

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

2021 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
Member of the Public

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/certifications: an advanced degree in public policy, business, or a closely related field; certified public accountant; and/or certified internal auditor.

During fiscal year 2021, three vacant Executive Branch Auditor positions were not filled to achieve savings related to COVID-19 budget reductions. The three positions are fully funded beginning in fiscal year 2022.

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) 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 the recommendations.

Audit Plan – Audits of Efficiency and Effectiveness

DIA selects audits to perform based on requests from Executive Branch Audit 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 Executive Branch Audit Committee, the audit plan can be adjusted during the year to address new requests or priorities 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 audit, DIA submitted 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 2021 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 special follow-ups 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

November 16, 2020 Committee Meeting – Postponed; audit reports combined with next scheduled meeting.

January 28, 2021 Committee Meeting – DIA presented five audits, eight 6-month follow-ups, and five first-time annual follow-ups. The Committee approved the fiscal year 2021 audit plan to include one special follow-up report, the Division of Public and Behavioral Health/Rawson Neal Doctor Attendance. The Committee approved revising the audit plan to add a requested audit of the Department of Administration, State Public Works Division, Building and Grounds Section – Building Rent Calculations.

June 29, 2021 Committee Meeting – DIA presented two audits, five 6-month follow-ups, and one special follow-up.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented seven audits to the Executive Branch Audit Committee. Five audits were requested by executive branch management; two were selected 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 21-01) Department of Administration, State Public Works Division, Building and Grounds Section – Tenant Improvements and Building Maintenance (request).
2. (DIA 21-02) Department of Public Safety, Division of Parole and Probation – Caseload Ratios (request).
3. (DIA 21-03) Department of Corrections – Fiscal Processes.1 (request).
4. (DIA 21-04) Department of Conservation and Natural Resources, Division of Environmental Protection – Petroleum Fund, Certified Environmental Managers Oversight (risk).
5. (DIA 21-05) Department of Administration, Deferred Compensation Program and Governor's Finance Office – Board of Pharmacy, Deferred Compensation Match (risk).
6. (DIA 21-06) Department of Conservation and Natural Resources, Division of Forestry – Overtime Use (request).
7. (DIA 21-07) Department of Agriculture – Grants Management.1 (request).

Audit Follow-ups Completed

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

1. (DIA 20-05) Board of Pharmacy – Licensing Operations (request).
2. (DIA 20-06) Department of Public Safety, Division of Parole and Probation – Program Operations (risk).
3. (DIA 20-07) Department of Administration, Purchasing Division – Foreign Vendors (request).
4. (DIA 20-08) Department of Administration, Administrative Services Division – Bond Management and Accounting (request).

5. (DIA 20-09) Governor's Finance Office – Department of Public Safety, Division of Parole and Probation, Probation Cost-Sharing (risk).
6. (DIA 20-10) Department of Administration, State Public Works Division – Long-Term Office Space Planning Mechanism (risk).
7. (DIA 20-11) Department of Administration, Purchasing Division – Master Service Agreements for Direct Client Services and BOE Contract Approval Process (request).
8. (DIA 20-12) Governor's Finance Office – Statewide Cell Phone/Mobile Device Use (request).
9. (DIA 21-01) Department of Administration, State Public Works Division, Building and Grounds Section – Tenant Improvements and Building Maintenance (request).
10. (DIA 21-02) Department of Public Safety, Division of Parole and Probation – Caseload Ratios (request).
11. (DIA 21-03) Department of Corrections – Fiscal Processes.1 (request).
12. (DIA 21-04) Department of Conservation and Natural Resources, Division of Environmental Protection – Petroleum Fund, Certified Environmental Managers Oversight (risk).
13. (DIA 21-05) Department of Administration, Deferred Compensation Program and Governor's Finance Office – Board of Pharmacy, Deferred Compensation Match (risk).

DIA presented five first-time annual follow-ups to the Executive Branch Audit Committee:

1. (DIA 19-01) Secretary of State – Elections Division (request).
2. (DIA 19-02) Department of Conservation and Natural Resources, Division of Forestry – Wildland Fire Administration (request).
3. (DIA 19-03) Independent Occupational 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 Management and Accountability (risk).

DIA presented one special follow-up to the Executive Branch Audit Committee that has been requested annually by the Committee since the audit was released:

1. (DIA 10-06) Department of Health and Human Services, Division of Public and Behavioral Health – Rawson-Neal Hospital Doctor Attendance (risk).

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

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

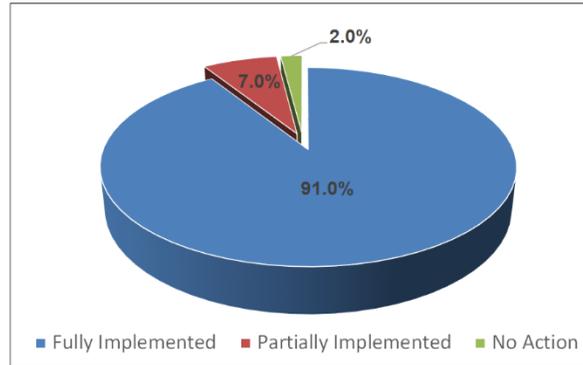
1. (LA18-12A) Department of Public Safety, Records, Communications and Compliance Division – Information Security.
2. (LA20-08) Department of Agriculture – Division of Consumer Equitability
3. (LA20-10) Office of the Governor – Nevada Office of the Western Interstate Commission for Higher Education
4. (LA20-11) Department of Health and Human Services – Division of Welfare and Supportive Services
5. (LA20-13) Public Employees' Benefits Program – Information Security
6. (LA20-14) Department of Administration – Fleet Services Division
7. (LA20-15) Public Employees Benefit Program – Contract Management.
8. (LA20-17) Department of Business and Industry – Real Estate Division.

Executive Branch Audits in Progress

As of June 30, 2021, DIA has the following audits in progress:

1. (DIA 22-01) Department of Administration, State Public Works Division, Building and Grounds Section – Building Rent Calculations (request).
2. (DIA 22-02) Department of Public Safety – Division of Investigations (risk).
3. (DIA 22-03) Department of Health and Human Services – Transportation Services (risk).
4. (DIA 22-04) Department of Administration, Purchasing Division – MSA Contract Monitoring (request).
5. (DIA 22-05) Department of Corrections – Fiscal Processes.2 (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 Audits ^[2]	N/A	704	615	0	0	89
DMV - Compliance Enforcement Div.	14-05	4	2	2	0	0
Controller - Collections	16-05	7	3	2	0	2
Fleet Services - State Vehicle Leasing	16-07	3	2	1	0	0
EITS - TIR	17-04	4	3	1	0	0
Boards & Commissions - Oversight	18-05A	4	3	1	0	0
NDOC - Offsite Medical Care	18-06A	3	0	2	0	1
EITS - IT Governance	18-08	6	1	5	0	0
Secretary of State - Elections	19-01	5	2	3	0	0
Forestry - Wildland Fire Administration	19-02	4	2	2	0	0
Boards & Commissions - Governance	19-03	2	0	2	0	0
Board of Dental Examiners	19-04	4	3	1	0	0
NDEP - Petroleum Fund	19-05	5	4	1	0	0
Marijuana Enforcement Div - Cannabis Compliance Board	20-01	3	0	1	2	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
Board of Pharmacy - Licensing Operations	20-05	5	2	3	0	0
Parole & Probation - Program Operations	20-06	4	3	1	0	0
Purchasing - Foreign Vendors	20-07	3	1	1	1	0
ASD - Bond Management & Accounting	20-08	3	0	3	0	0
Parole & Probation - Cost-Sharing	20-09	1	0	0	1	0
SPWD - Long-Term Office Space Planning	20-10	5	0	0	5	0
Purchasing - MSAs for Direct Client Services & BOE Contract Approval	20-11	3	0	3	0	0
GFO - Statewide Cell Phone/Mobile Use	20-12	3	1	1	1	0
SPWD - B&G Tenant Improvements and Building Maintenance	21-01	2	0	2	0	0
Parole & Probation - Caseload Ratios	21-02	2	0	2	0	0
NDOC - Fiscal Processes.1	21-03	4	0	4	0	0
NDEP, Petroleum Fund - CEM Oversight	21-04	4	0	0	4	0
PEDCP/GFO - Board of Pharmacy Deferred Compensation Match	21-05	2	1	1	0	0
Total		806	650	50	14	92
Adjusted Total / Percentages ^[3]		714	91.0%	7.0%	2.0%	

^[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 2021, 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 \$87.**

The following summarizes Internal Audit’s performance measures:

Performance Measures	FY 2020		FY 2021		FY 2022
	Projected	Actual	Projected	Actual	Projected
Dollar benefits for each dollar spent on Internal Audit	70	77	70	87	70
Percentage of recommendations fully implemented	90	92	90	91	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.

Compliance Review Process

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.

Selection of Reviews

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, the Administrator may adjust the compliance review plan during the year to address new requests for audits, special reviews, 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 agency 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

Work Accomplished

DIA worked on seven compliance reviews, two special reviews, and two audits. The following work was completed or was in progress as of June 30, 2021:

Compliance Reviews

1. (20-333) Nevada Arts Council (fiscal year 2019).
2. (20-741) Department of Business and Industry, Division of Insurance (in progress).
3. (20-748) Department of Business and Industry, Real Estate Division (in progress).
4. (21-082) Department of Administration, Marlette Lake Water System (in progress).
5. (21-960) Silver State Health Insurance Exchange.
6. (22-130) Department of Taxation, Live Entertainment Tax, Medical Marijuana, and Retail Marijuana (in progress).
7. (22-333) Nevada Arts Council (fiscal year 2021, in progress).

Special Reviews

1. (21-015) Board of Examiners – Contracts Survey.
2. (22-440) Nevada Department of Corrections, Director's Office – Administrative Accountability.

Audits (Contributing Work)

1. (DIA 21-03) Nevada Department of Corrections – Fiscal Processes.1.
2. (DIA 21-07) Department of Agriculture – Grants Management.1.

Work Planned

As of June 30, 2021, DIA has the following compliance reviews and audit contributing work planned or in progress:

1. Governor's Nuclear Projects Office.
2. Silver State Health Insurance Exchange.*
3. Governor's Office of Energy.*
4. Military – Division of Emergency Management.
5. Nevada Department of Corrections – Fiscal Processes.2 (audit).
6. Nevada Department of Agriculture – Grants Management.2 (audit).

*Statutorily Required Review

Performance Measures

The following summarizes Compliance Review’s performance measure:

Performance Measures	FY 2020		FY 2021		FY 2022
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations implemented	94	100	94	100	94



***Financial
Management
Section***

Staff Qualifications

The Financial Management section is overseen by an Executive Branch Audit Manager. The Executive Branch Audit Manager is assisted with Financial Management section responsibilities by Executive Branch Auditors from the Internal Audits section and Compliance Auditors from the Compliance Review section.

Financial Management Process

The Division of Internal Audits (DIA) trains agencies on state internal control and financial management requirements in accordance with NRS 353A.055. DIA analyzes audit and monitoring site visit reports from federal agencies to ensure state agencies develop and implement acceptable and timely corrective actions to report findings. DIA administers the State of Nevada's Fraud, Waste, and Abuse Hotline and provides guidance to state agencies on compliance-related issues.

Accomplishments

Biennial Report on Internal Controls

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 Director of the Governor's Finance Office (GFO) 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 Director of the Legislative Counsel Bureau, the Governor and the Legislative Auditor on or before the first Monday of each odd-numbered year.

During fiscal year 2021, DIA completed biennial review activities related to 93 agencies and 657 budget accounts, including: reviewing internal controls reports and revised reports; communicating internal controls deficiencies to agencies; contacting agencies to obtain missing information or reports; and conducting telephone or virtual meetings to resolve outstanding issues and answer questions.

Fraud, Waste, and Abuse Hotline

DIA resolved 25 reported hotline complaints. Five complaints resulted in new audits or were included in the scope of planned audits; three complaints were researched for potential fraud, waste, or abuse of state funds; 13 complaints were referred to other agencies or entities having specific oversight for the issues; and

four complaints did not have sufficient information to research. Financial Management expended approximately 266 hours on these complaints.

Audit and Monitoring Site Visit Reports

Pursuant to NRS 353.325, DIA reviewed and tracked six audit and monitoring site visit reports issued by various entities, including: US Department of Housing and Urban Development, US Department of Health and Human Services, and US Department of Agriculture.

Training

DIA was unable to conduct in-person internal controls training classes in fiscal year 2021 because of COVID restrictions. On-line training is being developed and will be implemented upon completion and availability of the SMART21 training module for specialized agency training.

To compensate for the extraordinary constraints, DIA/Financial Management has encouraged, invited, and responded to specific internal controls training from state agencies. During fiscal year 2021, DIA/Financial Management section responded to 157 requests from 75 agencies for internal control questions, guidance, and resolutions.

Performance Measures

DIA administers pre-training and post-training tests for each face-to-face internal controls training class held to determine training effectiveness. For fiscal year 2021, no training classes were held because of COVID restrictions. Face-to-face training classes will resume when safe to do so.

The following summarizes Financial Management’s performance measures:

Performance Measures	FY 2020		FY 2021		FY 2022
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainees’ overall test scores	25	36	25	0	25
<u>Average training class evaluation score (Scale: Low = 1 and High = 5)</u>	4.5	4.0	4.5	0.0	4.5

Fiscal Year 2022 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2022 conducting internal audits and reviews that develop insightful and meaningful solution-based recommendations. DIA's effort is to help 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 2022, DIA has an audit plan for approximately two years of identified internal audit work.

Internal Audit Section

DIA plans to complete 9 audits in fiscal year 2022. DIA plans to hold three Executive Branch Audit Committee meetings, tentatively scheduled for October 26, 2021 / February 22, 2022 / and June 2022. 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 2022. DIA continues to focus on agencies that have not had a compliance review in the recent past, legislatively required reviews, and agencies identified through other audits and reviews. Compliance reviews may be postponed when compliance auditors are assigned to assist with special reviews, audits, and other division activities.

Financial Management Section

DIA will conduct training sessions as safety allows or as requested by specific agencies. DIA plans to complete development of a virtual training course following implementation of the SMART21 training module, currently expected in fiscal year 2022.

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 Nevada's state government leaders.