

State of Nevada  
Governor's Finance Office  
Division of Internal Audits

**Audit Report**

**Purchasing Division**

**Master Service Agreements  
for Direct Client Services  
and  
BOE Contract Approval Process**

DIA Report No. 20-11  
July 6, 2020



**EXECUTIVE SUMMARY**  
**Purchasing Division**  
**Master Service Agreements for Direct Client Services**  
**and BOE Contract Approval Process**

**Introduction**..... page 1

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**Objective 1: Increase the Efficiency of the Direct Client Services**  
**Procurement Process**

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**Delegate Authority for Procuring Direct Client Services**..... page 2

An inefficient system for soliciting and qualifying providers resulted from a 2018 change in the direct client services procurement process. The process change increased Purchasing’s span of responsibility to solicit and qualify providers of direct client services and to facilitate the associated Master Service Agreements (MSAs). Delegating authority for procuring direct client services to DHHS and DETR will eliminate Purchasing staff time required to solicit, qualify providers, and facilitate the associated MSAs.

Purchasing solicits direct client service providers on behalf of DHHS and DETR using Requests for Qualifications (RFQs), and contracts with providers using MSAs. MSAs offer agencies contracting flexibility, because a client or agency can choose from a pool of qualified providers with BOE-approved MSAs in place, then use a service agreement to identify the specific scope of services expected, fee schedule, and other relevant information. Soliciting and qualifying providers using open-ended RFQs required approximately \$71,000 of Purchasing staff time in fiscal year 2019.

Pursuant to NRS 333, the Purchasing Administrator may delegate procurement authority to agencies if it is in the best interests of the state. Delegating procurement authority would allow the agencies to solicit and qualify providers of direct client services without using Purchasing staff resources. Nine western states surveyed allow their chief procurement officer to delegate procurement authority to state agencies. Delegating procurement authority will result in savings to Purchasing of approximately \$71,000 annually. Purchasing expects to fully implement the recommendation by July 2021.

**Establish a Compliance Review Program for Agencies with Delegated Procurement Authority for Direct Client Services**..... page 8

The procurement process for direct client services is inefficient and lacks independent oversight because soliciting and vetting providers is consolidated by Purchasing. Delegating procurement authority to the two agencies that offer direct client services will require a compliance review program to monitor these agencies. Establishing a compliance review program for agencies with delegated procurement authority will ensure independent oversight, and compliance with provider vetting requirements, statutes, and regulations.

Purchasing currently solicits direct client service providers then vets these providers for medical or professional licensure, state business licensure, and insurance requirements. Delegating

procurement authority to DHHS and DETR to solicit providers will require these agencies to solicit and vet providers and will necessitate Purchasing oversight of the procurement process.

States that delegate procurement authority have compliance review programs to ensure agencies follow statutes, regulations, and guidelines set by their chief procurement official. Arizona has a performance review program that may be an optimal option for Nevada because it monitors agencies with delegated procurement authority for compliance with procurement statutes and regulations by periodically completing independent performance reviews. Purchasing can use Arizona’s performance review program as a model for Nevada. Purchasing expects to fully implement the recommendation by July 2021.

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**Objective 2: Enhance the Effectiveness of the Clerk of the BOE’s  
Contract Approval Process**

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**Seek a BDR to Allow the Clerk of the BOE to Approve Contracts for Services Valued up to \$100,000..... page 11**

Limitations on the Clerk of the BOE’s statutory contract approval threshold have led to contracts for services valued at \$50,000 or more not being approved in an efficient and timely manner. Agencies usually wait at least five weeks for formal BOE approval of contracts valued above \$50,000 because of the Clerk’s limited approval threshold. Seeking a BDR to allow the Clerk of the BOE to approve contracts for services valued up to \$100,000 will increase BOE efficiency and allow a timelier state contracting process.

The Clerk of the BOE currently has authority to approve contracts valued below \$50,000. Contracts approved by the Clerk of the BOE are presented on the BOE agenda as informational items and do not require formal approval. Agencies wait several weeks for formal approval at a BOE meeting for contracts valued at \$50,000 or more. The Clerk of the BOE’s contract approval threshold is out of line with contracting practices in Clark County and Washoe County where the contract approval limit is \$100,000.

The BOE sees a need for increased contract approval authority. During the February 2019 BOE meeting, the Governor asked if the threshold for Clerk of the BOE contract approval can be increased to give staff more flexibility to approve items on the BOE agenda. Increasing the Clerk of the BOE’s contract approval threshold to \$100,000 will increase BOE efficiency when approving contracts for services by an estimated 20% and allow a timelier state contracting process. Purchasing expects to fully implement the recommendation by July 2021.

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## INTRODUCTION

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At the request of the Director of the Governor's Finance Office, the Division of Internal Audits conducted an audit of master service agreements for direct client services and the Board of Examiners' (BOE) contract approval process for the Clerk of the BOE. Our audit focused on ways to increase the efficiency of the direct client services procurement process and the efficacy of increasing the Clerk of the BOE's contract approval threshold. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objectives were to develop recommendations to:

- ✓ Increase the efficiency of the direct client services procurement process; and
- ✓ Enhance the effectiveness of the Clerk of the BOE's contract approval process.


### **Purchasing Division's Response and Implementation Plan**

We provided draft copies of this report to the Purchasing Division for review and comment. The division's comments have been considered in the preparation of this report and are included in Appendix B. In its response, the division accepted our recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the division has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and the division.

The following report (DIA Report No. 20-11) contains our *findings, conclusions, and recommendations*.

Respectfully,



Warren Lowman  
Administrator

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## **Increase the Efficiency of the Direct Client Services Procurement Process**

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The Purchasing Division (Purchasing) can increase the efficiency of the direct client services procurement process by:

- Delegating authority for procuring direct client services; and
- Establishing a compliance review program for agencies with delegated procurement authority for direct client services.

Increasing the efficiency of the direct client services procurement process will ensure compliance with purchasing statutes and regulations, and result in time savings to Purchasing that will provide a net benefit to the state of approximately \$63,000 annually in freed-up staff resources.<sup>1</sup>

### ***Delegate Authority for Procuring Direct Client Services***

Purchasing should delegate authority for procuring direct client services to the two state agencies that provide these services, the Department of Health and Human Services (DHHS) and the Department of Employment Training and Rehabilitation (DETR). Delegating authority will result in over 1,800 hours of staff time savings and benefit the state by approximately \$71,000 in freed-up staff resources.

### **MSAs for Direct Client Services Offer Agencies Contracting Flexibility**

Master Service Agreements (MSAs) for direct client services offer state agencies contracting flexibility. An MSA is a contract between the state and a provider in which the parties agree to the general terms that will govern potential services provided to clients of state agencies. MSAs give the state the protection of a contract using a template approved by the BOE and the Office of the Attorney General as to form. State agencies subsequently use a service agreement that is subordinate to the BOE- approved MSA to identify specific terms of service, scope of work, and fee schedule. Most fees charged by providers are based on Medicaid fee schedules that are referenced in the service agreement. The state publishes a Medicaid fee schedule that includes the maximum provider fee allowed for direct client services. The service agreement is signed by the agency head and provider and does not require BOE approval.

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<sup>1</sup> \$63,000 is the net benefit to the Purchasing Division achieved through staff savings by delegating authority for procuring direct client services netted against the cost of establishing a compliance review program for agencies with delegated procurement authority (\$71,000 - \$8,000 = \$63,000).



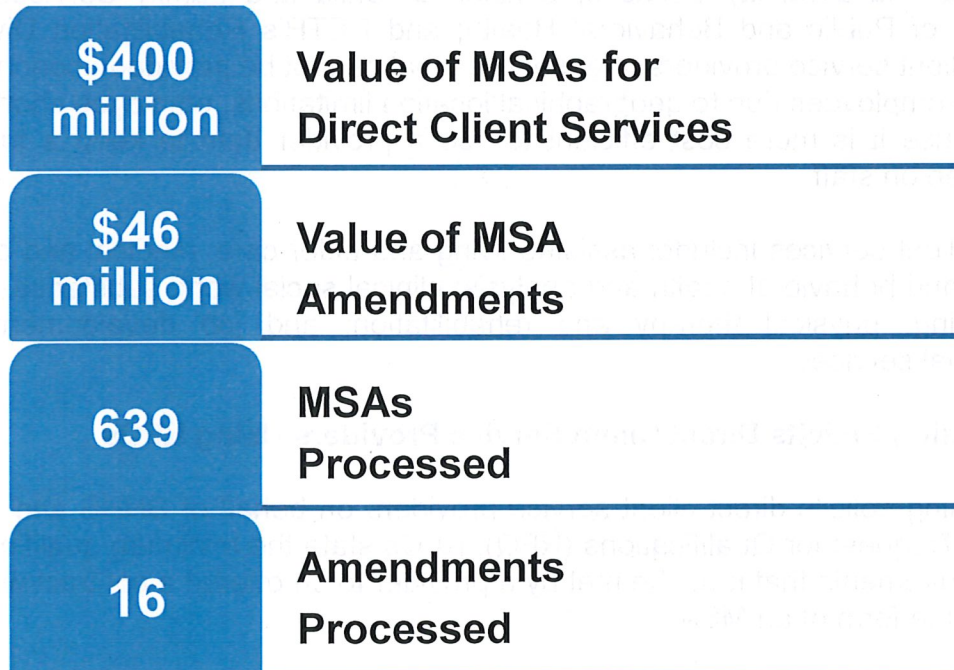
MSAs offer state agencies contracting flexibility because an agency or the client can select a provider with a BOE-approved MSA in place. The agency then uses the service agreement to identify the specific scope of services expected, the fee schedule, and other relevant information regarding the provider/agency relationship. MSAs typically have a four-year term and a not-to-exceed amount. The amount is an estimate based on historical spending by service type. For example, a contract with a new provider of speech therapy services would have a not-to-exceed value based on spending for that service type over the last four years. The not-to-exceed amount is intended to be set high enough to avoid contract amendments.

Amendment to MSAs for Direct Client Services  
Sometimes Necessary

MSAs must be amended when the maximum contract authority is anticipated to be exceeded, the contract term requires extension, or a provider's name or legal entity changes. Processing an amendment requires as much time as processing the initial MSA. Purchasing, Budget Division, and the BOE are involved in processing, reviewing, and approving amendments. In fiscal year 2019, the state processed 639 MSAs for direct client services and 16 amendments to these MSAs. Exhibit I summarizes 2019 MSA data for direct client services. Exhibit II shows the breakdown of spending by each department in fiscal year 2019.

**Exhibit I**

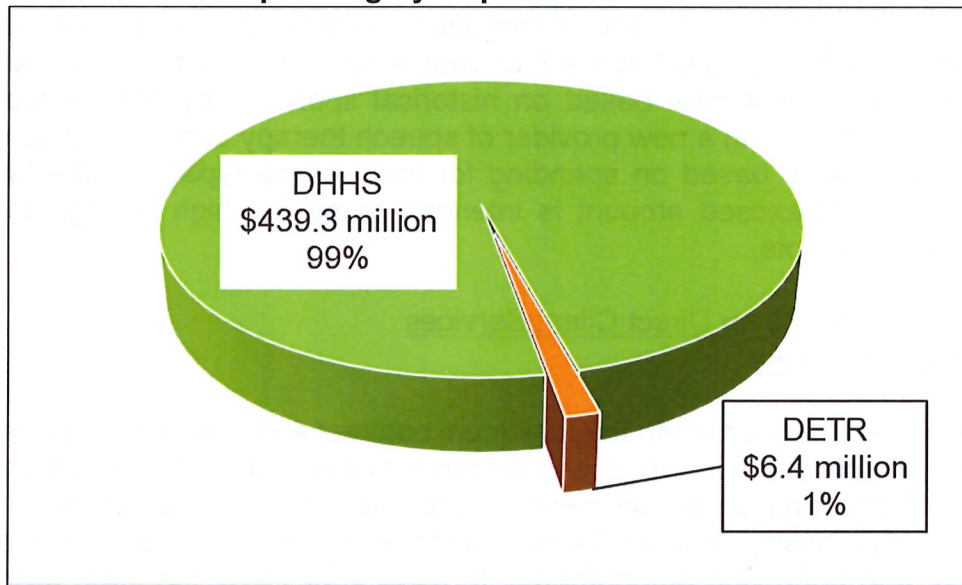
**MSAs for Direct Client Services FY 2019**



Source: Nevada Executive Budget System and Purchasing.

## Exhibit II

### MSAs for Direct Client Services Spending by Department FY 2019



Source: Purchasing.

#### Direct Client Services are Provided to Clients of DHHS and DETR

Direct client services are provided to clients of DHHS agencies, including: Division of Aging and Disability Services; Division of Child and Family Services; and Division of Public and Behavioral Health; and DETR's Rehabilitation Division. Direct client service providers offer services that cannot be provided economically by state employees due to geographical location limitations, employee shortages, or because it is more cost efficient to use a provider than to keep a full-time employee on staff.

Direct client services include: assisted living and elder care; medical and dental; mental and behavioral health and analysis; clinical social work; substance abuse counseling; physical therapy and rehabilitation; and job development and vocational services.

#### **Purchasing Solicits Direct Client Service Providers Using RFQs**

Purchasing solicits direct client service providers on behalf of DHHS and DETR using a Request for Qualifications (RFQ). RFQs state the minimum qualifications and requirements that must be met by a provider to be offered a contract with the state in the form of an MSA.

The BOE must approve the MSA before the provider is added to the pool of qualified providers. State agencies select providers from the pool available on Purchasing's website, and negotiate specific terms included in the service



agreement. One provider may be selected by multiple agencies; in this case, there would be one MSA and two or more service agreements (one for each agency). In fiscal year 2019, ten providers offered services to clients of both DHHS and DETR.

An RFQ is not a competitive solicitation but rather a tool to establish a pool of qualified providers. By having a pool of qualified providers, state agencies can offer clients more options when choosing a provider. Federal patient choice laws limit when an agency may choose a provider on behalf of a client. An agency may choose a provider for a client based on geographical location, provider availability, cost, or vendor rating when patient choice of provider is not applicable.

#### Open-Ended RFQs Increase Purchasing's Span of Responsibility

Direct client service providers are continuously added to the pool of qualified providers because Purchasing uses "open-ended" RFQs. Open-ended RFQs allow providers to respond to an RFQ for as long as the RFQ remains open, which is typically for as long as the services on the RFQ are required.

Using open-ended RFQs results in a larger pool of qualified providers. A larger pool of qualified providers with BOE-approved MSAs in place enhances the ability for agencies to timely offer clients more provider options. Purchasing's span of responsibility is significant because they are conducting open-ended RFQs, qualifying RFQ respondents, and processing associated MSAs. Essentially, most RFQs are always open and on-going.

#### **Procurement Change Increased Costs to Purchasing and Budget Division**

A change in the direct client services procurement process resulted in increased costs to Purchasing and the Budget Division. Prior to 2018, Purchasing did not solicit direct client service providers and the Budget Division did not review the associated contracts for BOE approval. DHHS and DETR had authority to solicit providers and contract for direct client services. A contract form that was "pre-approved" by the BOE was used by agencies that conducted their own RFQs.

A process change resulted in Purchasing issuing the RFQ's and qualifying providers in compliance with statute. Authority had not been delegated to DHHS and DETR to solicit direct client service providers.<sup>2</sup>

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<sup>2</sup> NRS 333.165 allows the Purchasing Administrator to contract for services on behalf of an agency or delegate authority to an agency to contract for services.

GFO Memorandum  
Changed Procurement Process

The direct client services procurement process changed in 2018 as a result of a memorandum sent by the GFO Director in December 2017. The memorandum resulted from litigation between a direct client services provider and DETR. DETR sued over the provider's lack of professional qualifications. The provider challenged the validity of the contract that was pre-approved as to form although not directly approved at a BOE meeting. The case was eventually settled between the two parties. The case showed that contracts without oversight by Purchasing or approval by BOE make the state vulnerable to litigation.

Prior to the change in process, state agencies had the authority to contract directly with providers using a blanket contract form pre-approved by BOE. The contracts were not, however, reviewed by Purchasing for appropriate details about: provider qualifications; business licensure; insurance required by the Risk Management Division; and other relevant information. The 2018 change to the direct client services procurement process resulted in Purchasing soliciting providers and Budget Division reviewing associated MSAs.

New Process Resulted in Increased Staff Time  
for Purchasing and Budget Divisions

The change in the direct client services procurement process resulted in increased staff time to both Purchasing and the Budget Division. The estimated cost to Purchasing of soliciting providers of direct client services and facilitating the associated MSAs in fiscal year 2019 was approximately \$71,000.<sup>3</sup> Delegating authority to agencies would result in staff time savings to Purchasing of approximately \$71,000.

The cost to the Budget Division to review direct client service MSAs for BOE approval in fiscal year 2019 was approximately \$41,000.<sup>4</sup> The Budget Division will continue to review these MSAs for BOE approval; therefore, the cost attributed to the Budget Division is not included in our estimate of cost savings.

Additionally, increased cost to agencies for processing RFQs is not included in our estimated costs. Purchasing reports agencies are currently funded at the levels when this responsibility was taken from them.

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<sup>3</sup> The estimated cost to Purchasing includes 182 hours per year spent by a Purchasing Officer at a fully burdened hourly rate of \$41.75 (182 x \$41.75 = \$7,598.50) plus 80% of a Management Analyst's fully burdened annual salary (80% x \$79,683.30 = \$63,746.64). \$7,598.50 + \$63,746.64 = \$71,345.14.

<sup>4</sup> The estimated cost to Budget includes 273 hours per year spent by a Budget Officer at a fully burdened hourly rate of \$49.93 (273 x \$49.93 = \$13,630.89) plus 191 hours spend by a Budget Lead at a fully burdened hourly rate of \$54.69 (191 x \$54.69 = \$10,445.79) plus 573 hours of administrative staff time at a fully burdened hourly rate of \$29.43 (573 x 29.43 = \$16,863.39): \$13,630.89 + \$10,445.79 + \$16,863.39 = \$40,940.07.

## **Purchasing Administrator May Delegate Authority to Agencies**

NRS 333 requires Purchasing to contract for services whose estimated value is \$100,000 or more, but the administrator may delegate authority to agencies if in the best interests of the state.<sup>5</sup> The administrator may delegate authority to agencies to procure direct client services through non-competitive RFQs. Delegating authority is consistent with provisions of NRS 333 and does not conflict with the rules of competitive bidding.

### Other States Allow Delegation of Purchasing Authority to Agencies

Nine western states surveyed allow their chief procurement officer to delegate procurement authority to state agencies.<sup>6</sup> Seven of these nine states allow unlimited delegation of authority to agencies. Washington limits delegation of authority based on an annual risk assessment and Wyoming limits delegation of authority to small purchases.

## ***Conclusion***

A change in the direct client services procurement process has led to an inefficient system for soliciting and qualifying providers. The change increased Purchasing's span of responsibility to solicit and qualify providers and process associated MSAs. This required over 1,800 hours of staff time. Delegating procurement authority to DHHS and DETR will eliminate Purchasing staff time required to solicit providers and process MSAs, resulting in savings of approximately \$71,000 annually.

## ***Recommendation***

1. Delegate authority for procuring direct client services.

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<sup>5</sup> NRS 333.165(1).

<sup>6</sup> States surveyed: Arizona, California, Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming.

## ***Establish a Compliance Review Program for Agencies with Delegated Procurement Authority for Direct Client Services***

The Purchasing Division (Purchasing) should establish a compliance review program for agencies with delegated procurement authority for direct client services. Establishing a compliance review program will ensure compliance with provider vetting requirements, statutes, and regulations.

### **Purchasing Solicits and Vets Direct Client Service Providers**

Purchasing solicits and vets direct client service providers on behalf of DHHS and DETR. Providers are vetted for medical or professional licensure, state business licensure, and insurance requirements.<sup>7,8,9</sup> Delegating procurement authority to DHHS and DETR will require these agencies to solicit and vet providers instead of Purchasing.

#### Delegating Authority Will Require Oversight

Delegating authority to agencies to solicit providers will require Purchasing oversight to ensure compliance with provider vetting requirements, statutes, and regulations. Delegating authority would result in Purchasing staff time savings by allowing agencies to conduct their own RFQs, vet providers, and facilitate associated MSAs. Delegating authority to agencies would require Purchasing to verify on a sample basis agencies' compliance with statutes, regulations, and SAM. Implementing a compliance review program will ensure Purchasing provides proper oversight and verifies agency compliance.

A compliance review program would require less staff time, although the time required would be dependent on the frequency and level of review performed. Purchasing estimates that compliance reviews of agencies with delegated procurement authority would require 192 hours of staff time per year at a cost to Purchasing of approximately \$8,000.<sup>10</sup>

A compliance review program administered by Purchasing would serve as independent oversight of agencies delegated direct client services procurement authority. Purchasing would monitor agencies to ensure compliance with statutes, regulations, and SAM to confirm providers are properly vetted for medical or

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<sup>7</sup> SAM 0338 requires that a qualified provider meet the minimum solicited qualifications. RFQs state the medical and/or professional licensure requirements that must be met to become a qualified provider.

<sup>8</sup> SAM 0322 and 0324 stipulate that no agency may contract with a person to provide services without ensuring that the person has a state business license and is in active and good standing with the Secretary of State.

<sup>9</sup> SAM 0516 requires a business that contracts with the state to meet insurance requirements established in the Insurance Schedule, which must be completed for all contracts.

<sup>10</sup> The estimated cost to Purchasing includes 160 hours per year of a Management Analyst II's time at a fully burdened hourly rate of \$38.16 (160 x \$38.16 = \$6,106.00) plus 32 hours of a Management Analyst IV's time at a fully burdened hourly rate of \$45.60 (32 x \$45.60 = \$1,459.20). \$6,106.00 + \$1,459.20 = \$7,565.20.

professional licensure, have a state business license, and meet insurance requirements established by the Risk Management Division.<sup>11</sup>

### **States that Delegate Procurement Authority Have Compliance Programs**

States that delegate procurement authority have procurement compliance programs to ensure agencies follow statutes, regulations, and guidelines set by their chief procurement official. However, the level of compliance review varies by state:

- Idaho's Division of Purchasing conducts periodic reviews of delegated authority to ensure agencies with delegated authority are conducting procurements within the limitations of their authority.
- California state agencies are audited to determine whether procurement transactions are conducted in accordance with the terms and conditions of a department's delegated procurement authority.
- Washington performs an annual risk assessment which includes reviewing agencies to evaluate the appropriateness of their level of delegated procurement authority.
- Arizona has a refined procurement compliance review program that focuses on the appropriateness of the delegated authority, agency vetting, and compliance with procurement statutes and regulations.

### **Arizona Model May Be Optimal Option for Nevada**

Arizona has a performance review model that may be an optimal option for Nevada. The Arizona State Procurement Office monitors agencies with delegated procurement authority for compliance with state procurement laws by completing performance reviews and requiring agencies to complete control self-assessments annually. Purchasing could use this model to create a procurement compliance review program in Nevada. Arizona and Nevada have similar procurement organizational structures and internal control requirements.<sup>12</sup> Arizona's procurement compliance review program focuses on agency vetting and compliance with procurement statutes and regulations, the same attributes we recommend transferring back to agencies.

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<sup>11</sup> The Risk Management Division publishes on their website the "Insurance Requirements for Contracts" manual that outlines applicable contract insurance requirements. SAM 0516 requires a business that contracts with the state to meet minimum insurance requirements established in the Insurance Schedule.

<sup>12</sup> Nevada state agencies are required to assess their internal control structure through a biennial process reported to the Governor's Finance Office and the Legislature.



## Arizona Conducts Periodic Performance Reviews

An Arizona Procurement Officer conducts performance reviews of agencies with delegated purchasing authority in intervals determined by the Chief Procurement Officer. These intervals range from quarterly to once every four years. Agencies with greater contract costs or a history of non-compliance are reviewed more frequently than other agencies. Modeling a compliance program in Nevada after Arizona's procurement performance review program would require Purchasing to determine appropriate time intervals for reviewing agencies with delegated procurement authority.

### ***Conclusion***

The procurement process for direct client services is inefficient and lacks independent oversight because soliciting and vetting providers is performed solely by Purchasing. Delegating procurement authority to the two agencies that offer direct client services will require a compliance review program to monitor DHHS and DETR for compliance with provider vetting requirements, statutes, and regulations. Establishing a compliance review program for agencies with delegated procurement authority for direct client services will ensure independent oversight and compliance with statutes, regulations and SAM. Purchasing can use Arizona's performance review program as a model to establish a compliance review program for monitoring Nevada agencies.

### ***Recommendation***

2. Establish a compliance review program for agencies with delegated procurement authority for direct client services.

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## **Enhance the Effectiveness of the Clerk of the BOE's Contract Approval Process**

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The Purchasing Division (Purchasing) can enhance the effectiveness of the Clerk of the BOE's contract approval process by:

- Seeking a BDR to allow the Clerk of the BOE to approve contracts for services valued up to \$100,000.<sup>13</sup>

Seeking a BDR to increase the Clerk of the BOE's contract approval threshold will increase BOE efficiency and allow a timelier state contracting process.

### ***Seek a BDR to Allow the Clerk of the BOE to Approve Contracts for Services Valued up to \$100,000***

Purchasing should seek a BDR to allow the Clerk of the BOE to approve contracts for services valued up to \$100,000. Increasing the Clerk of the BOE's contract approval threshold will increase the efficiency of the contracting process by requiring formal BOE approval of contracts valued at \$100,000 and above, and reporting contracts less than \$100,000 on the BOE agenda as informational items. This change in the approval threshold will increase BOE efficiency and allow a timelier state contracting process.

### **Clerk of the BOE Approval Limit Less than \$50,000**

Assembly Bill 41 of the 2013 Legislature set the threshold for approval by the Clerk of the BOE at less than \$50,000 pursuant to NRS 333.700(7)(a). Contracts valued at \$50,000 or more require formal approval by the BOE. Contracts approved by the Clerk of the BOE are presented on the BOE agenda as informational items. Members of the BOE may review these contracts if they so choose.

### **Agencies Wait Several Weeks for Formal Contract Approval at a BOE Meeting**

Agencies must wait several weeks for formal approval at a BOE meeting of contracts valued at \$50,000 or more. The deadline for items to be submitted for placement on the BOE agenda is typically five weeks in advance of the BOE meeting. An agency that misses the deadline would have to wait up to nine weeks for formal BOE approval because meetings are conducted monthly.

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<sup>13</sup> The BDR would set the approval amount for the Clerk of the BOE.

In 2019, 541 contracts required formal approval at a BOE meeting.<sup>14</sup> Of these contracts, 106 (20%) were valued between \$50,000 and \$100,000 or were amended to exceed \$50,000 but less than \$100,000. Setting the Clerk of the BOE's contract approval threshold at \$100,000 would have reduced formal BOE review of these contracts and increased efficiency by 20% in 2019. Additionally, these contracts could have been approved timelier by not requiring five to nine weeks to become formally approved at a BOE meeting. A low Clerk of the BOE approval threshold reduces the efficiency of BOE meetings by requiring formal BOE review and approval of contracts valued at \$50,000 or more.

### **Approval Threshold Out of Line with County Contracting Practices**

The Clerk of the BOE's contract approval threshold is out of line with contracting practices in Clark County and Washoe County. Raising the approval threshold will more closely align with current contracting practices within county governments.

#### Clark County and Washoe County Have Higher Approval Thresholds

Clark County and Washoe County have higher approval thresholds than the Clerk of the BOE. The Clark County Purchasing Division and the Washoe County Purchasing and Contracts Division have approval thresholds for contracts for services up to \$100,000 to expedite their contract approval process.

In 2009, the Washoe County Commission approved an ordinance amending the County Finance Code to allow the Purchasing and Contracts Manager to approve contracts for services valued up to \$100,000. In 2017, the Clark County Commission approved two resolutions authorizing the Chief Financial Officer to contract for services valued up to \$100,000.

#### BOE Sees Need for Increased Approval Authority

BOE sees a need for increased Clerk of the BOE approval authority. During the February 2019 BOE meeting, the Governor asked if the threshold for Clerk of the BOE approval of contracts can be increased to give staff more flexibility to approve items on the BOE agenda. All members concurred that raising the threshold would be appropriate; however, legislative action is required to change the \$50,000 threshold.

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<sup>14</sup> "Approval of Proposed Contracts" is a BOE agenda item that contains a listing of contracts that require formal BOE approval. There is a separate agenda item for approving Master Service Agreements (MSAs) that are not included in this total. In 2019, there was one MSA valued below \$100,000.

## ***Conclusion***

Contracts for services valued at \$50,000 or more are not approved in an efficient and timely manner due to limitations on the Clerk of the BOE's statutory contract approval threshold. Agencies must wait between five and nine weeks for formal BOE approval of contracts valued at \$50,000 or more. Increasing the Clerk of the BOE's contract approval threshold up to \$100,000 will increase BOE efficiency when approving contracts for services by an estimated 20% and allow a timelier state contracting process.

## ***Recommendation***

3. Seek a BDR to allow the Clerk of the BOE to approve contracts for services valued up to \$100,000.

**Exhibit III****Summary of Audit Benefits**

	Recommendation	Benefit
1	Delegate authority for procuring direct client services.	\$71,000
2	Establish a compliance review program for agencies with delegated procurement authority for direct client service.	(\$8,000)
3	Seek a BDR to allow the Clerk of the BOE to approve contracts for services valued up to \$100,000.	Increase BOE efficiency and a timelier state contracting process.
	Total estimated benefit:	\$63,000



## Appendix A

### Scope and Methodology, Background, Acknowledgements

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#### Scope and Methodology

We began the audit in February 2020. In the course of our work, we interviewed management and staff and discussed processes inherent to the Purchasing Division (Purchasing). We reviewed provider payment records and contracts for fiscal years 2018 through 2020 and applicable Nevada Revised Statutes, Nevada Administrative Code, and the State Administrative Manual. We also surveyed Nevada's state agencies, other states' agencies, and the Centers for Medicare and Medicaid Services.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

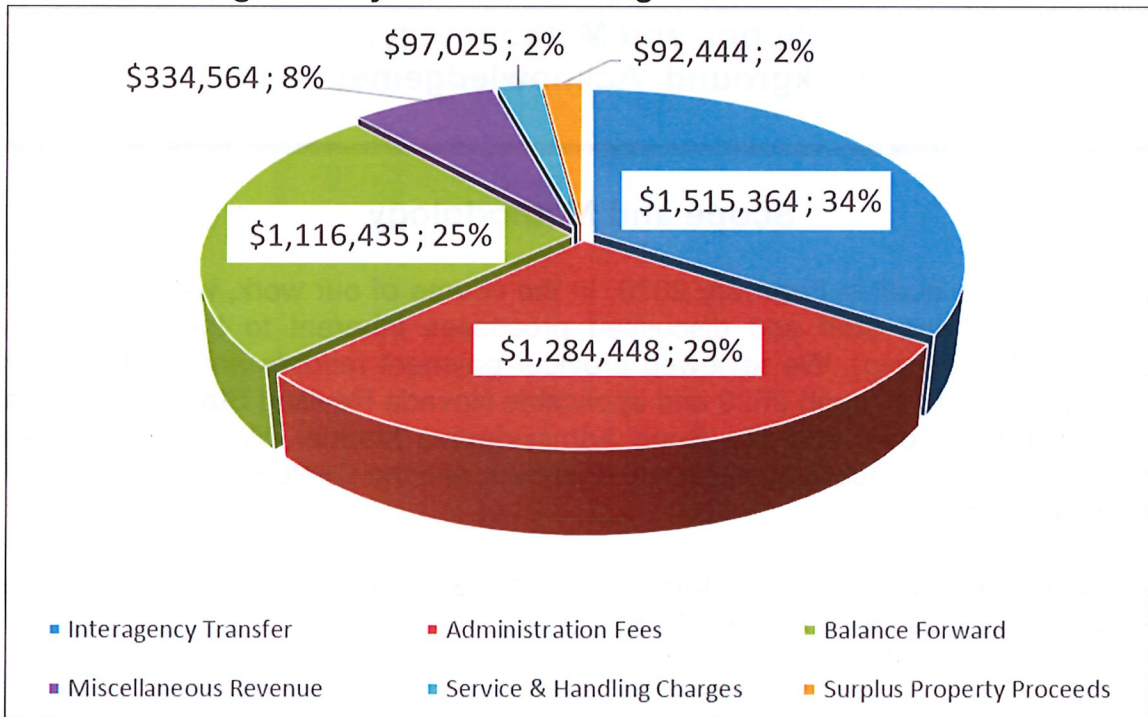
#### Background

Purchasing is one of 11 divisions organized under the Department of Administration that give internal support to state agencies and employees, provide business opportunities for vendors and contractors, and offer services to citizens. Purchasing is charged to perform all functions related to service procurement and the purchasing, renting, or leasing of supplies, materials, and equipment needed by state agencies. Purchasing maintains warehouses in Reno and Las Vegas, handles the reallocation and disposal of excess state property, maintains an inventory of state fixed assets, administers the Federal Surplus Property Program, and operates the Preferred Purchase Program.

The fiscal year 2020 legislatively authorized budget for Purchasing is approximately \$4.4 million, with 25 authorized full-time equivalent positions. See Exhibit IV for the fiscal year 2020 legislatively authorized budget.

**Exhibit IV**

**Legislatively Authorized Budget – Fiscal Year 2020**



Source: 2020 Legislatively Authorized Budget (openbudget.nv.gov).

**Acknowledgments**

We express appreciation to Purchasing and Budget Division staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Vita Ozoude, MBA, CPA, CMA, CGMA  
Audit Manager

Craig Stevenson, MBA  
Executive Branch Auditor

**Appendix B**  
**Purchasing Division's**  
**Response and Implementation Plan**

Steve Sisolak  
*Governor*



**STATE OF NEVADA**  
**DEPARTMENT OF ADMINISTRATION**  
*Purchasing Division*

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June 1, 2020

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Re: State Purchasing's Response to DIA Report No. 20-11

Dear Mr. Lowman,

As you requested, I am providing State Purchasing's responses to the recommendations made in Internal Audit's audit report regarding Direct Client Services.

**Response to Recommendation #1** State Purchasing agrees with this recommendation. State Purchasing will delegate authority for procuring direct client services to State agencies once a section explaining the new process can be added to the State Administrative Manual and the appropriate training can take place. State Purchasing estimates implementation beginning in July 2021.

**Response to Recommendation #2** State Purchasing agrees with this recommendation. State Purchasing will create a compliance plan prior to delegating authority for procuring direct client services to State agencies, which is estimated to take place in July of 2021.

**Response to Recommendation #3** State Purchasing agrees with this recommendation. State Purchasing has already included the necessary language in a draft BDR. If enacted, the change to the limit for Clerk of the Board approval should take effect on July 1, 2021.

As always, it has been a pleasure working with you on this audit. Please let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Kevin D. Doty".

Kevin D. Doty

## Appendix C

### Timetable for Implementing Audit Recommendations

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In consultation with Purchasing, the Division of Internal Audits categorized the three recommendations contained within this report into one of two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). Purchasing should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

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#### **Category 2: Recommendations with an anticipated implementation period more than six months.**

<u>Recommendations</u>	<u>Time Frame</u>
1. Delegate authority for procuring direct client services. (page 2)	Jul 2021
2. Establish a compliance review program for agencies with delegated procurement authority for direct client services. (page 8)	Jul 2021
3. Seek a BDR to allow the Clerk of the BOE to approve contracts for services valued up \$100,000. (page 11)	Jul 2021

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The Division of Internal Audits shall evaluate the action taken by Purchasing concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and Purchasing.