

**Department of Administration  
Division of Internal Audits**

**2010 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 State and federal guidelines.

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**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**

From July 1, 2009 through March 31, 2010 the Internal Audit Section consisted of eight positions. Two auditor positions were eliminated on April 1, 2010 due to budget constraints. The Internal Audit section consists of six Executive Branch Auditors. One of these positions is currently vacant. The Internal Audit sections' staff possesses one or a combination of the following licenses/degrees: Certified Public Accountant, and/or advanced degrees in business, public administration, or closely related field.

## **Internal Audit Process**

At the direction of the Executive Branch Audit Committee, during fiscal year 2010 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 performed follow-ups on our recommendations and the Legislative Auditor's audit recommendations to determine agencies' implementation status.

## **Risk Assessment**

To determine audit priority, we developed 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 developed an annual plan by using risk assessment and requests from agencies and Committee members. In accordance with NRS 353A, we consulted 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 focused on methods to improve the efficiency and effectiveness of Executive Branch agencies. Throughout our audit process we met with agency management to discuss our progress and findings. At the conclusion of our audit we submitted a draft report to the agency. The head of the agency responded to our recommendations with an implementation schedule. We then presented a final report to the Executive Branch Audit Committee and the agency. The report's contents and discussions regarding the audit remained confidential until presented to the Committee.

## **Summarized Actions of the Committee**

September 29, 2009 Committee Meeting - The Committee approved the Annual Plan. We presented three audits and reported on the status of recommendations issued by the Internal Audit section and the Legislative Auditor.

June 30, 2010 Committee Meeting - The Committee approved the Annual Report and 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:

### Department of Administration

- Vehicle Fleet Management

### Department of Business and Industry – Division of Insurance

- Insurance Premium Tax

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

- Lakes Crossing Center & Substance Abuse Prevention and Treatment Agency
- Mental Health Services
- Residential Supports

### Department of Transportation

- Utilization of State Equipment

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, 2010 we had the following audits in progress:

Department of Health and Human Services – Division of Health Care Financing and Policy

Department of Health and Human Services – Division of Welfare and Supportive Services

- Child Care Subsidy

Department of Taxation

- Modified Business Tax

Nevada System of Higher Education

- Depreciation

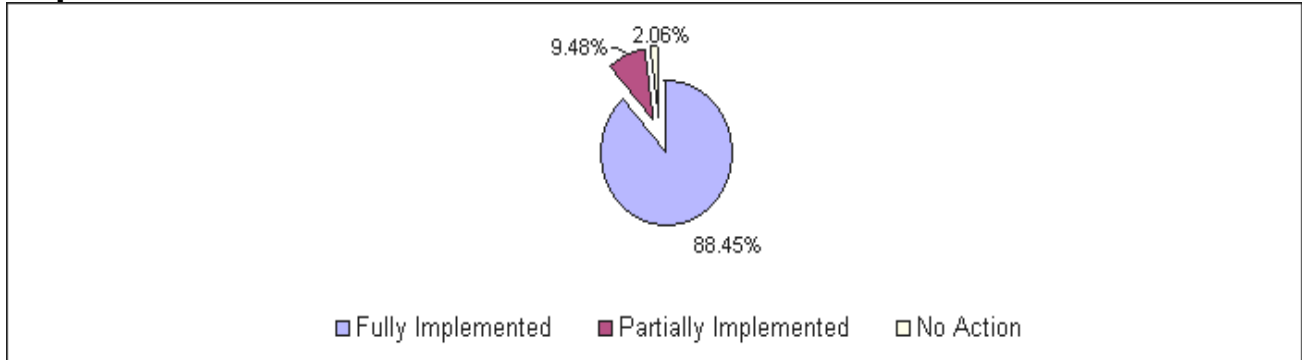
Secretary of State

- Business License Collection

## 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 for all Audits



Annual Follow-ups	Report #	Total Recomm.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
<a href="#">All Previous Reports [1]</a>	N/A	397	357	0	0	40
Nevada Highway Patrol	02-01	26	18	2	0	6
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 Parole and Probation	06-01	8	5	1	0	2
B&I Financial Institutions Division	07-04	5	4	1	0	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
Tourism - Nevada Magazine	08-04	4	2	2	0	0
Commission on Economic Development	08-05	3	0	3	0	0
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



<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>
Secretary of State - State Business Portal	09-02	1	1	0	0	0
Purchasing Division	09-03	9	6	3	0	0
Work Week Energy Savings	09-04	1	0	1	0	0
Agency for Nuclear Projects	09-05	6	5	1	0	0
Division of Mental Health and Developmental Services - Lake's Crossing Center and Substance Abuse Prevention and Treatment Agency	10-01	11	2	2	7	0
Department of Transportation - Utilization of State Equipment	10-02	6	2	3	1	0
Division of Insurance - Insurance Premium Tax	10-03	2	1	1	0	0
<u>Total</u>		534	429	46	10	49
Percentages exclude items that are "no longer applicable."		485	88.45%	9.48%	2.06%	
<a href="#">[1] All previous audits with recommendations fully implemented.</a>						

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

- Department of Employment, Training and Rehabilitation - Information Technology Security
- Peace Officers' Standards and Training Commission

## 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 2010, 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 \$63:\$1.**

The following summarizes Internal Audit's performance measures:

Performance Indicators	FY 2009		FY 2010		FY 2011
	Projected	Actual	Projected	Actual	Projected
Audit effectiveness based on agency satisfaction surveys <b>(Scale: Low = 1 and High = 5)</b>	5.0	4.9	5.0	4.1	5.0
Percentage of recommendations fully implemented	90%	91%	95%	88%	95%



***Financial  
Management  
Section***

## **Staff Qualifications**

From July 1, 2009 through March 31, 2010 the Financial Management section staff consisted of a Manager, and two auditors. The two auditor positions were eliminated on April 1, 2010 due to budget constraints. The Financial Manager is a CPA.

## **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 offered a class which provides an overview of the theory behind internal controls and how it interrelates with the fiscal processes at State agencies. The class also addressed methods to effectively document policies and procedures, assess internal control procedures, prevent and detect fraud, safeguard the State's assets, and comply with State and federal guidelines.

### **Developing Written Internal Control Procedures**

We reviewed agencies' written internal control procedures and provided recommendations to help each agency meet state and federal requirements. This procedure is now limited to agency requests and high risk agencies. Financial Management also creates and provides tools to assist agencies develop their internal control procedures and provides assistance upon request.

### **Other Reviews**

We also reviewed and provided guidance on fiscal controls to State agencies at the request of the Division of Internal Audits, Board of Examiners or the agencies themselves.

### **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**

We trained the following 37 agencies in fiscal year 2010:

#### Department of Administration

- Hearings Division
- Victims of Crime Program

#### Department of Business and Industry

- Nevada Athletic Commission
- Office of the Nevada Attorney for Injured Workers
- State Dairy Commission
- Employee Management Relations Board
- Division of Financial Institutions
- Housing Division
- Division of Industrial Relations
- Division of Insurance
- Office of the Labor Commissioner
- Manufactured Housing Division
- Division of Mortgage Lending
- Real Estate Division
- Nevada Transportation Authority
- Taxicab Authority

#### Department of Cultural Affairs

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

#### Department of Health and Human Services

##### Child and Family Services

- Children's Mental Health
- Child Welfare Services
- Juvenile and Youth Justice Services

## Health Division

- Administration
- Child, Family, and Community Wellness
- Early Intervention Services
- Frontier and Rural Public Health Services
- Health Care Quality Compliance
- Health, Planning, Statistics and Emergency Response

## Mental Health & Developmental Services

- Desert Regional Center

## Department of Transportation

- Administration Division
- Engineering Division
- Operations Division
- Planning Division

## Commission on Peace Officers' Standards and Training

## Department of Taxation

## Office of Veteran's Services

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 20 percent. Participants were also asked to complete evaluations of the training on a scale of 1 (poor) to 5 (excellent). On average the participants assessed the trainings at 4.5.

## **Other Trainings**

On November 16, 2009, Financial Management provided training on internal controls for purchasing and expenditures to delegates from Ningxia, China.

## **Written Internal Control Procedures**

Financial Management completed the following 5 reviews of agencies' written internal control procedures:

### Department of Administration

- Administrative Services Division – Nevada Project Accounting System
- Division of Risk Management

### Department of Conservation and Natural Resources

- Division of Water Resources

## Commission on Ethics

### Department of Health and Human Resources

#### Mental Health & Developmental Services

- Emergency Medical Systems
- Medical Marijuana Registry

Note: This procedure was discontinued due to budgetary constraints.

## **Agency Assistance**

We helped agencies develop internal controls for new fiscal processes, automated systems, and responding to general fiscal related questions.

## **Other Reviews**

### Department of Corrections

Financial Management reviewed the American Recovery and Reinvestment Act - State Fiscal Stabilization Funds issued to the Department.

### Department of Wildlife

Financial Management performed a fiscal review of the state owned wildlife management areas at the direction of the Board of Examiners.

### Department of Health and Human Services

Financial Management performed a fiscal review of the Mental Health & Developmental Services - Northern Nevada Adult Mental Health Services consumer trust accounts procedures.

## Performance Indicators

The following summarizes Financial Management's performance indicators:

Performance Indicators	FY 2009		FY 2010		FY 2011
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	35%	36% <sup>1</sup>	25%	27%	25%
Percentage increase in trainee's overall test score	35%	34%	35%	20%	35%
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.5	4.6	4.8	4.5	4.8
Percentage of all agencies assisted with written internal control procedures	20%	17%	20%	4.0% <sup>2</sup>	N/A

<sup>1</sup>In fiscal years 2007 and 2008 we trained only 7% and 8% of agencies, respectively. We increased our training to 36% in fiscal year 2009 and plan on training 25% for fiscal years 2010 and 2011.

<sup>2</sup> The positions performing this function were eliminated on April 1, 2010 for budgetary reasons. Prior to their elimination, one of the positions was vacant for 6 months. This function has been subsequently discontinued.





***Post Review  
Section***

## **Staff Qualifications**

From July 1, 2009 through March 31, 2010 the Post Review section staff consisted of a supervisor and three auditors. Two auditor positions were eliminated on April 1, 2010 due to budget constraints. The supervising auditor has an undergraduate degree 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 used the 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 State and federal guidelines. Reviews were 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 reviews 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 reliable information, and comply with laws and regulations.

For fiscal year 2010, Post Review examined 40 agencies. We statistically sampled over 5,384 transactions and noted an average error rate of 5.1 percent.

Post Review also performed five Single Audit follow-ups of grant programs reviewed by Kafoury, Armstrong & Co. CPAs. Our reviews verified agencies took corrective actions.

## Performance Indicators

The following summarizes Post Review's performance indicators:

Performance Indicators	FY 2009		FY 2010		FY 2011
	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>	4.5	4.3	4.5	4.5	4.6