

**Department of Administration  
Division of Internal Audits**

**2009 Annual Report**



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# INTRODUCTION

Fiscal responsibility and a well-run government are especially vital in Nevada as agencies face an economic crisis. The Division of Internal Audits helps the Executive Branch meet this challenge by ensuring agencies operate efficiently and effectively, comply with State and Federal guidelines, and safeguard State resources. 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, 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, 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**

Eight 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 2009 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**

November 6, 2008 Committee meeting - The Annual Report was presented. The Committee approved revisions to the policies and procedures. Additionally, we presented three audits and reported on the status of recommendations issued by the Internal Audit section and the Legislative Auditor.

March 18, 2009 Committee meeting - The Committee approved the Annual Report and revisions to the Administrative Policies and Procedures. We presented two 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:

### Tahoe Regional Planning Agency

#### Secretary of State

- Business Portal

#### Department of Administration

- Purchasing Division

#### Department of Administration

- Work Week Energy Savings

### Agency for Nuclear Projects

Copies of our reports are available upon request or on our web site at:  
[www.dintaud.state.nv.us](http://www.dintaud.state.nv.us)

## **Audits in Progress**

As of June 30, 2009, we had the following audits in progress:

Health and Human Services – Division of Mental Health and Developmental Services

- Lakes Crossing Center
- Substance Abuse Prevention and Treatment Agency

Department of Transportation – Utilization of State Equipment

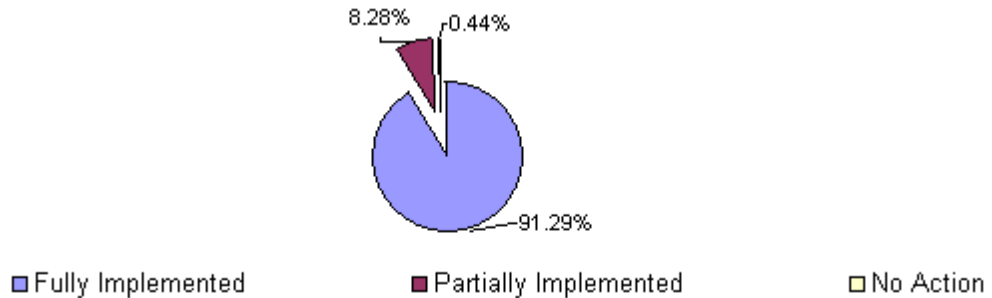
Department of Business and Industry – Division of Insurance, Insurance Premium Tax

Nevada System of Higher Education – Depreciation

## Audit Follow-up

Within six months of issuing the final report, and annually thereafter 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
<a href="#">All Previous Reports[1]</a>	N/A	358	324	0	0	34
Nevada Highway Patrol	02-01	26	18	2	0	6
Department of Taxation	03-08	6	6	0	0	0
Department 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 Marshall	05-10	5	2	0	0	3

[\[1\] All previous audits with recommendations fully implemented.](#)



<b>Annual Follow-ups</b>	<b>Report #</b>	<b>Total Recomm.</b>	<b>Fully Implemented</b>	<b>Partially Implemented</b>	<b>No Action</b>	<b>No Longer Applicable</b>
Division of Parole and Probation	06-01	8	5	1	0	2
NDOT -Road Transfer Process	06-06	3	3	0	0	0
DHHS - Bureau of Early Intervention Services	06-07	5	5	0	0	0
DHHS - DCFS - UNITY	06-08	4	4	0	0	0
DMV - Field and Central Services	06-10	4	4	0	0	0
DETR - Employment Security Division	07-03	2	2	0	0	0
B&I Financial Institutions Division	07-04	5	4	1	0	0
Nevada Institutional Review Board	07-05	2	0	0	0	2
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
Tourism - Nevada Magazine	08-04	4	2	2	0	0
Commission on Economic Development	08-05	3	0	3	0	0

Annual Follow-ups	Report #	Total Recomm.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
Depreciation of Buildings and Improvements	08-06	2	1	1	0	0
Search for Steve Fossett	08-07	9	8	1	0	0
Tahoe Regional Planning Agency (TRPA)	09-01	6	1	4	0	1
Secretary of State - State Business Portal	09-02	1	1	0	0	0
Purchasing Division	09-03	9	6	3	0	0
<a href="#">Total[2]</a>		508	419	38	2	49
Percentages exclude items that are "no longer applicable."		459	91.29%	8.28%	0.44%	

[\[2\] Recommendations that are no longer applicable are not included in the percentages.](#)

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

- Department of Public Safety, Investigation Division
- Office of the Governor, Office of Consumer Health Assistance
- Department of Administration, Hearings Division
- Department of Public Safety, Nevada Highway Patrol
- Department of Health and Human Services, Division of Health Care Financing and Policy (Compliance Unit)
- Office of the Military
- Department of Public Safety, Division of Parole and Probation
- Department of Employment, Training and Rehabilitation, Rehabilitation Division, Bureau of Disability Adjudication
- Department of Health and Human Services, Information Technology Security
- Department of Business and Industry, Nevada Attorney for Injured Workers
- Department of Corrections, - Inmate Programs, Grievances, and Access to Health Care
- Department of Public Safety, Training Division
- Department of Public Safety, Records and Technology Division, Records Bureau
- Department of Public Safety, Division of Emergency Management

## 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 2009, 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 \$34:\$1.**

The following summarizes Internal Audit's performance measures:

Performance Indicators	FY 2008		FY 2009		FY 2010
	Projected	Actual	Projected	Actual	Projected
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	5.0	4.4	5.0	4.9	5.0
Percentage of recommendations fully implemented	90%	88%	90%	91%	95%



***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 theory behind internal control and how it interrelates 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.

### **Specialized Training Classes**

#### **Internal Controls for Federal Grants**

In June 2009, we provided three classes exclusively on internal controls for Federal grants to assist agencies receiving American Recovery and Reinvestment Act funds.

#### **Detecting Antitrust Violations**

In April 2009, we organized a training class on detecting antitrust violations presented by representatives from the United States Department of Justice's Antitrust Division.

### **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 49 agencies were trained in fiscal year 2009:

##### Department of Administration

- Administrative Services Division
- Budget Division
- Information Technology Division
- Mail Services
- Purchasing Division
- Risk Management Division
- State Motor Pool

##### Department of Agriculture

- Administrative Division
- Measurement Standards Division
- Plant Industry Division

##### Department of Business and Industry

- Division of Insurance

##### Department of Conservation and Natural Resources

- Division of Environmental Protection
- Natural Heritage Program
- Division of State Parks
- Division of Water Resources

##### Commission on Economic Development

- Division on Economic Development
- Division of Motion Pictures

##### Department of Employment, Training & Rehabilitation

- Administrative Services Division
- Employment Securities Division
- Equal Rights Commission

- Rehabilitation Division

#### Commission on Ethics

- Commission on Ethics

#### Office of the Governor

- Agency for Nuclear Projects
- Office of the Governor

#### Commission on Mineral Resources

- Division of Minerals

#### Department of Motor Vehicles

- Administrative Services Division
- Central Services Division
- Director's Office
- Field Services Division
- Motor Carrier Division
- Motor Vehicle Information Technology Division
- Research and Development

#### Department of Personnel

- Administrative Services

#### Department of Public Safety

- Administrative Services Division
- Division of Emergency Management
- Highway Patrol
- Division of Investigations
- Division of Parole and Probation
- Records and Technology Division
- Training Division

#### Department of Wildlife

- Conservation Education Division
- Director's Office
- Fisheries Division
- Game Division
- Habitat Division
- Law Enforcement Division
- Operations Division
- Wildlife Diversity

#### Western Interstate Commission for Higher Education

- Western Interstate Commission for Higher Education

We tested participants' internal controls knowledge before and after training. Based on these tests, we determined the participants' knowledge of internal controls increased by over 34 percent. Participants were also asked to complete evaluations of the training on a scale of 1 (poor) to 5 (excellent). The participants gave the trainings an average score of 4.6 overall.

## **Specialized Training Classes**

### **Internal Controls for Federal Grants**

Financial Management provided classes on internal controls for Federal grants during these dates:

June 11, 2009

June 18, 2009

June 25, 2009

The classes were attended by approximately 80 people from 35 different executive branch agencies and the University of Nevada Reno.

### **Detecting Antitrust Violations**

On April 21, 2009, Financial Management organized a training class on detecting antitrust violations. The class was presented by representatives from the United States Department of Justice's Antitrust Division, attended by 63 people from 20 different executive branch agencies and the University of Nevada Reno.

## **Agency Internal Control Procedures Review**

Financial Management completed reviews of internal controls on the following 22 agencies:

### Department of Administration

- Division of Internal Audits
- Hearings Division
- Victims of Crime Program
- Division of Buildings and Grounds
- State Public Works Board – Advantage Uploads

### Department of Business and Industry

- Nevada Attorney for Injured Workers
- Division of Insurance – Miscellaneous Vendor Controls

### Department of Conservation and Natural Resources

- Division of Conservation Districts



- Division of Environmental Protection
- Division of State Lands

#### Office of the Controller

- Controller's Office – Revenue Procedures

#### Department of Corrections

- Division of Prison Industries

#### Department of Education

- Fiscal and Administrative Services – Advantage Upload

#### Office of the Governor

- Agency for Nuclear Projects – System Dated November 2008
- Agency for Nuclear Projects – System Dated March 2009

#### Office of the Military

- Military

#### Department of Public Safety

- Division of Emergency Management
- Division of Parole and Probation
- Division of Investigations
- Fire Marshall
- Office of Criminal Justice Assistance

#### Public Utilities Commission

- Public Utilities Commission

### **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 2008		FY 2009		FY 2010
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	33%	8%	35%	36%	25%*
Percentage increase in trainee's overall test scores	33%	18%	35%	34%	35%
Average training class evaluation score (1 to 5)	4.5	4.8	4.5	4.6	4.8
Percentage of all agencies assisted with internal control procedures	New Indicator	New Indicator	20%	17%	20%

\* Per NAC 353A.100, agencies are required to attend training once every five years. In fiscal years 2007 and 2008 we trained only 7% and 8% of agencies, respectively. In order to comply with NAC, we increased our training to 36% in fiscal 2009 and plan on training 25% for fiscal 2010 and 2011.



***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 2009, Post Review examined 39 agencies. We statistically sampled over 5,570 transactions. Of these transactions, we found a 5.4 percent average error rate.

Post Review also performed follow-up reviews of three agencies. These agencies were selected based on errors noted in prior years. Our review determined the agencies took corrective actions to prevent future occurrences.

## Performance Indicators

The following summarizes Post Review's performance indicators:

Performance Indicators	FY 2008		FY 2009		FY 2010
	Projected	Actual	Projected	Actual	Projected
Percentage of agencies examined annually	33%	33%	33%	33%	33%
Percentage of recommendations fully implemented	100%	100%	100%	100%	100%
Average annual rating from surveys after reviews <b>Scale: Low = 1 and High = 5)</b>	5.00	4.20	4.50	4.26	4.50