

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

2019 Annual Report



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Introduction

The Division of Internal Audits assists and supports executive branch leaders and managers by auditing agency operations and offering recommendations that enhance the efficiency and effectiveness of state government. These recommendations inform state policy makers, help agencies better manage spending, and identify potential benefits for Nevadans from improved operations.

Internal audit and compliance review recommendations help agencies better serve the public and safeguard state resources by improving management and outcomes, and preventing and detecting waste, fraud, and abuse. Internal audit recommendations are presented publicly to the Executive Branch Audit Committee. Compliance review recommendations are presented to the Clerk of the Board of Examiners.

The Administrator of the Division of Internal Audits administratively reports to the Director of the Governor's Finance Office and functionally reports to the Executive Branch Audit Committee. The Executive Branch Audit Committee is comprised of Nevada's constitutional officers and a member of the public.

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

The Honorable Steve Sisolak
Governor, Chairman

The Honorable Kate Marshall
Lieutenant Governor

The Honorable Barbara K. Cegavske
Secretary of State

The Honorable Zach Conine
State Treasurer

The Honorable Catherine Byrne
State Controller

The Honorable Aaron D. Ford
Attorney General

Ms. Trudy Dulong, CPA
Public Member

The Division of Internal Audits consists of three sections: Internal Audit, Compliance Review, and Financial Management.

Internal Audit Section

Goal: Improve the efficiency and effectiveness of state government, agency management, and operations. Ensure compliance with the Governor’s objectives, state and federal guidelines, and help safeguard state resources.

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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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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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Staff Qualifications

The Internal Audit section consists of ten Executive Branch Auditors. Executive Branch Auditors possess one or a combination of the following degrees/licenses: an advanced degree in business or a closely related field; certified public accountant; and/or certified internal auditor.

An additional Executive Branch Auditor was approved by the 2019 Legislature and the position will be available to fill in October 2019. Four new Executive Branch Auditors joined the division this year. During fiscal year 2019, the four Executive Branch Auditor positions were vacant for a total of 10 months and one Executive Branch Auditor was detailed to the Budget Division for four months, amounting to just under the equivalent of one employee not engaged in internal audit work during the fiscal year.

Internal Audit Process

At the direction of the Executive Branch Audit Committee and by request from state government leaders, The Division of Internal Audits (DIA) performed audits addressing the efficiency and effectiveness of state agency management and operations. DIA performed follow-up reviews on internal audit recommendations and the Legislative Auditor's audit recommendations to determine the progress of state agencies on implementing those recommendations.

Audit Plan – Audits of Efficiency and Effectiveness

DIA selects audits to perform based on requests from Executive Branch Audit Committee members; executive branch management; fraud, waste, and abuse hotline tips; and a risk assessment using multiple criteria, including but not limited to:

- ✓ Governor's strategic goals and policy priorities;
- ✓ Source and amount of agency funding;
- ✓ DIA's previous audits;
- ✓ Legislative Auditor's previous and planned audits; and
- ✓ Identified and/or emerging risk factors.

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

With the approval of the Executive Branch Audit Committee, the audit plan can be adjusted during the year to address new requests for audits. Requests for audits take precedence over audits identified through DIA's risk assessment. The priority

for audit requests is: Governor, Committee Members, Office of the Governor, Department Directors, and other executive branch agency managers.

Reporting

Throughout the audit process, Executive Branch Auditors met with agency management to discuss the audit scope, progress, and findings. At the conclusion of the audits, DIA submitted draft reports to the agency. The goal is to achieve consensus on audit recommendations and the agency's ability to implement those recommendations. The head of each agency that was audited in 2019 provided an official audit response and an implementation schedule for recommendations accepted by the agency. The agency's official audit response and implementation schedule were included as part of the audit's final report. Final reports were presented to the Executive Branch Audit Committee and the audited agencies.

Per statute, within six months of issuing final reports, DIA performed follow-ups to determine the implementation status of audit recommendations. DIA performed annual follow-ups on recommendations not fully implemented from previous audits and as requested by the Executive Branch Audit Committee. Follow-up results were presented to the Executive Branch Audit Committee.

Summary of Actions by the Executive Branch Audit Committee and Audit Presentations

October 17, 2018 Committee Meeting – The Committee approved the fiscal year 2018 Annual Report and the fiscal year 2019 Annual Audit Plan. DIA presented two audits, two 6-month follow-ups, and two special follow-ups requested by the committee. DIA presented annual follow-ups on the status of recommendations not fully implemented from previous audits.

June 25, 2019 Committee Meeting – The Committee approved the fiscal year 2020 Annual Audit Plan. DIA presented three audits and two 6-month follow-ups.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented five audits to the Executive Branch Audit Committee. Three audits were requested by executive branch management; one was selected based on a fraud, waste, and abuse hotline tip; and one was based on DIA's risk assessment. DIA audits identified opportunities for improving management and operations in agencies and recommended solutions to promote efficient and effective government:

1. (DIA 19-01) Secretary of State – Elections Division (request).
2. (DIA 19-02) Department of Conservation and Natural Resources – Nevada Division of Forestry (request).
3. (DIA 19-03) Nevada's Occupational and Licensing Boards – Governance (risk).
4. (DIA 19-04) State Board of Dental Examiners – Board Operations (request).
5. (DIA 19-05) Department of Conservation and Natural Resources – Division of Environmental Protection, Petroleum Fund (hotline).

Audit Follow-ups Completed

DIA presented six 6-month follow-ups to the Executive Branch Audit Committee:

1. (DIA 18-05) Independent Occupational and Professional Licensing Boards – Salaries, Legal Framework, Financial & Administrative Standards (risk).
2. (DIA 18-06) Department of Education – Grant Management Process for 2015 Education Initiatives (request).
3. (DIA 18-07) Department of Taxation – Distribution of Local School Support Tax (LSST) and Basic City/County Relief Tax (BCCRT) (hotline).
4. (DIA 18-08) Enterprise IT Services Division – IT Governance (request)
5. (DIA 19-01) Secretary of State – Elections Division (request).
6. (DIA 19-02) Department of Conservation and Natural Resources – Nevada Division of Forestry (request).

DIA presented two special follow-ups to the Executive Branch Audit Committee that have been requested annually by the committee since the audits were released:

1. (DIA 10-06) Department of Health and Human Services – Division of Public and Behavioral Health, Rawson-Neal Hospital Doctor Attendance.
2. (DIA 13-03) Department of Corrections – Correctional Facilities Doctor Attendance.

Audit Follow-ups Completed for Legislative Counsel Bureau, Audit Division

DIA completed nine follow-ups on recommendations issued by the Legislative Auditor for the following agencies:

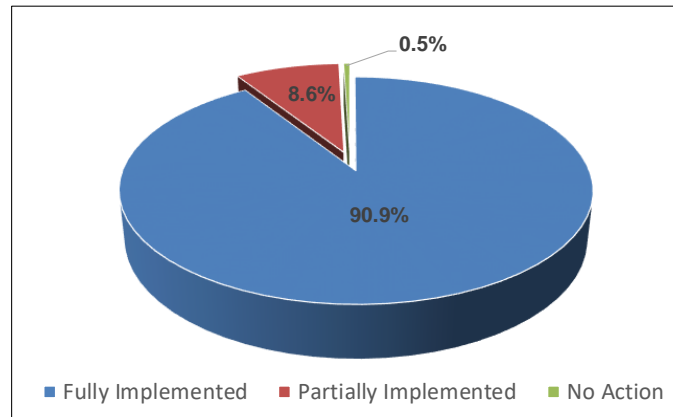
1. (LA18-09) Department of Administration – Hearings Division.
2. (LA18-10) Department of Administration – Victims of Crime.
3. (LA18-11) Department of Business and Industry – Housing Division.
4. (LA18-12) Department of Public Safety – Records, Communications, and Compliance Division – Information Security.
5. (LA18-13) Department of Health and Human Services – Division of Public and Behavior Health – Community Based Living Arrangement Homes.
6. (LA18-16) Department of Health and Human Services – Director’s Office.
7. (LA18-17) Department of Conservation and Natural Resources – Division of Environmental Protection – Bureau of Safe Drinking Water.
8. (LA18-18) Department of Business and Industry – Financial Institutions Division.
9. (LA18-19) Department of Business and Industry – Division of Industrial Relations.

Executive Branch Audits in Progress

As of June 30, 2019, DIA has the following audits in progress:

1. Department of Administration – State Public Works Division, Building and Grounds, Contract Management (request).
2. Department of Administration – State Public Works Division, Building and Grounds, Leasing Services (request).
3. Department of Taxation – Marijuana Licensee Process (request).
4. Department of Administration – Administrative Services Division, Bond Accounting (request).
5. Department of Public Safety – Division of Parole and Probation (risk).
6. Department of Corrections – Mental Health Services (request).
7. Department of Administration – Purchasing Division, Vendor List (request).

Current Status of Audit Recommendations Issued to State Agencies



| Description ^[1] | Report # | Total Rec's. | Fully Implemented | Partially Implemented | No Action | No Longer Applicable |
|---|----------|--------------|-------------------|-----------------------|-----------|----------------------|
| All Previous Reports ^[2] | N/A | 653 | 571 | 0 | 0 | 82 |
| MHDS - Lake's Crossing Center and SAPTA | 10-01 | 11 | 6 | 3 | 1 | 1 |
| DHHS | 14-02 | 7 | 6 | 1 | 0 | 0 |
| Department of Education | 14-03 | 3 | 2 | 1 | 0 | 0 |
| DMV - Compliance Enforcement Division | 14-05 | 4 | 1 | 3 | 0 | 0 |
| Department of Agriculture - Animal Industries | 15-02 | 5 | 0 | 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 |
| Controller - Collections | 16-05 | 7 | 2 | 3 | 1 | 1 |
| Fleet Services | 16-07 | 3 | 0 | 3 | 0 | 0 |
| DCFS - Child Mental Health | 16-08 | 2 | 0 | 2 | 0 | 0 |
| DCFS - Foster Care | 17-01 | 2 | 0 | 2 | 0 | 0 |
| SOS - Securities | 17-02 | 3 | 2 | 1 | 0 | 0 |
| EITS - TIR | 17-04 | 4 | 0 | 4 | 0 | 0 |
| NDOC - OT | 18-01 | 4 | 2 | 2 | 0 | 0 |
| HCFP | 18-02 | 4 | 0 | 4 | 0 | 0 |
| DHHS - Trust Funds | 18-03 | 4 | 2 | 2 | 0 | 0 |
| Boards & Commissions - Oversight | 18-05A | 4 | 2 | 2 | 0 | 0 |
| Dept of Education - 2015 Initiatives | 18-06 | 3 | 0 | 3 | 0 | 0 |
| Dept of Corrections - Offsite Medical Care | 18-06A | 3 | 0 | 2 | 1 | 0 |
| Dept of Administration - EITS Governance | 18-08 | 6 | 1 | 5 | 0 | 0 |
| Secretary of State - Elections | 19-01 | 5 | 1 | 4 | 0 | 0 |
| DCNR, Forestry Div - Wildland Fire Administration | 19-02 | 4 | 1 | 3 | 0 | 0 |
| Total | | 744 | 600 | 57 | 3 | 84 |
| Adjusted Total / Percentages ^[3] | | 660 | 90.9% | 8.6% | 0.5% | |

^[1] Excludes recently released reports that have not yet had a follow-up.

^[2] Previous audits with no outstanding recommendations.

^[3] Recommendations that are no longer applicable are not included in percentage calculations.

Performance Measures

The Division of Internal Audits (DIA) develops recommendations that improve the efficiency and effectiveness of state agencies through solution-based recommendations. DIA estimates the dollar benefit of recommendations when possible; however, many of the benefits to the state and its citizens are not quantifiable. For instance, DIA 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, DIA documents dollar estimates in audit reports. For fiscal year 2019, DIA estimates the benefits to the state and citizens for every dollar spent on the Executive Branch Audit section as follows:

✓ **Every \$1 spent on the Internal Audit section benefits the state by \$89.**

The following summarizes Internal Audit’s performance measures:

| Performance Measures | FY 2018 | | FY 2019 | | FY 2020 |
|---|------------------|---------------|------------------|---------------|------------------|
| | Projected | Actual | Projected | Actual | Projected |
| Dollar benefits for each dollar spent on Internal Audit | 78 | 71 | 70 | 89 | 70 |
| Percentage of recommendations fully implemented | 90 | 93 | 90 | 91 | 90 |



Staff Qualifications

The Compliance Review section consists of the Compliance Manager and two Auditor IIIs. The Auditor IIIs have college degrees or requisite college courses and experience. During fiscal year 2019, one compliance auditor was detailed to Budget Division for four months, amounting to approximately a third of an employee not involved with compliance review work.

Compliance Review Process

The Division of Internal Audits (DIA) reviewed agencies' fiscal transactions to ensure adequate internal controls over fiscal processes are in place and that transactions comply with state and federal guidelines. DIA analyzed agencies' exceptions to state fiscal policies and guidelines to summarize deficiencies and made recommendations to correct systemic problems noted during the review. DIA helped agencies develop acceptable and timely corrective actions to findings documented on the compliance review report.

Selection of Reviews

DIA selected agencies for reviews per requests from executive branch management and through a risk assessment based on amount of funding, results of other audits, and other information, including results of the biennial Self-Assessment Questionnaire (SAQ). In consultation with the Director of the Governor's Finance Office, the administrator may adjust the compliance review plan during the year to address new requests for audits and/or newly identified risks within specific agencies.

Compliance Reviews

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

Accomplishments

DIA completed ten compliance reviews:

1. Western Interstate Commission for Higher Education.
2. Department of Tourism & Cultural Affairs – Nevada Indian Commission.
3. Department of Veterans Services.
4. Department of Business & Industry – Home Means Nevada, Inc.
5. Department of Tourism – Nevada Arts Council.
6. Silver State Health Insurance Exchange.
7. Department of Public Safety – Nevada Highway Patrol.
8. Department of Health and Human Services – Division of Child and Family Services, Nevada Youth Training Center.
9. Department of Health and Human Services – Southern Nevada Child and Adolescent Services.
10. Department of Corrections – Silver State Industries.

Compliance Reviews in Progress/Planned

As of June 30, 2019, DIA has the following compliance reviews in progress and planned:

1. Department of Motor Vehicles.
2. Silver State Health Insurance Exchange.*
3. Governor's Office of Energy.*
4. Department of Administration, Purchasing Division.
5. Department of Tourism, Nevada Arts Council.
6. Department of Business & Industry, Insurance Division.
7. Department of Business & Industry, Real Estate Division.
8. Office of the State Controller.
9. Department of Administration, Administrative Services Division.

*Statutorily Required Reviews

Performance Measures

The following summarizes Compliance Review’s performance measure:

| Performance Measures | FY 2018 | | FY 2019 | | FY 2020 |
|---|-----------|--------|-----------|--------|-----------|
| | Projected | Actual | Projected | Actual | Projected |
| Percentage of recommendations implemented | 89 | 97 | 94 | 90 | 94 |



***Financial
Management
Section***

Staff Qualifications

The Financial Management section is overseen by the Compliance Manager. The Compliance Manager is assisted with financial management section responsibilities by Auditor IIIs from the Compliance Section.

Financial Management Process

The Division of Internal Audits (DIA) trained agencies on internal control requirements for the state and other issues pertinent to the agencies in accordance with NRS 353A.055. DIA analyzed agencies' audit and monitoring site visit reports to ensure agencies developed and implemented acceptable and timely corrective actions to report findings. DIA also administered the State of Nevada's Fraud, Waste, and Abuse Hotline.

Accomplishments

Training

DIA conducted five internal controls training classes; 68 participants from 17 agencies received training.

Audit and Monitoring Site Visit Reports

Pursuant to NRS 353.325, DIA reviewed and tracked 13 audit and monitoring site visit reports issued by various entities, including: Division of Public and Behavior Health – Bureau of Health Care Quality and Compliance, US Department of Education, and the US Department of Agriculture. Financial Management expended approximately 166 hours on these audit reports.

Fraud, Waste, and Abuse Hotline

DIA resolved 44 reported hotline cases. Four cases resulted in internal audits or were included in the scope of planned audits; seven cases were researched for potential fraud, waste, or abuse of state funds; 24 cases were referred to other agencies or entities having specific oversight for the issues; and seven cases did not have sufficient information to research. Financial Management expended approximately 170 hours on these cases.

Performance Measures

DIA administered pre-training and post-training tests for each internal controls training class we held to determine training effectiveness. For fiscal year 2019, participants' test scores increased an average 27 percent following training.

The following summarizes Financial Management's performance measures:

| Performance Measures | FY 2018 | | FY 2019 | | FY 2020 |
|--|-----------|--------|-----------|--------|-----------|
| | Projected | Actual | Projected | Actual | Projected |
| Percentage increase in trainees' overall test scores | 30 | 20 | 25 | 27 | 25 |
| <u>Average training class evaluation score (Scale: Low = 1 and High = 5)</u> | 4.5 | 3.9 | 4.5 | 4.1 | 4.5 |

Fiscal Year 2020 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2020 conducting internal audits and reviews that develop insightful and meaningful solution-based recommendations to help executive branch leaders better serve the public through more efficient and effective government. DIA is prepared to accept and prioritize additional internal audit requests and/or reviews and to respond quickly with objective and reliable information to support executive branch leaders and help improve agency management and operations.

As of the beginning of fiscal year 2020, DIA has a back log of approximately two years of identified internal audit work. The addition of the new Executive Branch Auditor position as well as leveraging the experience and strengths of the leadership team, other Executive Branch Auditors, and Compliance Section Auditors will lead to increased productivity and support for executive branch leaders and managers.

Internal Audit Section

DIA plans to complete 11-12 audits in fiscal year 2020. DIA plans to hold three Executive Branch Audit Committee meetings, tentatively scheduled for November 7, 2019, February 2020, and June 2020. This meeting schedule will allow DIA to respond more quickly and affect internal audit work in accordance with the committee's authorities under NRS 353A.038.

Compliance Review Section

DIA plans to complete 7-9 compliance reviews in fiscal year 2020. DIA plans to focus on agencies that have not had a compliance review in the past six fiscal years, including two agencies that have high use of electronic accounting systems in the administration of their agency programs (Office of the Controller and Purchasing Division).

Financial Management Section

DIA plans to conduct four scheduled internal controls training sessions, one each quarter, in fiscal year 2020. Other training sessions may occur for specific agencies as requested. DIA is working with appropriate state agencies and designing internal controls training to be transitioned online. Online training will be more conveniently available for agency managers and fiscal staff to achieve an understanding of the state's internal controls requirements.

DIA looks forward to closely collaborating with the Executive Branch Audit Committee and the Clerk of the Board of Examiners to identify and conduct internal audits and reviews that are relevant and help inform public policy decisions for Nevada's state government leaders.