

**Governor's Finance Office
Division of Internal Audits**

2016 Annual Report



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Introduction

The Division of Internal Audits assists executive branch management by offering recommendations that enhance efficiency and effectiveness in state government. These recommendations help agencies reduce spending and increase benefits to citizens while complying with state and federal regulations. Recommendations also help agencies prevent and detect waste, fraud, and abuse; thereby safeguarding state resources. Recommendations are presented publicly to the Executive Branch Audit Committee.

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The Division of Internal Audits consists of Executive Branch Audit, Financial Management, and Compliance Review.

Executive Branch Audit

Goal: Improve the efficiency and effectiveness of state operations, ensure compliance with state and federal guidelines, and help agencies safeguard state resources.

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Financial Management Section

Goal: Help agencies safeguard assets, and prevent and detect fraud through internal control training, assistance, monitoring, and reviews.

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Compliance Review Section

Goal: Ensure agencies have adequate internal controls over fiscal processes and agencies' transactions comply with state and federal guidelines.

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**Executive Branch Audit Committee Members
(NRS 353A.038)**

The Administrator of the Division of Internal Audits administratively reports to the Director of the Governor's Finance Office and functionally to the Executive Branch Audit Committee comprised of the following members:

The Honorable Brian Sandoval
Governor, Chairman

The Honorable Mark Hutchison
Lieutenant Governor

The Honorable Ron Knecht
State Controller

The Honorable Barbara Cegavske
Secretary of State

The Honorable Adam Paul Laxalt
Attorney General

The Honorable Dan Schwartz
State Treasurer

Trudy L. Cross, CPA
Public Member



***Executive
Branch Audit
Section***

Staff Qualifications

The Executive Branch Audit section consists of eight Executive Branch Auditors, two of which were added in October 2015 to audit the state's contracting process. Executive Branch Auditors possess one or a combination of the following licenses/degrees: Certified Public Accountant, and/or advanced degrees in business or closely related field.

Executive Branch Audit Process

At the direction of the Executive Branch Audit Committee we performed audits addressing the efficiency and effectiveness of agencies' operations. We performed our first audit of the state's contracting process which focused on the contract solicitation process. In addition, we performed follow-ups on our recommendations and the Legislative Auditor's audit recommendations to determine agencies' implementation status.

Audit Plan – Audits of Efficiency and Effectiveness

To determine audit priority, we developed a risk assessment using multiple criteria including but not limited to:

- ✓ Source and amount of funding;
- ✓ Division of Internal Audits' previous audits; and
- ✓ Legislative Counsel Bureau's previous and planned audits.

We developed an annual plan using the risk assessment and requests from agencies and committee members. In accordance with NRS 353A, we consulted with the Director of the Governor's Finance Office and the Legislative Auditor concerning our plan to avoid any potential duplication of effort or disruption to state agencies.

Audit Plan – State Contracting Process

We created an audit plan to develop recommendations to improve the effectiveness of the state's contracting process. We began by auditing pre-award procedures including request for proposals, proposal evaluation, and contract award and approval. Future audits of the pre-award process will include procedures for sole source approvals, master service agreements, and provider agreements. Additionally, we plan to audit the state's post-award contract management procedures.

Reporting

Throughout the audit process we met with agencies' management to discuss our progress and findings. At the conclusion of our audits we submitted draft reports to the agencies. The head of each agency responded to our recommendations with an implementation schedule. We then presented our final reports to the Executive Branch Audit Committee and the agencies. The reports' contents and discussions regarding the audits remained confidential until presented to the Executive Branch Audit Committee. Within six months of issuing final reports we performed follow-ups to determine the implementation status of agencies' recommendations. We performed annual follow-ups on any recommendations not fully implemented. We reported follow-up results to the Executive Branch Audit Committee.

Summarized Actions of the Committee

January 19, 2016 Committee Meeting – The committee approved the 2015 Annual Report and the 2016 Annual Plan. We presented four audits, three six-month follow-ups, and nine annual follow-ups.

June 20, 2016 Committee Meeting - The committee approved an amendment to the Annual Plan. The committee adopted a change to Nevada Administrative Code 353A.100 regarding internal control training requirements. We presented four audits, one contract audit, four six-month follow-ups, and two committee requested follow-ups on doctor attendance for two agencies. We reported on the status of recommendations issued by the Legislative Auditor.

Accomplishments

Audits Completed

Our audits identified opportunities and solutions to promote efficient and responsive government. Audits identified cost savings, freed up resources, enhanced revenues, and solutions to improve state services. During the fiscal year, we presented nine audit reports to the Executive Branch Audit Committee:

1. Department of Administration – Fleet Services Division
2. Department of Agriculture – Food and Nutrition Division
3. Office of the Attorney General
4. Department of Business and Industry – Taxicab Authority
5. Office of the State Controller – State Debt Collection
6. Department of Health and Human Services – Division of Child and Family Services, Child Welfare Services
7. Department of Health and Human Services – Division of Child and Family Services, Child Mental Health Services
8. Office of the Secretary of State – Commercial Recordings Division
9. State Procurement Process I – Request for Proposal, Proposal Evaluation, Contract Award and Approval

Audits in Progress

As of June 30, 2016 we had the following audits in progress:

1. Department of Health and Human Services - Division of Child and Family Services, Child Mental Health Services II
2. Office of the Secretary of State – Securities Division
3. Office of the State Controller – Vendor Desk and Use of DocuSign application
4. State Procurement Process II – Sole Source Approvals and Master Service Agreements

Audit Follow-ups

We presented seven six-month follow-ups to the Executive Branch Audit Committee:

1. Department of Agriculture – Board of Agriculture and Fiscal Administration
2. Department of Agriculture – Food and Nutrition Division
3. Office of the Attorney General
4. Department of Business and Industry – Division of Insurance
5. Department of Business and Industry – Taxicab Authority
6. Department of Health and Human Services – Division of Child and Family Services, Child Welfare Services
7. Department of Motor Vehicles – Motor Carrier Division

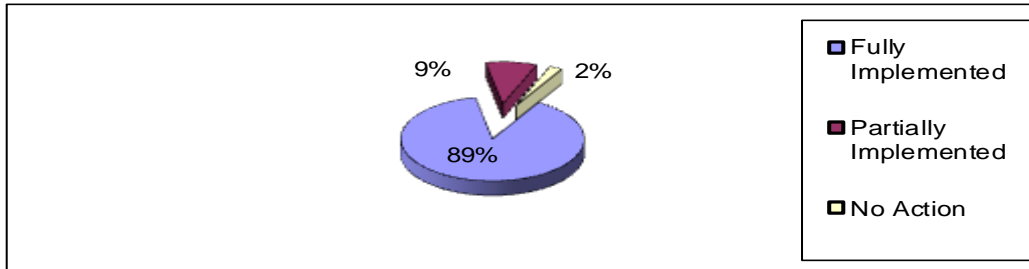
We presented two committee-requested audit follow-ups:

1. Department of Health and Human Services – Division of Public and Behavioral Health, Doctor Attendance
2. Department of Corrections – Medical Division, Doctor Attendance

We presented nine annual follow-ups on outstanding audit recommendations:

1. Department of Public Safety, Report No. 06-01 – Division of Parole and Probation
2. Department of Agriculture, Report No. 08-03
3. Department of Health and Human Services, Report No. 10-01 – Division of Public and Behavioral Health – Lakes Crossing Center
4. Department of Transportation, Report No. 10-02 – Utilization of Equipment
5. Department of Health and Human Services, Report No. 10-05 – Division of Public and Behavioral Health and Aging and Disability Services Division
6. Department of Health and Human Services, Report No. 11-02 – Division of Welfare and Supportive Services
7. Department of Health and Human Services, Report No. 13-01 – Aging and Disability Services Division
8. Department of Public Safety, Report No. 13-02
9. Department of Corrections, Report No. 13-03

Below is the current status of audit recommendations we issued to state agencies:



Annual Follow-ups	Report #	Total Reccs.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
All Previous Reports [1]	N/A	548	487	0	0	61
Department of Agriculture	08-03	14	12	1	0	1
MHDS - Lake's Crossing Center and Substance Abuse Prevention and Treatment Agency	10-01	11	6	3	1	1
Division of Mental Health and Developmental Services - Mental Health Services	10-06	11	4	4	3	0
Welfare - Child Care Subsidy	11-02	11	9	2	0	0
Department of Employment, Training, and Rehabilitation, Workforce Investment Board	12-02	10	0	7	3	0
Department of Public Safety - Nevada Highway Patrol	13-02	5	3	1	0	1
Department of Corrections	13-03	4	3	1	0	0
Department of Health and Human Services	14-02	7	2	5	0	0
Department of Education	14-03	3	0	1	2	0
Department of Wildlife	14-04	8	2	5	1	0
Department of Motor Vehicles - Compliance Enforcement Division	14-05	4	0	4	0	0
Colorado River Commission	14-06	5	2	3	0	0
Commission of Off-Highway Vehicles	15-01	6	1	2	3	0
Department of Agriculture - Animal Industries	15-02	5	0	5	0	0
DCFS - Juvenile Services	15-03	4	2	2	0	0
Department of Agriculture - Fiscal	15-04	5	4	0	1	0
Department of Motor Vehicles - Motor Carrier Division	15-06	3	2	1	0	0
Las Vegas Taxicab Authority	16-01	6	1	5	0	0
Department of Agriculture - Food and Nutrition	16-02	1	0	1	0	0
DCFS - Child Welfare	16-03	2	1	1	0	0
Office of the Attorney General	16-04	2	1	1	0	0
Total[2]		675	542	55	14	64
Percentages exclude items that are "no longer applicable."		611	88.71%	9.00%	2.29%	

[1] Previous audits with no outstanding recommendations.

[2] Recommendations that are no longer applicable are not included in the percentages.

We also completed six follow-ups on recommendations issued by the Legislative Auditor for the following agencies:

1. Department of Health and Human Services, Division of Health Care Financing and Policy (LA16-02)
2. Department of Public Safety, Office of Director (LA14-24)
3. Department of Transportation, Information Security (LA14-23)
4. Department of Education (LA14-22)
5. Department of Health and Human Services, Use of Certain Assessments Paid by Counties (LA14-19)
6. Department of Employment, Training and Rehabilitation, Rehabilitation Division (LA14-18)

Performance Measures

We improve the efficiency and effectiveness of state agencies through solution-based recommendations. We estimate the dollar benefit of our recommendations when possible. However, many of the benefits to the state and its citizens are not quantifiable. For instance, we cannot put a value on the enhanced safety and welfare of the citizenry. Additionally, many times data are not available to estimate the benefit. When sufficient data are available, we document dollar estimates in our audit reports. For example, in fiscal year 2016, we estimate the benefits to the state and citizens for every dollar spent on the Executive Branch Audit section as follows:

✓ **Every \$1 spent on the Executive Branch Audit section benefits the state by \$71.**

The following summarizes Executive Branch Audit’s performance measures:

Performance Measures	FY 2015		FY 2016		FY 2017
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations fully implemented	90	88	90	89	90
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	4.8	4.3	4.5	4.7	4.5



***Financial
Management
Section***

Staff Qualifications

The Financial Management section staff consists of the Financial Manager who is a CPA.

Financial Management Process

For fiscal year 2016, we trained agencies on internal control requirements for executive branch agencies and other issues pertinent to the agency. We administered the State of Nevada's Fraud, Waste, and Abuse Hotline.

We provided tools and assistance to guide agencies in developing their internal control procedures and to evaluate, test, and report on the adequacy of their internal control systems as part of the Biennial Report of Internal Controls. In addition, we assisted Executive Branch Auditors.

Accomplishments

Training

We held 13 internal controls training classes in which 31 agencies were represented:

- Department of Administration
 - Hearings and Appeals
 - Purchasing Division
 - Victims of Crimes
- Department of Business and Industry
 - Director's Office
 - Athletic Commission
 - Employee Management Relations
 - Financial Institution Division
 - Housing Division
 - Industrial Relations Division
 - Insurance Division
 - Mortgage Lending
 - Real Estate Division
 - Taxicab Authority
- Department of Conservation and Natural Resources
 - Division of Environmental Protection
 - Division of Forestry
 - Natural Heritage Program
- Department of Employment, Training, and Rehabilitation
- Governor's Office
 - Governor's Finance Office
 - Division of Internal Audits

- Office of the Attorney General
- Office of the State Treasurer
- Department of Health and Human Services
 - Division of Health Care Financing and Policy
 - Division of Public and Behavioral Health
 - Southern Nevada Adult Mental Health Services
 - Sierra Regional Center
 - Division of Welfare and Supportive Services
- Department of Motor Vehicles
- Department of Public Safety
 - Director's Office
 - Highway Patrol
 - Parole and Probation
- Department of Transportation
- Western Interstate Commission for Higher Education
- Nevada Commission on Off-Highway Vehicles

Fraud, Waste, and Abuse Hotline

We responded to 25 claims of possible fraud, waste, or abuse of state funds reported on the hotline. Nine claims resulted in a review for potential fraud, waste, or abuse of state funds. The remaining 16 claims were directed either to other agencies or entities having specific oversight for the issues, were informational requests answered by the division, or messages left with insufficient information to research. The Financial Manager, in conjunction with Compliance Review, expended approximately 300 hours on these claims.

Performance Measures

We administered a pre-training and post-training test to determine the effectiveness of the internal controls training. For fiscal year 2016, participants scored 26 percent higher on the test after the training. Additionally, pre-training test scores were approximately 2.6 percent higher than those in fiscal year 2015.

The following summarizes Financial Management’s performance measures:

Performance Measures	FY 2015		FY 2016		FY 2017
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainee’s overall test score	30	29	30	26	30
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.5	4.4	4.5	4.6	4.5



***Compliance
Review
Section***

Staff Qualifications

The Compliance Review section staff consists of two Auditor IIIs. During fiscal year 2016, one of the positions was vacant for nine months and one for four and a half months.

Compliance Review Process

Selection of Reviews

We selected agencies for reviews per requests from executive branch management or through a risk assessment based on amount of funding, results of other reviews, and other information.

Compliance Reviews

We reviewed the adequacy and effectiveness of agencies' internal controls through discussions with agency staff, observations of the processes, and examination of documentation. In addition, we reviewed agencies' transactions to ensure compliance with state and federal guidelines and government accounting principles. Results of the reviews were issued to agency management and the Clerk of the Board of Examiners.

Accomplishments

We completed ten compliance reviews:

1. Governor's Office of Energy – Renewable Energy Fund
2. Nevada Arts Council
3. Silver State Health Exchange
4. Division of Aging and Disability Services – Early Intervention Services
5. Division of Public and Behavioral Health – Administrative Services
6. Division of Public and Behavioral Health – Clinical Services
7. Division of Public and Behavioral Health – Community Services
8. Division of Public and Behavioral – Health Regulatory and Planning Services
9. Division of Emergency Management Homeland Security
10. Deferred Compensation Program

Performance Measures

The following summarizes Compliance Review’s performance measures:

Performance Measures	FY 2015		FY 2016		FY 2017
	Projected	Actual	Projected	Actual	Projected
Percentage of recs implemented ¹	N/A	N/A	N/A	N/A	90
Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)	4.8	4.6	4.5	4.3	4.5

¹ This is a new performance measure effective fiscal year 2017.