Governor's Finance Office
Division of Internal Audits

2022 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 Lisa Cano Burkhead
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

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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.

Compliance Review Section

Goal: Ensure agencies have adequate internal controls over fiscal processes and agencies' transactions comply with state and federal guidelines.

Financial Management Section

Goal: Help agencies safeguard assets, and prevent and detect fraud through internal control training, assistance, monitoring, and reviews.

Internal Audit Section

Staff Qualifications

The Internal Audit section consists of eleven Executive Branch Auditors. Executive Branch Auditors possess one or a combination of the following degrees, licenses, or certifications: an advanced degree in public policy, business, or a closely related field; certified public accountant; and/or certified internal auditor.

During fiscal year 2022, three vacant Executive Branch Auditor positions that were not filled to achieve savings related to COVID-19 budget reductions were fully funded. Vacancies in executive branch auditor positions during fiscal year 2022 amounted to approximately five and a half full time equivalent positions.

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 2022 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**

October 26, 2021 Committee Meeting – DIA presented two audits and three annual first-time annual follow-ups. The Committee approved the fiscal year 2022 audit plan pursuant to NRS 353A.038 and the fiscal year 2021 annual report pursuant to NRS 353A.065.

February 22, 2022 Committee Meeting – DIA presented three audits, two 6-month follow-ups, and five first-time annual follow-ups.

June 30, 2022 Committee Meeting – DIA presented two audits, two 6-month follow-ups, and two first-time annual follow-ups.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented seven audits to the Executive Branch Audit Committee. Four 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 22-01) Department of Administration, State Public Works Division, Building and Grounds Section – Rents (request).

2. (DIA 22-02) Department of Public Safety, Investigation Division – Administrative Functions (risk).

3. (DIA 22-03) Department of Health and Human Services – Transportation Services (risk).

4. (DIA 22-04) Department of Administration, Purchasing Division – Contract Monitoring (request).

5. (DIA 22-05) Department of Corrections – Fiscal Processes.2 (request).

6. (DIA 22-06) Department of Public Safety, Investigation Division – Task Force Operations (risk).

7. (DIA 22-07) Department of Administration, State Public Works Division, Building and Grounds Section – Extra Services (request).

Audit Follow-ups Completed

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

1. (DIA 21-06) Department of Conservation & Natural Resources, Division of Forestry – Overtime (request).

2. (DIA 21-07) Department of Agriculture – Grants Management (request).

3. (DIA 22-01) Department of Administration, State Public Works Division, Building and Grounds Section – Rents (request).

4. (DIA 22-02) Department of Public Safety, Investigation Division – Administrative Function (risk).

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

1. (DIA 20-01) Cannabis Compliance Board – Marijuana Licensing (request).

2. (DIA 20-02) Department of Administration, State Public Works Division, Leasing Services – Commercial Leases (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 (request).

5. (DIA 20-05) Board of Pharmacy – Licensing Process (request).

6. (DIA 20-06) Department of Public Safety, Division of Parole and Probation – Offender Services (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).

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

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

1. (LA20-13A) Public Employees Benefit Program – Information Security.
2. (LA22-01) Department of Business and Industry – Nevada Attorney for Injured Workers.
3. (LA22-04) Department of Health and Human Services – Delivery of Treatment Services for Children with Autism.
4. (LA22-05) Department of Employment, Training and Rehabilitation – Employment Security Division.
5. (LA22-06) Department of Business and Industry – Insurance Division.
6. (LA22-07) Department of Veterans Services – Southern Nevada State Veterans Home.

Executive Branch Audits in Progress

As of June 30, 2022, DIA has the following audits in progress:

1. (DIA 23-01) Peace Officer Standards and Training Commission (risk).

2. (DIA 23-02) Department of Conservation and Natural Resources, Division of Water Resources (request).

3. (DIA 23-03) Department of Wildlife – Fiscal Processes (risk).

4. (DIA 23-04) Department of Transportation (request).

5. (DIA 22-05) Department of the Military, Division of Emergency Management (request).

ARPA Funding and New Audit Mission

In April 2022, DIA received American Rescue Plan Act (ARPA) funding for one Executive Branch Auditor 4 (Audit Manager) position to implement audit activities of state agencies and non-state entities awarded ARPA funds by the Governor's Finance Office.

The administrator directed additional division assets from the internal audit section (one Executive Branch Auditor) and the compliance review section (two Auditors) be available to the Audit Manager to establish an ARPA auditing plan and conduct audit activities with reporting to the Director, Governor's Finance Office to begin in the third quarter of fiscal year 2023.

Current Status of Audit Recommendations Issued to State Agencies
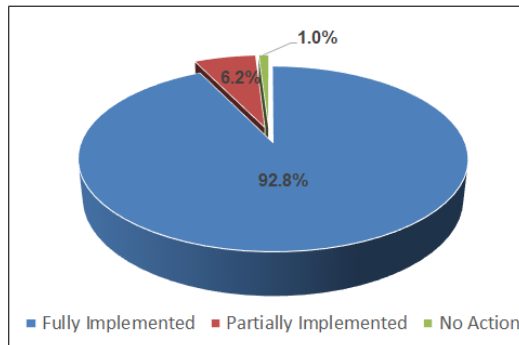
Description[1]	Report #	Total Rec's	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
All Previous Audits[2]	N/A	724	627	0	0	97
Controller - Collections	16-05	7	3	1	0	3
Fleet Services - State Vehicle Leasing	16-07	3	2	1	0	0
EITS - TIR	17-04	4	3	1	0	0
Boards & Commissions - Oversight	18-05A	4	3	1	0	0
NDOC - Offisite Medical Care	18-06A	3	1	1	0	1
EITS - 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
Board of Dental Examiners	19-04	4	3	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	4	1	0	0
Parole & Probation - Program Operations	20-06	4	3	1	0	0
Purchasing - Foreign Vendors	20-07	3	1	1	0	1
ASD - Bond Management & Accounting	20-08	3	2	1	0	0
SPWD - Long-Term Office Space Planning	20-10	5	0	5	0	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
DCNR-NDF Overtime	21-06	2	0	2	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
DPS, Investigations Division.1	22-02	3	1	1	1	0
Total		813	660	44	7	102
Adjusted Total / Percentages[3]		711	92.8%	6.2%	1.0%	

[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 2022, 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 $150.**

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2021		FY 2022		FY 2023
	Projected	**Actual**	**Projected**	**Actual**	**Projected**
Dollar benefits for each dollar spent on Internal Audit	70	87	70	150	70
Percentage of recommendations fully implemented	90	91	90	93	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.

There were no vacancies in Compliance Auditor positions in fiscal year 2022.

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 six compliance reviews and one special review. The following work was completed or was in progress as of June 30, 2022:

Compliance Reviews
1. (20-741) Department of Business and Industry, Division of Insurance.
2. (20-748) Department of Business and Industry, Real Estate Division.
3. (21-082) Department of Administration, Marlette Lake Water System.
4. (22-960) Silver State Health Insurance Exchange.
5. (21-012) Governor's Office – Nuclear project office (fiscal year 2020, in progress).
6. (22-011) Governor's Office of Energy (fiscal year 2020 and 2021, in progress).

Special Reviews
1. (22-654) Department of Emergency Management (in progress).

Work Planned

As of June 30, 2022, DIA has the following compliance reviews and audit contributing work planned or in progress:

1. Nevada Department of Wildlife.
2. Public Charter School Authority.
3. Department of Transportation.
4. Administration – Fleet Services Division
5. Nevada Commission on Off Highway Vehicles

Performance Measures

The following summarizes Compliance Review's performance measure:

Performance Measures	FY 2021		FY 2022		FY 2023
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations implemented	94	100	94	100	94

Financial Management Section

Staff Qualifications

The Financial Management section is led 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

Fraud, Waste, and Abuse Hotline

DIA resolved 21 reported hotline complaints. Four complaints resulted in new audits or were included in the scope of planned audits; six complaints were researched for potential fraud, waste, or abuse of state funds; eight complaints were referred to other agencies or entities having specific oversight for the issues; and three complaints did not have sufficient information to research. Financial Management expended approximately 80 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 Substance Abuse and Mental Health Services Administration.

Training

DIA was unable to conduct in-person internal controls training classes in fiscal year 2022 because of COVID restrictions, trainer availability, and limitations with the SMART21 training module. On-line training is being developed and will be implemented upon completion and availability of the SMART21 training module for specialized agency training. In-person training is expected to begin in fall 2022.

To compensate for the extraordinary constraints, DIA/Financial Management has encouraged, invited, and responded to specific internal controls training from state agencies.

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 and 2022, 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 2021		FY 2022		FY 2023
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainees' overall test scores	25	0	25	0	25
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.5	0	4.5	0	4.5

Fiscal Year 2023 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2023 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 2023, DIA has an audit plan for approximately two years of identified internal audit work.

Internal Audit Section

DIA plans to complete five-six audits in fiscal year 2023. DIA plans to hold two Executive Branch Audit Committee meetings, tentatively scheduled for November 30, 2022 and June 2023. 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 five compliance reviews in fiscal year 2023 including the items in progress at the end of fiscal year 2022. 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. Compliance reviews may be postponed when compliance auditors are assigned to assist with special reviews, audits, ARPA audit requirements, and other division activities.

Financial Management Section

DIA will conduct training sessions as safety allows, as SMART21 training module allows, or as requested by specific agencies. DIA plans to complete development of a virtual training course following implementation of the SMART21 training module. In-person training is expected to begin anew in fall 2022.

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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.