

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

2024 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, assist agencies better manage spending, and identify potential benefits for Nevadans from improved governance.

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 fraud, waste, 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 Joe Lombardo
Governor, Chairman

The Honorable Stavros Anthony
Lieutenant Governor

The Honorable Francisco V. Aguilar
Secretary of State

The Honorable Zach Conine
State Treasurer

The Honorable Andy Matthews
State Controller

The Honorable Aaron D. Ford
Attorney General

Dina Babsky
Member of the Public

The Division of Internal Audits consists of two sections: Internal Audit and Compliance Review.

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. 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 10 Executive Branch Auditor positions. Executive Branch Auditors possess one or a combination of the following degrees, licenses, or certifications: an advanced degree in business administration, accounting, finance, or a closely related field; Certified Public Accountant; and/or Certified Internal Auditor.

Vacancies in Executive Branch Auditor positions during fiscal year 2024 amounted to approximately three full-time equivalent positions.

Internal Audit Process

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

Audit Plan – Audits of Efficiency and Effectiveness

DIA selects audits to perform based on requests from Committee members and executive branch agency 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 Committee, the audit plan can be adjusted during the year to address new requests or priorities for audits. Requests for audits take precedence, in general, 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 meet with agency management to discuss the audit scope, progress, and findings. At the conclusion of the audit, DIA submits a draft report to the agency. The goal is to achieve consensus on audit recommendations and the agency's ability to implement the recommendations. The head of each agency audited in 2024 provided an official audit response and an implementation plan for recommendations accepted by the agency. Each agency's official audit response and implementation plan were included as part of the final audit report. Audit reports were presented to the Committee and the audited agencies.

Pursuant to statute, within six months of issuing final reports, DIA performed follow-up audits to determine the implementation status of audit recommendations. DIA performed annual follow-up audits on recommendations not fully implemented from all previous audits. Follow-up audit results were presented to the Committee.

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

November 2, 2023 Committee Meeting – DIA presented one audit report, one 6-month follow-up report, and one annual follow-up report. The Committee approved changes to the fiscal year 2024 annual plan pursuant to NRS 353A.038 and the fiscal year 2023 annual report pursuant to NRS 353A.065.

February 28, 2024 Committee Meeting – DIA presented two audit reports, one special follow-up report, and three annual follow-up reports. The Committee approved changes to the fiscal year 2025 annual plan.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented three audits to the Committee. Two audits were requested by executive branch management; one was conducted as a result of the Governor's Executive Order 2023-005 issued February 3, 2023. The audits identified opportunities for improving management and operations in agencies and recommended solutions to promote efficient and effective government:

1. (DIA 24-01) Nevada Department of Veterans Services – Northern Nevada State Veterans Home (request).
2. (DIA 24-02) State Public Charter School Authority (request).
3. (DIA EO 2023-005) Review of Nevada's 17 Public School Districts and the State Public Charter School Authority (executive order).

Audit Follow-ups Completed

DIA presented one **6-month follow-up report** to the Committee:

1. (DIA 23-03) Department of Conservation and Natural Resources, Division of Water Resources – Rate Equity.

DIA presented four **annual follow-up reports** to the Committee:

1. (DIA 22-03) Department of Health and Human Services – Transportation Services.
2. (DIA 22-04) Department of Administration, Purchasing Division – Contract Monitoring.
3. (DIA 22-05) Department of Corrections – Fiscal Processes.2.
4. (DIA 22-06) Department of Public Safety, Investigation Division – Task Force Operations.

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

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

1. (LA18-23A) Department of Taxation – Information Security/Servers, Operating System and Database Application Software.
2. (LA24-01) Department of Health and Human Services, Division of Health Care Financing and Policy – Dual Enrollments and Supplemental Drug Rebates.
3. (LA24-02) Department of Employment, Training and Rehabilitation – Rehabilitation Division.
4. (LA24-03) Nevada System of Higher Education – Self-Supporting Reserve Accounts.
5. (LA24-04) Nevada System of Higher Education – Capital Construction Projects.
6. (LA24-05) Nevada System of Higher Education – Institution Foundations.

Executive Branch Audits in Progress

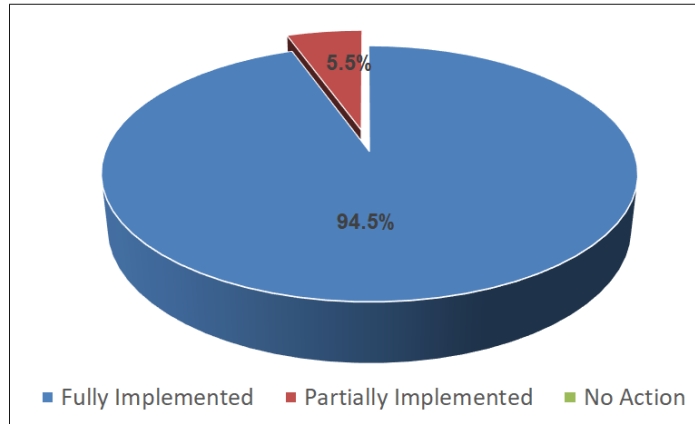
As of June 30, 2024, DIA had the following audits in progress:

1. (DIA 25-01A) Collective Bargaining Agreements – Fraternal Order of Police, Nevada Police Union, American Federation of State, County, and Municipal Employees, Battle Born Firefighters Association, and Nevada Peace Officer Association (request).
2. (DIA 25-02) Nevada Department of Veterans Services – Southern Nevada State Veterans Home (request).
3. (DIA 25-03) Nevada Department of Transportation – Fiscal and Administrative Oversight.

Internal Assessment and External Validation

DIA completed its internal assessment and external validations required by the provisions of NRS 353A.045(9) and the Institute of Internal Auditors (IIA) – International Standards for the Professional Practice of Internal Auditing, Standard 1312. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. In addition to assessing DIA's compliance with IIA standards in general, the assessor evaluated the results of DIA's internal assessment conducted in fiscal years 2023 and 2024. DIA reported the internal and external assessment results to the Committee at the November 2, 2023 meeting.

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 Audits ^[2]	N/A	768	667	0	0	101
Controller - Collections	16-05	7	3	1	0	3
OCIO - TIN	17-04	4	3	1	0	0
Boards & Commissions - Oversight	18-05A	4	3	1	0	0
NDOC - Offsite Medical Care	18-06A	3	1	1	0	1
OCIO - IT Governance	18-08	6	1	5	0	0
Secretary of State - Elections	19-01	5	3	2	0	0
Boards & Commissions - Governance	19-03	2	0	2	0	0
Marijuana Enforcement Div - Cannabis Compliance Board	20-01	3	1	2	0	0
SPWD - Commercial Office Space	20-02	2	0	2	0	0
SPWD - B&G Project Management	20-03	3	2	1	0	0
NDOC - Mental Health Services	20-04	2	0	2	0	0
Parole & Probation - Program Operations	20-06	4	3	1	0	0
SPWD - Long-Term Office Space Planning	20-10	5	1	4	0	0
Parole & Probation - Caseload Ratios	21-02	2	1	1	0	0
NDOC - Fiscal Processes.1	21-03	4	0	4	0	0
Department of Agriculture-Grants Management.1	21-07	1	0	1	0	0
DofA, SPWD-State-Owned Building Rental Rates	22-01	1	0	1	0	0
DHHS Transportation Services	22-03	2	0	2	0	0
DofA Purchasing - Contract Monitoring	22-04	2	1	1	0	0
NDOC Fiscal Processes.2	22-05	4	0	4	0	0
DCNR, DWR/Fiscal Processes	23-02	2	1	1	0	0
Total		836	691	40	0	105
Adjusted Total / Percentages ^[3]		731	94.5%	5.5%	0.0%	

^[1] Excludes recently released reports that have not yet had an annual 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 is not available to estimate the benefit. When sufficient data is available, DIA documents dollar estimates in audit reports. For fiscal year 2024, DIA estimates the benefits to the state and citizens for every dollar spent on the Internal Audit section as follows:

✓ **Every \$1 spent on the Internal Audit section. benefits the state by \$90.**

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2023		FY 2024		FY 2025
	Projected	Actual	Projected	Actual	Projected
Dollar benefits for each dollar spent on Internal Audit	70	104	70	90	70
Percentage of recommendations fully implemented	90	93	90	95	90



***Compliance
Review
Section***

Staff Qualifications

The Compliance Review section consists of an Executive Branch Audit Manager and two Compliance Auditors. The Compliance Auditors have college degrees or requisite college courses and/or experience.

Vacancies in Compliance Auditor positions during fiscal year 2024 amounted to approximately 0.5 full-time equivalent positions.

Compliance Review and Monitoring Process

Compliance Reviews

The Division of Internal Audits (DIA) reviews agencies' fiscal transactions to ensure adequate internal controls over fiscal processes are in place and transactions comply with state and federal guidelines. DIA analyzes exceptions, summarizes deficiencies, and makes recommendations to correct systemic problems noted during reviews. DIA helps agencies develop acceptable and timely corrective actions to findings documented in compliance review reports.

DIA selects agencies for reviews per requests from executive branch management, reviews required by statute, and through risk assessment. Risk is assessed based on results of other audits and reviews, results of the biennial Self-Assessment Questionnaire (SAQ), and other information. In consultation with the Director of the Governor's Finance Office (GFO), the Administrator may adjust the compliance review plan during the year to address new requests for compliance reviews, special reviews, and/or newly identified risks within specific agencies.

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

Internal Controls Training

NAC 353A.100 requires agency heads and employees who administer budgetary accounts to attend internal control training provided by DIA within 90 days after being hired or transferred into a position whose duties include administering budgetary accounts. The training includes instruction on: the state's systems of internal accounting and administrative controls; documenting and evaluating the system; applicable state and federal laws and regulations; and other financial management and budgetary information. Online training is being developed and will be implemented upon completion.

Biennial Report on Internal Control

NRS 353A.025 requires each Executive Branch agency to periodically review policies, procedures, and internal controls to determine compliance with the state's uniform system of internal accounting and administrative control. The results of the review must be submitted to the GFO Director on or before July 1 of each even-numbered year, which are evaluated by DIA for completeness, internal control findings, and appropriate corrective actions. DIA compiles data for untimely reports and agency-reported internal control weaknesses into a report reviewed and approved by the GFO Director. DIA submits the final approved report to the Governor, Director of the Legislative Counsel Bureau, and the Legislative Auditor on or before the first Monday of February each odd-numbered year.

Fraud, Waste, and Abuse Hotline

NRS 353A.049 requires the GFO Director to establish and maintain a telephone line where complaints relating to fraud, waste, or abuse relating to public money received and used by an agency or contractor can be confidentially submitted to DIA. Upon receipt of a complaint, DIA must perform a review and prepare a report of its findings. Information reported to DIA through the hotline is confidential, including the identity of the person who reported the information.

Audit and Monitoring Site Visit Reports

NRS 353.325 requires each state agency to submit a copy of audit reports, management letters, and agency replies to the GFO Director, the State Controller, and the Legislative Auditor within 10 days of receipt. The Administrator of the Division of Internal Audits is the designee for the GFO Director in this process, who oversees the process internally at DIA. DIA analyzes audit and monitoring site visit reports from federal and other agencies to ensure state agencies develop and implement acceptable and timely corrective actions to report findings.

Procurement Card Policies and Procedures

Pursuant to SAM 1556 Procurement Card Program, DIA is responsible for approving state agencies' procurement card (p-card) program policies and procedures prior to the agency obtaining p-cards. Agencies must implement the required minimum internal controls for p-cards, as required by the Procurement SAQ, using the Procurement Card Internal Controls template provided on the GFO website. Any controls implemented in addition to the minimum required internal controls must also be documented.

Accomplishments

Work Accomplished

The following Compliance Review work was completed or was in progress as of June 30, 2024:

Compliance Reviews

1. (23-315) Public Charter School Authority.
2. (23-702) Department of Wildlife.
3. (24-331) Department of Tourism and Cultural Affairs, Division of Museums and History.
4. (24-703) Nevada Commission on Off-Highway Vehicles.
5. (24-079) Department of Administration, Mail Services Division.

Fraud, Waste, and Abuse Hotline

Eight complaints were researched for potential fraud, waste, or abuse of state funds; no complaints were referred to other agencies or entities having specific oversight for the issues; and one complaint did not have sufficient information to research. Approximately 55 hours were expended on these complaints.

Audit and Site Monitoring Visit Reports

DIA reviewed and tracked nine audit and site monitoring visit reports issued by various entities, including: U.S. Department of Agriculture; U.S. Department of Health and Human Services; U.S. Department of Housing and Urban Development; Centers for Disease Control and Prevention; and an Independent Auditor's Report on Internal Control issued to the Silver State Health Insurance Exchange by the BerryDunn audit firm. Approximately 22 hours were expended on audit and site monitoring visits.

Other Projects

1. Provided assistance on the audit conducted pursuant to Executive Order 2023-005.
2. Conducted six internal control training classes, with 101 participants from 26 agencies.
3. Expended 31 hours reviewing agency p-card policies and procedures.
4. Expended 91 hours preparing for the fiscal year 2025 biennial process.
5. Expended 236 hours assisting other agencies and providing compliance-related guidance.

Work Planned

As of June 30, 2024, DIA has the following compliance reviews and contributing work to audits planned:

1. Governor’s Office of Economic Development.
2. Department of Sentencing Policy.
3. Department of Business and Industry, Nevada Taxicab Authority.
4. Governor’s Office for New Americans.
5. Department of Health and Human Services – Division of Child and Family Services.
6. Cannabis Compliance Board.
7. Secretary of State.
8. Public Safety – Office of Cyber Defense.
9. Department of Agriculture (assist with performance audit).

Performance Measures

The following summarizes the Compliance Review section’s performance measures:

Performance Measure	FY 2023		FY 2024		FY 2025
	Projected	Actual	Projected	Actual	Projected
Percent of Compliance Review Recommendations Implemented	94	100	94	94	94
Percent Increase in Trainees’ Overall Test Scores	25	22	25	27	25
Trainees’ Evaluation of Training Class (average) (Scale: Low = 1 and High = 5)	4.5	4.4	4.5	4.3	4.5

Fiscal Year 2025 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2025 conducting internal audits and reviews that develop insightful, meaningful, and solutions-based recommendations. DIA's effort is to assist executive branch leaders better serve the public through more efficient and effective government. DIA is prepared to accept and prioritize 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 2025, DIA has an audit plan for over two years of identified internal audit work.

Internal Audit Section

DIA plans to complete five audits in fiscal year 2025. DIA plans to hold two Executive Branch Audit Committee meetings, scheduled for October 2024 and June 2025. This meeting schedule will allow DIA to respond quickly and complete internal audit work in accordance with the Committee's authorities under NRS 353A.038.

Compliance Review Section

DIA plans to complete nine compliance reviews in fiscal year 2025, including the items in progress at the end of fiscal year 2024. DIA continues to focus on agencies that have not had a compliance review in the recent past and agencies identified through other audits and reviews as high-risk. Compliance reviews may be postponed when compliance auditors are assigned to assist with special reviews, audits, ARPA audit requirements, and other division activities. DIA will conduct training sessions quarterly in fiscal year 2025 or more often as requested by agencies. DIA is developing a virtual training course to be offered through either the Nevada eLearn training platform or the CORE.NV training module.

DIA looks forward to 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 state government leaders.