

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

**2017 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.

Executive Branch Audit Committee Members.....Page 2

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 seven 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 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 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 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;
- ✓ Legislative Counsel Bureau's previous and planned audits; and
- ✓ Fraud, Waste, and Abuse Hotline tips.

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 the state's contracting process. We began by auditing pre-award procedures including request for proposals, proposal evaluation, contract award and approval, and solicitation waivers. We also audited the state's use of master service agreements. Future audits will include procedures for contract management.

## **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**

February 22, 2017 Committee Meeting – The committee approved the fiscal year 2016 Annual Report and the fiscal year 2017 Annual Plan. We presented four audits, five six-month follow-ups, and two ongoing committee requested follow-ups.

June 20, 2017 Committee Meeting - The committee approved the fiscal year 2018 Annual Plan, the division's audit policies and procedures, and the division's internal audit charter. We presented one audit and the division's self-assessment and independent validation of the self-assessment as required by the Institute of Internal Auditors.

## Accomplishments

### Audits Completed

Our audits identified opportunities and solutions to promote efficient and responsive government. During the fiscal year, we presented five audit reports to the Executive Branch Audit Committee:

1. Department of Administration – Division of Enterprise Information Technology Services, Technology Investment Request Process
2. Department of Health and Human Services – Division of Child and Family Services, Child Mental Health Services
3. Office of the State Controller – Vendor Management Services
4. Office of the Secretary of State – Securities Division
5. State Procurement Process II – Solicitation Waivers and Master Service Agreements

### Audits in Progress

As of June 30, 2017 we had the following audits in progress:

1. Department of Administration - Division of Enterprise Information Technology Services
2. Department of Corrections – Correctional Officer Overtime
3. Governor's Office of Economic Development – Transferrable Tax Credits for and Abatement of Taxes on Qualified Projects
4. Department of Education – State Grants Subrecipient Monitoring
5. Department of Health and Human Services - Division of Health Care Financing and Policy
6. Department of Health and Human Services and Department of Veteran Services – Client Trust Accounts
7. Department of Motor Vehicles Contract Audit - System Modernization Project

## **Audit Follow-ups**

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

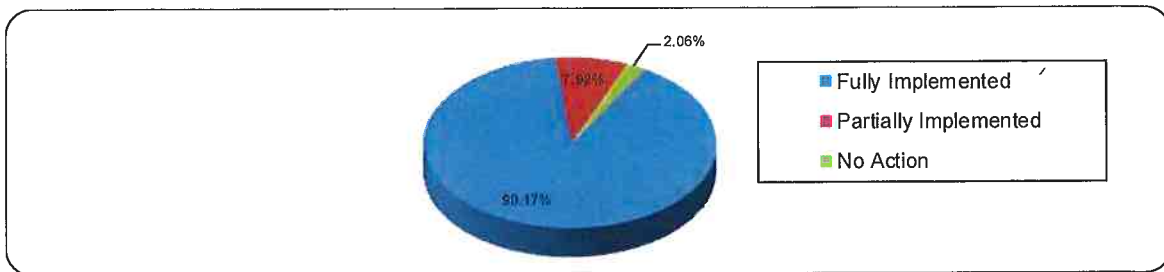
1. Department of Administration – Fleet Services Division
2. Office of the State Controller – State Debt Collection
3. Department of Health and Human Services – Division of Child and Family Services, Child Mental Health Services
4. Office of the Secretary of State – Commercial Recordings Division
5. State Procurement Process I

We presented two committee-requested audit follow-ups:

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



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
<b>All Previous Reports [1]</b>	N/A	597	531	0	0	67
MHDS - Lake's Crossing Center and Substance Abuse Prevention and Treatment Agency	10-01	11	6	0	4	1
Division of Mental Health and Developmental Services - Mental Health Services	10-06	11	4	4	3	0
Department of Health and Human Services	14-02	7	2	5	0	0
Department of Education	14-03	3	2	1	0	0
Department of Wildlife	14-04	8	5	3	0	0
Department of Motor Vehicles - Compliance Enforcement Division	14-05	4	0	4	0	0
Colorado River Commission	14-06	5	4	1	0	0
Commission of Off-Highway Vehicles	15-01	6	4	0	1	1
Department of Agriculture - Animal Industries	15-02	5	0	5	0	0
DCFS - Juvenile Services	15-03	4	2	2	0	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
Controller's Office Collection	16-05	7	1	2	4	0
SOS - Commercial Recordings	16-06	4	1	3	0	0
Fleet Services	16-07	3	0	3	0	0
DCFS Children's Mental Health	16-08	2	0	2	0	0
State Procurement Process I	C16-01	9	2	6	1	0
<b>Total[2]</b>		700	569	50	13	69
Percentages exclude items that are "no longer applicable."		631	90.17%	7.92%	2.06%	

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

1. Nevada State Board of Dental Examiners (LA16-14)
2. Silver State Health Insurance Exchange (LA16-12)
3. Department of Health and Human Services, Division of Child and Family Services (LA16-11)
4. Department of Public Safety, Division of Parole and Probation (LA16-10)
5. Department of Public Safety, Capitol Police (LA16-08)
6. Department of Public Safety, Nevada Highway Patrol (LA16-05)
7. Department of Business and Industry, Manufactured Housing Division (LA16-04)
8. Department of Tourism and Cultural Affairs, Division of Museums and History (LA16-03)

## 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 2017, 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 \$65.**

The following summarizes Executive Branch Audit's performance measures:

Performance Measures	FY 2016		FY 2017		FY18
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations fully implemented	90	89	90	90	90
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	4.8	4.7	4.5	4.3	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 2017, 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.

## **Accomplishments**

### **Training**

We held four internal controls training classes in which 16 agencies were represented:

- Department of Administration
  - Administrative Services Division
- Department of Business and Industry
  - Director's Office
  - Insurance Division
  - Mortgage Lending
- Department of Conservation and Natural Resources
  - Division of Forestry
- Department of Corrections
- Department of Employment, Training, and Rehabilitation
- Governor's Office
  - Governor's Finance Office
    - Division of Internal Audits
- Office of the State Controller
- Office of the State Treasurer
- Department of Health and Human Services
  - Aging and Disabilities Services Division
  - Division of Health Care Financing and Policy
- Department of Motor Vehicles
- Department of Public Safety
  - Highway Patrol
  - Parole and Probation
- Department of Taxation

## Fraud, Waste, and Abuse Hotline

We closed 45 reported hotline cases. Six cases resulted in a review for potential fraud, waste, or abuse of state funds; Twenty-eight cases were referred to other agencies or to entities having specific oversight for the issues and; 11 cases involved informational requests or were messages left with insufficient information to research. The Financial Manager, in conjunction with Compliance Review, expended approximately 850 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 2017, participants scored 24 percent higher on the test after the training.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2016		FY 2017		FY 2018
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainee's overall test score	30	26	30	24	30
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.5	4.6	4.5	4.3	4.5



***Compliance  
Review  
Section***

## **Staff Qualifications**

The Compliance Review section staff consists of two Auditor IIIs. During fiscal year 2017, one of the positions was vacant for eight months. 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 five compliance reviews:

1. State Public Charter School Authority
2. Division of Public and Behavioral Health – Southern Nevada Adult Mental Health Services
3. Silver State Health Insurance Exchange
4. Nevada State Library and Archives – Mail Services
5. Public Utilities Commission of Nevada



## Performance Measures

The following summarizes Compliance Review's performance measures:

Performance Measures	FY 2016		FY 2017		FY 2018
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations implemented <sup>1</sup>	N/A	N/A	90	94	90
Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)	4.5	4.3	4.5	4.6	4.5

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<sup>1</sup> This is a new performance measure for compliance reviews starting in fiscal year 2017.

