

**Department of Administration
Division of Internal Audits**

2007 Annual Report



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INTRODUCTION

Fiscal responsibility and a well-run government are especially vital in Nevada as agencies face the challenges of serving one of the fastest growing states in the nation. The Division of Internal Audits helps the Executive Branch meet this challenge by assisting agencies and monitoring operations to ensure they function efficiently and effectively. The Division of Internal Audits consists of the Internal Audit, Financial Management, and Post Review sections.

Internal Audit Section

Goal: Improve the efficiency and effectiveness of State operations.

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Financial Management Section

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

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Post Review Section

Goal: Ensure agencies' expenditures comply with laws, regulations, and internal control guidelines.

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***Internal Audit
Section***

Executive Branch Audit Committee Members (NRS 353A.038)

The Chief of the Division of Internal Audits reports directly to the Director of the Department of Administration. The Internal Audit section reports to the Executive Branch Audit Committee, comprised of the following members:

The Honorable Jim Gibbons
Governor, Chairman

The Honorable Brian K. Krolicki
Lieutenant Governor

The Honorable Kim Wallin
State Controller

The Honorable Ross Miller
Secretary of State

The Honorable Kate Marshall
State Treasurer

The Honorable Catherine Cortez Masto
Attorney General

Dana L. Bridgman, CPA
Public Member

Staff Qualifications

Twelve Executive Branch Auditors staff the Internal Audit section. Two of these positions are currently vacant. The Internal Audit sections' staff possesses one or a combination of the following licenses/degrees: Certified Public Accountant, Certified Internal Auditor, and/or advanced degrees in business.

Internal Audit Process

At the direction of the Executive Branch Audit Committee, during fiscal year 2007 we conducted audits addressing the following four questions:

- ✓ What is the agency's role?
- ✓ What services must the agency provide?
- ✓ Is the State the proper level of government to provide these services?
- ✓ If State government is the appropriate level of government, is the agency carrying out its duties efficiently and effectively?

We perform audits of executive branch agencies in accordance with the Institute of Internal Auditors' standards. We also follow-up on our recommendations and the Legislative Auditor's audit recommendations to determine agencies' implementation status.

Risk Assessment

To determine audit priority, we develop a risk assessment using multiple criteria including but not limited to:

- ✓ Source and amount of funding
- ✓ Financial Management reports
- ✓ Post Review reports
- ✓ Legislative Auditor reports
- ✓ Impact on the health, safety, and education of Nevada citizens
- ✓ Organizational and technological issues facing agencies
- ✓ Number of people affected by agency programs

We develop an annual plan by using risk assessment and requests from agencies and Committee members. In accordance with NRS 353A, we consult with the Director of the Department of Administration and the Legislative Auditor concerning our plan to avoid any potential duplication of effort or disruption to State agencies.

Auditing and Reporting Process

Our audits focus on methods to improve the efficiency and effectiveness of Executive Branch agencies. Throughout our audit process we meet with agency management to discuss our progress and findings. At the conclusion of our audit we submit a draft report to the agency. The head of the agency responds to our recommendations with an implementation schedule. We then present a final report to the Executive Branch Audit Committee and the agency. The report's contents and discussions regarding the audit remain confidential until presented to the Committee.

Summarized Actions of the Committee

September 28, 2006 Committee meeting - The Committee approved the Annual Report and revisions to the Annual Plan. Additionally, we presented five audits and reported on the status of recommendations issued by the Legislative Auditor.

May 11, 2007 Committee meeting - The Committee approved the Annual Plan. We presented nine audits and reported on the status of recommendations issued by the Internal Audit section and the Legislative Auditor.

Accomplishments

Our audits identified opportunities and solutions for cost savings, freed up resources, enhanced revenues, and improved effectiveness. During the fiscal year, we presented the following audit reports to the Executive Branch Audit Committee:

Department of Administration

- Division of Buildings and Grounds – Mail Services
- Risk Management Division and Central Payroll Division – State’s Workers’ Compensation Program

Department of Business and Industry

- Financial Institutions Division
- Mortgage Lending Division – Licensing Fees
- Real Estate Division – On-line Services

Department of Corrections

- Correctional Programs Division
- Relief Factor

Department of Employment, Training and Rehabilitation

- Employment Security Division

Office of the Governor

- Nevada State Office of Energy and State Public Works Board – Energy Savings Contracting

Office of the Military

- Maintenance

Nevada Institutional Review Board

Department of Health and Human Services

- Health Division’s Bureau of Family Health Services – Women, Infants, and Children (WIC) Program

Nevada Department of Transportation

- Interstate 580 Freeway Extension

Nevada Office of Veterans' Services

Copies of our reports are available upon request or on our web site at:
www.dintaud.state.nv.us

Audits in Progress

As of June 30, 2007, we had the following audits in progress:

Department of Administration

- Purchasing Division

Department of Agriculture

Department of Business and Industry

- Housing Division – Weatherization Program

Department of Conservation and Natural Resources

- Nevada Division of Forestry

Commission on Economic Development

Commission on Tourism

Statewide

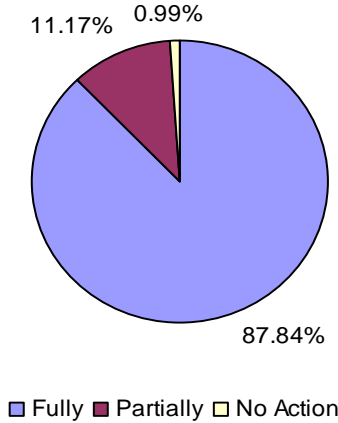
- Depreciation

Tahoe Regional Planning Agency

Audit Follow-up

Within six months of issuing the final report, and annually thereafter on May 31 until fully implemented, we review the status of agencies' outstanding recommendations. We then report the results to the Executive Branch Audit Committee. Below is the current status of issued recommendations:

Implementation Status



Annual Follow-ups	Report #	Total Recomm.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
All Previous Reports ¹	N/A	305	279	0	0	26
Nevada Highway Patrol	02-01	26	17	3	0	6
MHDS - Outpatient Mental Health Services	02-03	14	13	1	0	0
Department of Taxation	03-08	6	5	1	0	0
Dept. of Taxation-Collections	04-01	8	7	1	0	0
Public Utilities Commission of Nevada	04-08	2	1	1	0	0
Division of Aging Services	04-10	3	2	1	0	0
Nevada State Public Defender's Office	05-03	1	0	1	0	0
Nevada Attorney for Injured Workers	05-05	3	2	1	0	0
Welfare-Child Care Program	05-07	5	3	2	0	0

¹ All previous audits with recommendations fully implemented.

Annual Follow-ups	Report #	Total Recomm.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
Medicaid Cost Analysis	05-08	3	1	2	0	0
State Public Works Board	05-09	13	10	3	0	0
Division of State Fire Marshal	05-10	5	0	4	1	0
Division of Parole and Probation	06-01	8	2	6	0	0
Division of Emergency Management	06-02	3	0	1	0	2
Hearings Division	06-03	3	2	1	0	0
DHCFP - Claims Processing	06-04	4	1	3	0	0
NDOT - Road Transfer Process	06-06	3	2	1	0	0
DHHS - Bureau of Early Intervention Services	06-07	5	0	5	0	0
DHHS - DCFS - UNITY	06-08	4	3	1	0	0
DMV - Field and Central Services	06-10	4	3	1	0	0
DETR – Employment Security Division	07-03	2	0	2	0	0
B&I Financial Institutions Division	07-04	5	1	3	1	0
Nevada Institutional Review Board	07-05	2	0	0	2	0
Total²		437	354	45	4	34
Percentages exclude items that are “no longer applicable.”		403	87.84%	11.17%	0.99%	

We also followed up on recommendations issued by the Legislative Auditor for the following agencies:

Department of Administration

- Risk Management Division

Department of Agriculture

Department of Business and Industry

- Director’s Office

² Recommendations that are no longer applicable are not included in the percentages.

- Division of Industrial Relations
- Division of Insurance

Colorado River Commission of Nevada

Department of Conservation and Natural Resources

- Director's Office

Department of Cultural Affairs

- Director's Office
- Division of Museums and History
- Nevada Arts Council
- Nevada State Library and Archives

Department of Education

Department of Health and Human Services

- Director's Office
- Mental Health / Developmental Services Division

Department of Information Technology

- Security Over Selected State Agency Internet Sites

Commission on Mineral Resources

- Division of Minerals

Public Employees' Benefits Program

Department of Taxation

Performance Indicators

We improve the efficiency and effectiveness of 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 price on the enhanced welfare of the citizenry. Additionally, many times data are not available to estimate the benefit. When sufficient data are available, we document estimates in our audit reports. For example, in fiscal year 2007, we estimate the Division benefited the State and citizens for every dollar spent on the agency as follows:

✓ **The ratio of benefits to each \$1 spent on the Internal Audit section is \$38.52:\$1.**

The following summarizes Internal Audit's performance measures:

Performance Indicators	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Projected
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	4.7	4.1	4.6	5.0
Percentage of recommendations fully implemented	83%	90%	88%	90%



***Financial
Management
Section***

Staff Qualifications

The Financial Management section is staffed with a manager and two auditors. The manager reports directly to the Chief. The manager and auditors have degrees in finance or business administration.

Financial Management Process

Internal Controls Training

Per NAC 353A, agency heads and employees whose duties include administering budgetary accounts are required to attend internal controls training every five years. The class provides an overview of the five standards of internal control and how they interrelate with the fiscal processes at State agencies.

We offer a class addressing methods to effectively document policies and procedures, prevent and detect fraud, safeguard the State's assets, and comply with State and federal guidelines. We generally provide training throughout the year. During 2006 and 2007, however, the manager's position was vacant for more than seven months.

Internal Controls Review and Recommendations

We provide internal control guidance to State agencies at the request of the Division of Internal Audits, Governor's office, Legislative Counsel Bureau, or the agencies themselves. We reviewed agencies' internal control procedures and provided recommendations to help each agency meet State and federal requirements.

Biennial Report Training, Review, and Summary

During even numbered years, Financial Management trains agencies to help them evaluate, test, and report on the adequacy of their internal control systems. In odd-numbered years, we evaluate the agencies' reports and provide a comprehensive summary to the Legislative Counsel Bureau.

Accomplishments

Internal Controls Training

One training session was held in June 2007, due to a vacancy in the Financial Manager position. We trained the following nine agencies:

Department of Public Safety

- Administrative Services Division
- Criminal Justice Assistance
- Emergency Management
- Fire Marshal's Office
- Investigations Division
- Nevada Highway Patrol
- Parole and Probation
- Records and Technology
- Training Division

Before and after training, we tested participants' internal controls knowledge. Based on these tests, participants' knowledge of internal controls increased by over 25 percent.

Agency Assistance / Follow-up

Financial Management assisted the following agencies in updating their internal controls:

Department of Administration

- Budget
- Purchasing

Ethics Commission

Public Utilities Commission of Nevada

Western Interstate Commission on Higher Education

Department of Business and Industry

- Dairy Commission
- Taxicab Authority

Department of Cultural Affairs

- Director's Office
- Museums and History
- Nevada Arts Council
- Office of Historic Preservation
- State Library and Archives

Department of Conservation and Natural Resources

- Conservation Districts

Department of Health and Human Services

- Health Division
 - Administrative Services
 - Community Health Bureau
 - Family Health Services
 - Health Planning and Statistics
 - Health Protection Services
 - Licensure and Certification
 - Public Health Preparedness
- Division of Mental Health and Developmental Services
 - Administration
 - Alcohol and Drug Abuse
 - Rural Clinics

Office of the Military

Public Safety

- Administrative Services
- Capitol Police
- Criminal Justice Assistance
- Fire Marshal
- Investigations
- Peace Officers' Standards and Training
- Parole and Probation
- Parole Board
- Records and Identification
- State Emergency Response Commission
- Training

Veterans' Services

- Veterans' Home, Gift Account

Performance Indicators

The following summarizes Financial Management's performance indicators:

Performance Indicators	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual*	FY 2008 Projected
Percentage of all agencies attending training sessions	48%	26%	7%	33%
Percentage of recommendations fully implemented	70%	73%	76%	77%
Percentage increase in trainees' overall test scores	37%	36%	25%	33%

**Between December 2005 and December 2007, the Financial Management Manager position was vacant for more than seven months. The vacancy resulted in only one training class being conducted in FY 2007.*



***Post Review
Section***

Staff Qualifications

The Post Review section is staffed with a supervisor and three auditors. The supervising auditor and one staff auditor have undergraduate degrees in accounting.

Post Review Process

Risk Assessment

To determine review priority, we developed a risk assessment using multiple criteria including:

- ✓ Number of transactions processed by the fiscal unit
- ✓ Dollar amount of transactions
- ✓ Date of last post review
- ✓ Historical error rates
- ✓ Impact to the State

Post Review uses this risk assessment to develop an annual plan that is presented to the Clerk of the State Board of Examiners.

Reviews

Reviews involved monitoring agencies' expenditures for compliance with laws, regulations, and State guidelines. The review process was performed by interviewing agencies' staff, observing processes, and statistically sampling expenditures. Reviews included evaluations of the following areas: purchases, travel, contracts, grants, fixed assets, and inventory procedures. Results of the review were issued to agency management and the Clerk of the Board of Examiners.

Accomplishments

As a result of our reviews, we provided agencies with valuable recommendations to help ensure agencies operate efficiently and effectively, produce reliable information, and comply with laws and regulations.

For fiscal year 2007, Post Review examined 40 agencies. We statistically sampled over 8,100 transactions. Of these transactions, we found a 5.9 percent average error rate.

Performance Indicators

The following summarizes Post Review's performance indicators:

Performance Indicator	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Projected
Percentage of agencies examined annually	34%	35%	33%	32%
Percentage of recommendations fully implemented	97%	100%	100%	100%
Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)	N/A	4.65	5.00	5.00