

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

2018 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. 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. Executive Branch Auditors possess one or a combination of the following licenses/degrees: Certified Public Accountant, and/or advanced degrees in business or a closely related field. During fiscal year 2018, two EBA positions were vacant for three months each, amounting to a one-half full time employee.

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 second audit of the state's contracting process which focused on the solicitation waiver process and master service agreements. In addition, we performed follow-ups on our recommendations and the Legislative Auditor's audit recommendations to determine agencies' implementation statuses.

Audit Plan – Audits of Efficiency and Effectiveness

We select audits to perform based on requests from Executive Branch Management, Fraud, Waste, and Abuse Hotline tips, and 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 maintain an audit plan to develop recommendations to improve the effectiveness of agencies' contracting processes. We performed two contract audits in fiscal year 2018.

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. 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. Follow-up results are presented to the Executive Branch Audit Committee.

Summarized Actions of the Committee

January 16, 2018 Committee Meeting – The committee approved the fiscal year 2017 Annual Report and the fiscal year 2018 Annual Audit Plan. We presented seven audits and five six-month follow-ups.

June 14, 2018 Committee Meeting – We presented five audits and five six-month follow-ups.

Accomplishments

Audits Completed

We presented 12 audits to the Executive Branch Audit Committee. Six audits were requested by executive branch management, [two were selected based on Fraud, Waste, and Abuse Hotline tips, and the remaining four were based on risk assessment.](#) Our audits identified opportunities and solutions to promote efficient and responsive government.

1. [Department of Corrections, Report No. 18-01](#) – Correctional Officer Overtime Management
2. [Department of Health and Human Services, Report No. 18-02](#) – Division of Health Care Financing and Policy, Behavioral Health Outpatient Treatment Services
3. [Department of Health and Human Services, Report No. 18-03](#) – Division of Welfare and Supportive Services and Division of Public and Behavioral Health, Trust Fund Accounts
4. [Department of Veterans Services, Report No. 18-04](#) – Trust Fund Accounts
5. [Governor's Office of Economic Development, Report No. 18-05](#) – Transferrable Tax Credits for and Abatement of Taxes on Qualified Projects
6. [Department of Education, Report No. 18-06](#) – 2015 Education Initiatives – Recipient Monitoring
7. [Occupational and Professional Licensing Boards and Commissions, Report No. 18-07](#)
8. [Department of Corrections, Report No. 18-08](#) – Inmate Off-site Medical Expenses
9. [Department of Taxation, Report No. 18-09](#) – County Distributions
10. [Department of Administration, Report No. 18-10](#) – Division of Enterprise Information Technology Services
11. [Department of Motor Vehicles Contract Audit, Report No. C18-01](#) – System Modernization Project
12. [Department of Transportation Contract Audit, Report No. C18-02](#) – Administrative Contracts

Audit Follow-ups

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

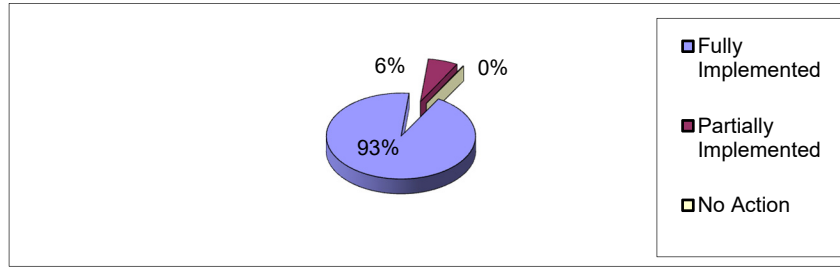
1. Department of Health and Human Services – Division of Child and Family Services, Child Mental Health Services
2. Office of the Secretary of State – Securities Division
3. Office of the State Controller – Vendor Management Services
4. Department of Administration – Division of Enterprise Information Technology Services
5. Department of Corrections – Correctional Officer Overtime Management
6. Department of Health and Human Services – Division of Health Care Financing and Policy, Behavioral Health Outpatient Treatment Services
7. Department of Health and Human Services – Division of Welfare and Supportive Services and Division of Public and Behavioral Health, Trust Fund Accounts
8. Department of Veterans Services – Trust Fund Accounts
9. State Procurement Process Contract Audit II
10. Department of Motor Vehicles Contract Audit – System Modernization Project

Audits in Progress

As of June 30, 2018 we had the following audits in progress:

1. Department of Conservation & Natural Resources - Division of Forestry
2. Office of the Secretary of State – Elections Division
3. Department of Administration – Public Works Division, Buildings and Grounds Contract Audit
4. Occupational and Professional Licensing Boards and Commissions II

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	632	554	0	0	78
MHDS - Lake's Crossing Center and SAPTA	10-01	11	6	3	0	2
Division of Mental Health and Developmental Services - Mental Health Services	10-06	11	7	2	0	2
DHHS	14-02	7	6	1	0	0
Department of Education	14-03	3	2	1	0	0
NDOW	14-04	8	7	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
Total[2]		717	592	41	1	83
Percentages exclude items that are "no longer applicable."		634	93.4%	6.5%	0.2%	

[1] Previous audits with no outstanding recommendations

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

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

1. Division of Public and Behavioral Health, Medical Marijuana Program (LA18-07)
2. Nevada Department of Wildlife (LA18-05)
3. Department of Health and Human Services, Aging and Disability Services Division (LA18-04)
4. Department of Education, Use of Class-Size Reduction Funds by School Districts (LA18-02)
5. Department of Public Safety, Investigation Division (LA18-01)
6. Department of Motor Vehicles (LA16-19)
7. Office of the Military (LA16-18)
8. Nevada Department of Wildlife, Information Security (LA16-17)
9. Department of Business and Industry, Division of Mortgage Lending (LA16-16)
10. Department of Administration, Division of Human Resource Management, Information Security (LA16-15)

Performance Measures

We develop recommendations that 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 fiscal year 2018, 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 2017		FY 2018		FY19
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations fully implemented	90	90	90	93	93
<u>Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)</u>	4.5	4.3	4.5	4.4	4.5



***Financial
Management
Section***

Staff Qualifications

The Financial Management section is overseen by an Executive Branch Auditor who is a CPA.

Financial Management Process

For fiscal year 2018, we trained agencies on internal control requirements for the state and other issues pertinent to the agencies. We analyzed agencies' audit and monitoring site visit reports to ensure agencies developed acceptable and timely corrective actions to report findings. We also administered the State of Nevada's Fraud, Waste, and Abuse Hotline.

Accomplishments

Training

[We held seven internal controls training classes in which 155 participants from 18 agencies were represented.](#)

Audit and Monitoring Site Visit Reports

Pursuant to NRS 353.325, we analyzed [13](#) audit and monitoring site visit reports issued by various entities such as: 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 [350](#) hours on these audit reports.

Fraud, Waste, and Abuse Hotline

We resolved [68](#) reported hotline cases. Two cases resulted in executive branch audits, one case resulted in a financial management review for potential fraud, waste, or abuse of state funds, and 65 cases were referred either to other agencies or to entities having specific oversight for the issues. One case had insufficient information to research. Financial Management expended approximately [220](#) hours on these cases.

Performance Measures

We administered a pre-training and post-training test to determine the effectiveness of the internal controls training. For fiscal year 2018, participants scored 20 percent higher on the test after the training.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2017		FY 2018		FY 2019
	Projected	Actual	Projected	Actual	Projected
<u>Percentage increase in trainee's overall test score</u>	30	24	30	20	25
<u>Average training class evaluation score (Scale: Low = 1 and High = 5)</u>	4.5	4.3	4.5	3.9	4.5



***Compliance
Review
Section***

Staff Qualifications

The Compliance Review section staff consists of two Auditor IIIs. The Auditor IIIs have college degrees.

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 eight compliance reviews:](#)

1. [Governor's Office](#) - Governor's Officer of Energy
2. [Department of Administration](#) – Victims of Crime
3. [Department of Conservation and Natural Resources](#) – Nevada Division of State Lands
4. [Department of Health and Human Services](#) – Division of Public and Behavioral Health, Community Health Services
5. [Department of Education](#)
6. [Department of Tourism](#) – Nevada Arts Council
7. [Department of Wildlife](#)
8. [Silver State Health Insurance Exchange](#)

Performance Measures

The following summarizes Compliance Review’s performance measures:

Performance Measures	FY 2017		FY 2018		FY 2019
	Projected	Actual	Projected	Actual	Projected
<u>Percentage of recommendations implemented</u>	90	94	90	97	95
<u>Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)</u>	4.5	4.6	4.5	3.1	4.5