

**Department of Administration
Division of Internal Audits**

2008 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 administratively reports 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. Four 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 2008 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 and safety 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

October 2, 2007 Committee meeting - The Committee approved the Annual Report and revisions to the policy and procedures. Additionally, we presented three audits and reported on the status of recommendations issued by the Legislative Auditor.

June 5, 2008 Committee meeting - The Committee approved revisions to the Annual Plan. We presented three 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:

Commission on Tourism

- Nevada Magazine

Commission on Economic Development

Department of Administration

- Depreciation of Buildings and Improvements

Department of Agriculture

Department of Business and Industry

- Housing Division

Department of Conservation and Natural Resources

- Division of Forestry

Office of the Military

- Search for Steve Fossett

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, 2008, we had the following audits in progress:

Department of Administration

- Purchasing Division

Nevada State Higher Education

- Depreciation

Secretary of State

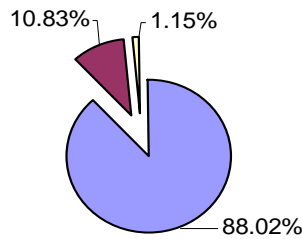
- Business Portal

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



■ Fully Implemented

■ Partially Implemented

■ No Action

| Annual Follow-ups | Report # | Total Recomm. | Fully Implemented | Partially Implemented | No Action | No Longer Applicable |
|---|----------|---------------|-------------------|-----------------------|-----------|----------------------|
| All Previous Reports[1] | N/A | 358 | 324 | 0 | 0 | 34 |
| Nevada Highway Patrol | 02-01 | 26 | 18 | 2 | 0 | 6 |
| Department of Taxation | 03-08 | 6 | 5 | 1 | 0 | 0 |
| Dept. of Taxation-Collections | 04-01 | 8 | 7 | 0 | 0 | 1 |
| Nevada Attorney for Injured Workers | 05-05 | 3 | 2 | 1 | 0 | 0 |
| Welfare-Child Care Program | 05-07 | 5 | 3 | 2 | 0 | 0 |
| Medicaid Cost Analysis | 05-08 | 3 | 1 | 2 | 0 | 0 |
| Division of State Fire Marshal | 05-10 | 5 | 1 | 4 | 0 | 0 |
| Division of Parole and Probation | 06-01 | 8 | 2 | 6 | 0 | 0 |

| Annual Follow-ups | Report # | Total Recomm. | Fully Implemented | Partially Implemented | No Action | No Longer Applicable |
|--|----------|---------------|-------------------|-----------------------|-----------|----------------------|
| 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 |
| B&I Real Estate Division | 07-07 | 2 | 0 | 2 | 0 | 0 |
| Nevada Office of Veteran's Services | 07-09 | 3 | 0 | 3 | 0 | 0 |
| B&G - Mail Services | 07-10 | 2 | 1 | 1 | 0 | 0 |
| Correctional Programs Division | 07-12 | 3 | 1 | 1 | 1 | 0 |
| DHHS - Bureau of Family Health Services - WIC Program | 07-13 | 1 | 0 | 1 | 0 | 0 |
| Housing Division - Weatherization Assistance Program | 08-01 | 2 | 1 | 0 | 1 | 0 |
| Division of Forestry | 08-02 | 2 | 0 | 2 | 0 | 0 |
| Department of Agriculture | 08-03 | 12 | 7 | 5 | 0 | 0 |
| Total | | 474 | 382 | 46 | 5 | 41 |
| Percentages exclude items that are "no longer applicable." | | 434 | 88% | 11% | 1% | |

[1] All previous audits with recommendations fully implemented.

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

- Department of Education
- Department of Business and Industry, Division of Insurance
- Public Employees' Benefits Program
- Department of Taxation
- Board of Homeopathic Medical Examiners
- Department of Wildlife
- Department of Motor Vehicles, Information Technology Security
- Department of Corrections, Administration
- Department of Corrections, Inmate Medical Services
- Department of Corrections, Offender Trust Accounts
- State Fire Marshal Division
- Capitol Police Division
- Welfare and Supportive Services

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 2008, 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 \$32.72:\$1.**

The following summarizes Internal Audit's performance measures:

| Performance Indicators | FY 2007 | | FY 2008 | | FY 2009 |
|--|---------|-----------|---------|-----------|-----------|
| | Actual | Projected | Actual | Projected | Projected |
| Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5) | 4.6 | 4.5 | 4.4 | 5.0 | 5.0 |
| Percentage of recommendations fully implemented | 88% | 95% | 88% | 90% | 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 is a CPA and the 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.

We offer a class which provides an overview of the five standards of internal control and how they interrelate with the fiscal processes at State agencies. The class also addresses methods to effectively document policies and procedures, prevent and detect fraud, safeguard the State's assets, and comply with State and federal guidelines.

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 review agencies' internal control procedures and provide recommendations to help each agency meet State and federal requirements.

Biennial Report Training, Review, and Summary

During even numbered years, Financial Management assists agencies 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

The following ten agencies were trained in fiscal year 2008:

Department of Administration

- Internal Audits
- Public Works

Department of Agriculture

- Agriculture

Department of Business and Industry

- Nevada Attorney for Injured Workers

Department of Health and Human Services

- Division of Mental Health and Development Services
 - Desert Regional Center
 - Southern Nevada Adult Mental Health Services

Department of Information Technology

- DoIT

Department of Public Safety

- Nevada Highway Patrol
- Parole and Probation

Office of the Treasurer

- Treasurer

We tested participants' internal controls knowledge before and after training. Based on these tests, participants' knowledge of internal controls increased by over 18 percent.

Agency Internal Control Procedures Review

Financial Management completed reviews of the following agencies' internal controls:

Department of Business and Industry

- Taxicab Authority

Department of Conservation and Natural Resources

- Conservation Districts

Department of Corrections

- Inmate Services

Department of Cultural Affairs

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

Department of Health and Human Services

- Health Division
 - Administrative Services
 - Community Health Bureau
 - Licensure and Certification
 - Public Health Preparedness
 - Caliente Youth Center

Department of Information Technology

Public Safety

- Administrative Services
- Capitol Police
- Investigations
- Parole Board
- State Emergency Response Commission
- Training

Agency Assistance

We offered assistance to various agencies by helping them write internal controls for new fiscal processes, automated systems, and responding to general fiscal related questions.

Performance Indicators

The following summarizes Financial Management's performance indicators:

| Performance Indicators | FY 2007 | | FY 2008 | | FY 2009 |
|--|---------|-----------|---------|-----------|-----------|
| | Actual | Projected | Actual | Projected | Projected |
| Percentage of all agencies attending training sessions | 7% | 25% | 8%* | 33% | 35% |
| Percentage of recommendations fully implemented | 76% | 75% | 70% | 77% | 77% |
| Percentage increase in trainees' overall test scores | 25% | 40% | 18% | 33% | 25% |

*This training will be offered both live and on-line in fiscal year 2009. The new on-line format will be available by October 2008. This should significantly increase the number of agencies trained in the next fiscal year.



***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 2008, Post Review examined 39 agencies. We statistically sampled over 6,400 transactions. Of these transactions, we found a 6.5 percent average error rate.

Performance Indicators

The following summarizes Post Review's performance indicators:

| Performance Indicators | FY 2007 | | FY 2008 | | FY 2009 |
|--|---------|-----------|---------|-----------|-----------|
| | Actual | Projected | Actual | Projected | Projected |
| Percentage of agencies examined annually | 33% | 35% | 33% | 33% | 33% |
| Percentage of recommendations fully implemented | 100% | 100% | 100% | 100% | 100% |
| Average annual rating from surveys after reviews Scale: Low = 1 and High = 5) | 5.00 | 4.75 | 4.20 | 5.00 | 4.50 |