025	-	21,745	55,280
Court Settlements	-	650,452	8,388,228	-	9,038,680	-	644,755	8,393,925
United Health Group Charitable	-	-	2,817,368	-	2,817,368	-	2,817,368	-
Attorney General	-	-	7,061,005	-	7,061,005	-	-	7,061,005
<b>Totals By Funding Source</b>	<b>\$ 14,062,034</b>	<b>\$ 10,417,351</b>	<b>\$ 44,001,190</b>	<b>\$ 4,825,202</b>	<b>\$ 73,305,777</b>	<b>\$ 1,557,338</b>	<b>\$ 14,133,504</b>	<b>\$ 57,614,935</b>

Source: State Accounting System.

Note: The Renewable Energy & Energy Conservation Account shown in fiscal year 2007 was eliminated in fiscal year 2008 and the ending cash balance of \$82,822 was transferred to another agency. The High Tech Crime and the United Health Group Charitable Accounts were added in fiscal year 2008.

**Appendix E**  
**Expenditures – Detail by Budget Account**  
**Fiscal Year 2008**

Account Description	Personnel	Travel	Operating	Other <sup>(1)</sup>	Transfers Out	Budget Reductions	Total Expenditures
Extradition Coordinator	\$ 166,971	\$ 3,023	\$ 4,394	\$ 574,666	\$ -	\$ 398	\$ 749,452
Attorney General Administrative Account	20,074,229	196,304	2,135,188	1,390,535	-	406,383	24,202,639
Special Fund	76,320	-	-	240,229	-	-	316,549
Private Investigators Licensing Board	407,915	32,379	93,058	98,048	-	-	631,400
AG Workers Compensation Fraud	2,714,938	106,020	184,372	623,990	-	-	3,629,320
Racketeering - Prosecution Account	-	-	-	-	-	-	-
Crime Prevention	263,031	1,980	4,390	1,289	-	649	271,339
AG Medicaid Fraud	1,327,821	36,020	77,089	388,297	-	-	1,829,227
Consumer Advocate	2,970,804	48,831	154,520	939,977	-	3,394	4,117,526
Unfair Trade Practices	-	-	-	654,627	-	-	654,627
Violence Against Women Grants	209,891	-	272	1,125,433	-	-	1,335,596
Council For Prosecuting Attorneys	121,267	-	7,304	92,498	-	-	221,069
Victims of Domestic Violence	114,167	-	5	144,047	-	-	258,219
High Tech Crime	440,177	9,087	23,189	105,763	-	1,490	579,706
Tort Claim Fund	154,754	-	3,282	3,150,020	-	-	3,308,056
Background Fee Holding Account	-	-	55,280	-	-	-	55,280
Court Settlements	-	-	-	-	8,393,925	-	8,393,925
United Health Group Charitable	-	-	-	-	-	-	-
Attorney General	-	-	-	-	-	-	-
<b>Totals by Expenditure Type</b>	<b>\$ 29,042,285</b>	<b>\$ 433,644</b>	<b>\$ 2,742,343</b>	<b>\$ 9,529,419</b>	<b>\$ 8,393,925</b>	<b>\$ 412,314</b>	<b>\$ 50,553,930</b>

Source: State Accounting System.

Note: The Renewable Energy & Energy Conservation Account shown in fiscal year 2007 was eliminated in fiscal year 2008. The High Tech Crime and the United Health Group Charitable Accounts were added in fiscal year 2008.

<sup>(1)</sup> Other expenditures include equipment, grants, information systems, tort claims, purchasing assessments, cost allocations, and miscellaneous expenses of the Office.

**Appendix F**  
**Response From the Office of Attorney General**



STATE OF NEVADA  
OFFICE OF THE ATTORNEY GENERAL  
100 North Carson Street  
Carson City, Nevada 89701-4717

CATHERINE CORTEZ MASTO  
*Attorney General*

KEITH MUNRO  
*Assistant Attorney General*

JIM SPENCER  
*Chief of Staff*

November 14, 2008

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

Dear Mr. Townsend:

This letter is the response of the Office of the Attorney General to the draft Audit Report prepared by the Audit Division of the Legislative Counsel Bureau.

**Recommendation Number 1:**

**Review and modify policies, procedures, and controls to ensure the accurate accounting of staff hours used in the Attorney General Cost Allocation Plan.**

*Response:*

*This recommendation is accepted.*

*Prior to the start of this audit, the Attorney General directed the formation of a ProLaw Committee, which is comprised of various staff from throughout the Office of the Attorney General. ProLaw is the timekeeping management system that was purchased pursuant to authorization from the Nevada Legislature.*

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*The ProLaw Committee meets almost monthly and discusses topics related to the use of ProLaw in order to review, modify and improve the existing ProLaw manual, which has been in existence since 2004.*

*In February 2008, in order to improve the efforts of this office, an existing Legal Secretary II position 121 was designated as the ProLaw Administrator. This position is responsible for training staff on ProLaw and supervising the help desk with respect to issues regarding ProLaw use. This position also monitors time reported by attorneys and other staff, sends out reminders for staff who are delinquent in entering their time, and assists with time entry if needed.*

*ProLaw videos, education, instructions and tutorials are also now available to all staff via our interoffice intranet.*

*Through the ProLaw Administrator, the ProLaw Committee, and training, this office will better manage, monitor, train and enhance its use of ProLaw not only for Cost Allocation but for the office in its entirety.*

**Recommendation Number 2:**

**Perform additional procedures to ensure the database to bill agencies for automobile liability insurance is complete.**

*Response:*

*This recommendation is accepted.*

*The fixed asset listing database contains more than 5,900 items with numerous location codes for each agency. Each agency maintains the fixed asset information regarding its agency within the database.*

*The Office of the Attorney General currently provides agencies with four (4) separate opportunities to inform this office of additions, deletions, transfers, and changes to its vehicles and coverage.*

*One month prior to providing billings to agencies, this office sends each agency a preliminary report listing the vehicles subject to billing and the coverage required. Upon notification and evidence from the agencies, this office can edit the database for changes to billings if it is appropriate.*

*The initial billing also includes a listing of the vehicles for which an agency is being billed and the coverage required. The database can again be edited by this office if notification and evidence of changes is received from an agency.*

*In April of each year, a "Spring Billing" is sent to agency that bills or credits each agency for any vehicles that have been added and/or deleted. Documentation of*

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*the vehicles being charged and/or credited is attached. The database can be edited upon receipt of evidence and notification of any further changes or additions.*

*In July of each year, the "Final Billing" is completed. This final billing again bills or credits each agency for any further evidenced vehicles that have been added and/or deleted. Again, the agencies receive documentation of the vehicles being charged and/or credited and the database is updated as appropriate.*

*Pursuant to this recommendation, this office has communicated with the State Purchasing Division to determine if any further controls can be put into place to require agencies to properly maintain the fixed asset listing database so that accurate information can be provided to this office.*

*This office will continue to communicate with the State Purchasing Division in hopes of determining if there is a mechanism to require agencies to properly report accurate information.*

*Finally, this committee should consider whether legislation is necessary to require agencies to properly maintain the fixed asset listing database and notification of vehicle changes to our agency.*

**Recommendation Number 3:**

**Ensure adequate segregation of duties exist in the Reno and Las Vegas offices concerning the receipt of money.**

*Response:*

*This recommendation is accepted.*

*Attached to this letter as Exhibit A is a new Deposit Procedure that was developed by staff of the Office of the Attorney General and became effective on October 1, 2008. This office will continue to monitor this process to assure compliance with this recommendation.*

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**Recommendation Number 4:**

**Develop comprehensive policies, procedures, and controls to ensure accounts receivable balances are accurate, complete, readily available, and reported properly.**

*Response:*

*This recommendation is accepted.*

*The Office of the Attorney General is developing an office wide procedure for all accounts receivable activity.*

*The new procedure will centralize the function of monitoring all Accounts Receivable and include the Chief Financial Officer in all Accounts Receivable related activity, statewide, and unit wide. Information regarding the Controller's Office process needs to be received and reviewed in order to finalize this process.*

*It is anticipated this office will complete its new procedure within 6 months and will provide the Audit Division of the new procedure upon completion.*

**Recommendation Number 5:**

**Increase efforts to collect accounts receivable by developing policies and procedures over collection activities. Procedures should consider debt type, amount owed, and other information as necessary to ensure efforts are reasonable.**

*Response:*

*This recommendation is accepted.*

*The Office of the Attorney General is developing an office wide procedure for all accounts receivable activity related to Collection Efforts. Further, information regarding the Controller's Office process needs to be received and reviewed in order to finalize this process. This process will centralize the function of monitoring all Accounts Receivable and include the Chief Financial Officer in all Accounts Receivable related activity, statewide, and unit wide.*

*It is anticipated this office will complete its new procedure within 6 months and will provide the Audit Division of the new procedure upon completion.*

**Recommendation Number 6:**

**Develop policies and procedures for bad debt. Procedures should include the identification of uncollectible debt and the requirement to obtain the approval of the Board of Examiners prior to removal from state records.**

*Response:*

*This recommendation is accepted.*

*The Office of the Attorney General is developing an office wide procedure for all accounts receivable activity related to bad debt. Further, information regarding the Controller's Office process needs to be received and reviewed in order to finalize this process. This process will centralize the function of monitoring all Accounts Receivable and include the Chief Financial Officer in all Accounts Receivable related activity, statewide, and unit wide.*

*It is anticipated this office will complete its new procedure within 6 months and will provide the Audit Division of the new procedure upon completion.*

**Recommendation Number 7:**

**Ensure performance evaluation and work performance standards are completed in accordance with state laws and regulations.**

*Response:*

*This recommendation is accepted.*

*Prior to the FY08-FY09 biennium the Office of the Attorney General did not have a Chief Personnel Officer position. Therefore, supervisors were required to manage their staff evaluations and work performance standards independently. Without any overall monitoring controls in place evaluations and work performance standards were not always completed timely.*

*During the FY08-FY09 biennium, the Nevada Legislature authorized a Chief Personnel Officer position. Due to budget restrictions we were unable to recruit and hire for this position until February 6, 2008. Prior to the creation of this position many personnel and staff duties fell to the Assistant Attorney General, Chief of Staff, Chief Financial Officer and Personnel Technician who also had numerous other duties to handle.*

*Upon the hire of the Chief Personnel Officer, the evaluations and work performance standards have been revisited and monitoring, reminders, etc... have been set into place (see Exhibit B).*



Townsend, Paul  
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**Recommendation Number 8:**

**Revise and follow policies and procedures over property and equipment to ensure inventory records are accurate, complete, and properly reviewed.**

*Response:*

*This recommendation is accepted.*

*The Office of the Attorney General is revising its inventory procedures to put the statewide responsibility on the Accounting Unit instead of the Legal Office Managers within each region. This office will begin implementing the new procedures in January 2009. Further, all items that were questioned within the audit were located and corrected within the Fixed Asset report.*

**Recommendation Number 9:**

**Remove former employee access to information systems in a timely manner.**

*Response:*

*This recommendation is accepted.*

*During this audit, the Office of the Attorney General was upgrading its entire network platform to include; the replacement of Novell with Microsoft, GroupWise with Outlook, installation of a new SAN system, and the conversion of 350 workstations.*

*The IT manager is confident that this situation has been resolved and none of the individuals mentioned in the audit tried to access data after their termination from the agency.*

*The IT manager has put the following process into effect immediately:*

- 1. Information Technology (IT) staff are now included on the notifications of employee changes through the PAF (Personnel Action Form) that is submitted by the Chief Personnel Officer when a change occurs within our agency. This gives IT staff time to plan and consult departments as to how to handle both data transfers and email administration.*
- 2. After IT Receives the PAF they issue a Track-it helpdesk request and it will be assigned to a Network Specialist, who will monitor it and close it upon completion.*
- 3. The Helpdesk requests are monitored and the administration of these accounts will be taken care of as soon as the office is ready (based on date of change).*


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*By adding these additional steps to the process, it is believed that there will be less chance of delay in removing employees from the network.*

Please let me know if you need anything further.

Sincerely,

CATHERINE CORTEZ MASTO  
Attorney General

By:   
Teri Sulli, Chief Financial Officer  
(775) 684-1116

Cc: Catherine Cortez Masto, Attorney General  
Keith Munro, Assistant Attorney General  
Jim Spencer, Chief of Staff  
Jennifer Albin, Regulatory Manager BCP  
Shannon Ryan, CPA Audit Supervisor, LCB  
Tammy Goetze, CPA Deputy Legislative Auditor, LCB

**Office of Attorney General  
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Review and modify policies, procedures, and controls to ensure the accurate accounting of staff hours used in the Attorney General Cost Allocation Plan.....	<u>  X  </u>	<u>      </u>
2	Perform additional procedures to ensure the database used to bill agencies for automobile liability insurance is complete .....	<u>  X  </u>	<u>      </u>
3	Ensure adequate segregation of duties exist in the Reno and Las Vegas offices concerning the receipt of money.....	<u>  X  </u>	<u>      </u>
4	Develop comprehensive policies, procedures, and controls to ensure accounts receivable balances are accurate, complete, readily available, and reported properly .....	<u>  X  </u>	<u>      </u>
5	Increase efforts to collect accounts receivable by developing policies and procedures over collection activities. Procedures should consider debt type, amount owed, and other information as necessary to ensure efforts are reasonable .....	<u>  X  </u>	<u>      </u>
6	Develop policies and procedures for bad debt. Procedures should include the identification of uncollectible debt and the requirement to obtain the approval of the Board of Examiners prior to removal from state records .....	<u>  X  </u>	<u>      </u>
7	Ensure performance evaluations and work performance standards are completed in accordance with state laws and regulations.....	<u>  X  </u>	<u>      </u>
8	Revise and follow policies and procedures over property and equipment to ensure inventory records are accurate, complete, and properly reviewed .....	<u>  X  </u>	<u>      </u>
9	Remove former employee access to information systems in a timely manner .....	<u>  X  </u>	<u>      </u>
	<b>TOTALS</b>	<u>    9    </u>	<u>    0    </u>