

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

2020 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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***Internal Audit
Section***

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 public policy, business, or a closely related field; certified public accountant; and/or certified internal auditor.

During fiscal year 2020, three vacant Executive Branch Auditor positions were not filled for a total of approximately 20 months, amounting to the equivalent of almost two employees not engaged in internal audit work during the fiscal year. These positions were not filled in fiscal year 2020 to achieve savings related to COVID-19 budget reductions. The three positions will remain vacant during fiscal year 2021 to achieve necessary budget savings.

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 of state agencies implementing the 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 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 those recommendations. The head of each agency that was audited in 2020 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 7, 2019 Committee Meeting – The Committee approved the fiscal year 2019 Annual Report and the fiscal year 2020 Annual Audit Plan. DIA presented four audits, one 6-month follow-up, and four first-time annual follow-ups. DIA also presented the report on the status of outstanding recommendations not fully implemented from previous audits.

February 26, 2020 Committee Meeting – DIA presented three audits, two 6-month follow-ups, and one special follow-up requested by the Committee. The Committee approved revising the audit plan to include two special follow-ups in fiscal year 2021: the Division of Public and Behavioral Health/Rawson Neal Doctor Attendance and the Division of Parole and Probation/Day Reporting Centers.

July 6, 2020 Committee Meeting (Rescheduled from June 29, 2020) – DIA presented five audits and four 6-month follow-ups. The Committee approved revising the audit plan to add a requested audit of the Department of Corrections/Fiscal Processes.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented twelve audits to the Executive Branch Audit Committee. Nine audits were requested by executive branch management; three 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 20-01) Department of Taxation, Marijuana Enforcement Division – Recreational Dispensary Licensing Process (request).
2. (DIA 20-02) Department of Administration, State Public Works Division, Leasing Services – Commercially Leased Office Space (request).
3. (DIA 20-03) Department of Administration, State Public Works Division, Buildings and Grounds Section – Project Management (request).
4. (DIA 20-04) Department of Corrections – Mental Health Services (risk).
5. (DIA 20-05) Board of Pharmacy – Wholesale Licensing Process (request).
6. (DIA 20-06) Department of Public Safety, Division of Parole and Probation – Supervision Operations (risk).
7. (DIA 20-07) Department of Administration, Purchasing Division – Foreign Vendor Management (request).
8. (DIA 20-08) Department of Administration, Administrative Services Division – Bond Management and Accounting (request).
9. (DIA 20-09) Office of the Governor – Department of Public Safety, Division of Parole and Probation, Probation Cost Sharing (risk).
10. (DIA 20-10) Department of Administration, State Public Works Division – Long-Term Office Space Planning Mechanism (request).
11. (DIA 20-11) Department of Administration, Purchasing Division – Master Service Agreements for Direct Client Services and BOE Contract Approval Process (request).
12. (DIA 20-12) Governor's Finance Office – Statewide Cell Phone/Mobile Device Use (request).

Audit Follow-ups Completed

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

1. (DIA 19-03) Nevada's Independent Occupational & Professional Licensing Boards – Governance (risk).
2. (DIA 19-04) Nevada State Board of Dental Examiners – Board Operations (request).
3. (DIA 19-05) Department of Conservation and Natural Resources, Division of Environmental Protection – Petroleum Fund (risk).
4. (DIA 20-01) Department of Taxation, Marijuana Enforcement Division – Recreational Dispensary Licensing Process (request).
5. (DIA 20-02) Department of Administration, State Public Works Division, Leasing Services – Commercially Leased Office Space (request).
6. (DIA 20-03) Department of Administration, State Public Works Division, Buildings and Grounds Section – Project Management (request).
7. (DIA 20-04) Department of Corrections – Mental Health Services (risk).

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

1. (DIA 18-05) Nevada's Independent Occupational & Professional Licensing Boards – Oversight of Salaries, Legal Framework, and Financial & Administrative Operations (request).
2. (DIA 18-06) Department of Education – 2015 Education Initiatives, Recipient Monitoring (risk).
3. (DIA 18-06A) Department of Corrections – Off-Site Medical Care (risk).
4. (DIA 18-08) Department of Administration, Enterprise Information Technology Services – Information Technology Governance (request).

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

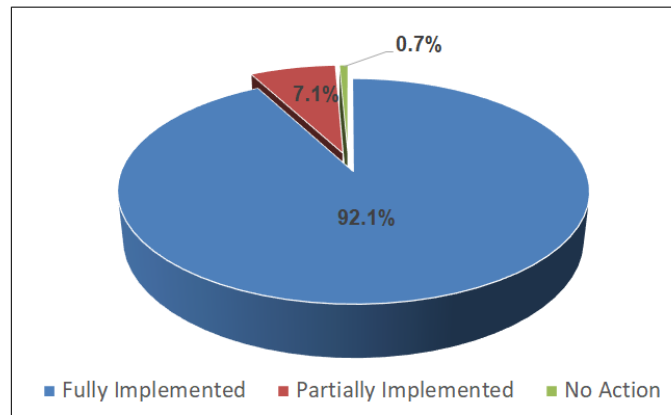
1. (LA20-04) Gaming Control Board.
2. (LA20-05) Department of Taxation – Marijuana Regulation & Enforcement.
3. (LA20-06) Department of Health and Human Service, Aging and Disabilities Services Division – Supportive Living Arrangement Program.
4. (LA20-07) Department of Health and Human Services, Division of Public and Behavioral Health, Adult Mental Health Services – Payments to Contractor and State-Employed Psychiatrists and Psychologists.
5. (LA20-08) Department of Agriculture, Division of Consumer Equitability.
6. (LA20-10) Office of the Governor, Nevada Office of the Western Interstate Commission for Higher Education.
7. (LA20-11) Department of Health and Human Services, Division of Welfare and Supportive Services.
8. (LA20-13) Public Employees' Benefits Program – Information Security.
9. (LA20-14) Department of Administration, Fleet Services Division.

Executive Branch Audits in Progress

As of June 30, 2020, DIA has the following audits in progress:

1. (DIA 21-01) Department of Administration, State Public Works Division, Building and Grounds Section – Category 13 Expenditures (request).
2. (DIA 21-02) Department of Conservation and Natural Resources, Division of Environmental Protection – Certified Environmental Manager Oversight (risk).
3. (DIA 21-03) Department of Corrections – Fiscal Processes (request).
4. (DIA 21-04) Department of Public Safety, Division of Parole and Probation – Caseloads (request).
5. (DIA 21-05) Department of Conservation and Natural Resources, Division of Forestry – Overtime (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	686	597	0	0	89
DMV - Compliance Enforcement Division	14-05	4	2	2	0	0
Department of Agriculture - Animal Industries	15-02	5	3	2	0	0
DCFS - Child Welfare	16-03	2	1	1	0	0
Controller - Collections	16-05	7	2	4	0	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
EITS - TIR	17-04	4	3	1	0	0
DHHS - Trust Funds	18-03	4	3	1	0	0
Boards & Commissions - Oversight	18-05A	4	3	1	0	0
Dept of Education - 2015 Initiatives	18-06	3	1	2	0	0
Dept of Corrections - Offsite Medical Care	18-06A	3	0	2	0	1
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
Boards & Commissions - Governance	19-03	2	0	2	0	0
Nevada State Board of Dental Examiners	19-04	4	1	3	0	0
NDEP - Petroleum Fund	19-05	5	0	3	2	0
Marijuanae Enforcement Division	20-01	3	0	0	3	0
SPWD-Leasing Services - 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
Total		765	621	48	5	91
Adjusted Total / Percentages ^[3]		674	92.1%	7.1%	0.7%	

^[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 2020, 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 \$77.**

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2019		FY 2020		FY 2021
	Projected	Actual	Projected	Actual	Projected
Dollar benefits for each dollar spent on Internal Audit	70	89	70	77	70
Percentage of recommendations fully implemented	90	91	90	92	90



Staff Qualifications

The Compliance Review section consists of the Compliance Manager and two Compliance Auditors. The Compliance Auditors have college degrees or requisite college courses and experience. During fiscal year 2020, one Compliance Auditor position was vacant for almost two months.

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

Procedures Expanded

DIA expanded routine compliance review procedures in fiscal year 2020 to include an in-depth review of grants management controls and operations when applicable. Grants management compliance review recommendations resulted in significant procedural changes at some agencies reviewed during the year.

Compliance Reviews Completed

DIA completed nine reviews, including six standard compliance reviews and the 2020 biennial internal controls review for the Governor's Finance Office:

1. Department of Motor Vehicles.
2. Department of Administration, State Purchasing Division.
3. Governor's Office of Energy.
4. Office of the State Controller.
5. Silver State Health Insurance Exchange.
6. Department of Administration, Administrative Services Division.
7. Governor's Finance Office, Biennial Internal Controls Reviews (Budget, DIA, Office of Project Management).

Compliance Reviews in Progress/Planned

As of June 30, 2020, DIA has the following compliance reviews and other work in progress and planned:

1. Nevada Arts Council (review of fiscal year 2019).
2. Department of Business and Industry, Insurance Division.
3. Department of Business and Industry, Real Estate Division.
4. Department of Administration, State Public Works Division, Marlette Lake Water System.
5. Governor's Nuclear Projects Office.
6. Department of Administration, State Library and Archives, Mail Services.
7. Department of Administration, Fleet Services Division (assist Internal Audits section with LCB audit follow-up).
8. Department of Taxation, Live Entertainment Tax, Medical Marijuana, and Retail Marijuana.
9. State Printing Office.
10. Silver State Health Insurance Exchange.*
11. Nevada Commission on Off Highway Vehicles.
12. Department of Public Safety, Office of Cyber Defense.
13. Nevada Arts Council (review of fiscal year 2020).

*Statutorily Required Review

Performance Measures

The following summarizes Compliance Review’s performance measure:

Performance Measures	FY 2019		FY 2020		FY 2021
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations implemented	94	90	94	100	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 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 agencies' audit and monitoring site visit reports to ensure 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

Training

DIA conducted eight internal controls training classes; 220 participants from 27 agencies received training. Of these, five were conducted at the agency's request.

Audit and Monitoring Site Visit Reports

Pursuant to NRS 353.325, DIA reviewed and tracked seven audit and monitoring site visit reports issued by various entities, including: US Department of Energy, US Department of Housing and Urban Development, US Department of Health and Human Services, and US Department of Education. Financial Management and the Administrator expended approximately 25 hours on these reports.

Fraud, Waste, and Abuse Hotline

DIA resolved 39 reported hotline cases. Two cases were included in the scope of planned audits; nine cases were researched for potential fraud, waste, or abuse of state funds; 19 cases were referred to other agencies or entities having specific oversight for the issues; and nine cases did not have sufficient information to research. Financial Management expended approximately 77 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 2020, participants' test scores increased an average 36 percent following training.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2019		FY 2020		FY 2021
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainees' overall test scores	25	27	25	36	25
<u>Average training class evaluation score (Scale: Low = 1 and High = 5)</u>	4.5	4.1	4.5	4.0	4.5

Fiscal Year 2021 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2021 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 2021, DIA has a back log of approximately two years of identified internal audit work. The Administrator plans to mitigate the vacancies in three Executive Branch Auditor positions by leveraging the experience and strengths of the leadership team, other Executive Branch Auditors, and Compliance Section Auditors to maintain audit productivity and support for executive branch leaders and managers.

Internal Audit Section

DIA plans to complete 10-11 audits in fiscal year 2021. DIA plans to hold three Executive Branch Audit Committee meetings, tentatively scheduled for November 16, 2020 / January 28, 2021 / and June 2021. 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 2021. DIA plans to focus on agencies that have not had a compliance review in the recent past or were identified through other audits and reviews.

Financial Management Section

DIA has temporarily suspended internal controls training sessions due to the COVID-19 pandemic. Once trainings resume, DIA plans to conduct a minimum of one training session each quarter or as requested by specific agencies. DIA plans to create a virtual training course following implementation of the SMART21 training module, currently expected in fiscal year 2021.

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.