

**Department of Administration
Division of Internal Audits**

2011 Annual Report



Mike Colburn, Acting Chief
209 East Musser Street, 302
Carson City, Nevada 89701
Telephone (775) 687-0120 • Fax (775) 687-0145

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 while complying with State and federal guidelines. Internal Audits also prevents and detects waste, fraud, and abuse, thereby, safeguarding 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.

Executive Branch Audit Committee Members.....	3
Staff Qualifications.....	3
Internal Audit Process.....	4
Accomplishments.....	5
Performance Measures.....	8

Financial Management Section

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

Staff Qualifications.....	10
Financial Management Process.....	10
Accomplishments.....	10
Performance Measures.....	13

Post Review Section

Goal: Ensure agencies' expenditures comply with State and federal guidelines, and government accounting principles.

Staff Qualifications.....	15
Post Review Process.....	15
Accomplishments.....	16
Performance Measures.....	17



***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 Brian Sandoval
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

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

Internal Audit Process

At the direction of the Executive Branch Audit Committee, during fiscal year 2011 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,
- ✓ Division of Internal Audits' previous audits, and
- ✓ Legislative Counsel Bureau's previous and planned audits.

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

April 6, 2011 Committee Meeting – The Committee approved the Annual Plan and Annual Report.

June 13, 2011 Committee Meeting – The Committee approved the Annual Report. We presented five 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

- Administrative Services Division: Nevada System of Higher Education Building Depreciation

Department of Health and Human Services

- Division of Welfare and Supportive Services: Child Care Subsidy Program
- Division of Health Care Financing and Policy: Nevada Check Up
- Division of Health Care Financing and Policy: Medicaid Personal Care Services

Office of the Secretary of State

- Business Licenses

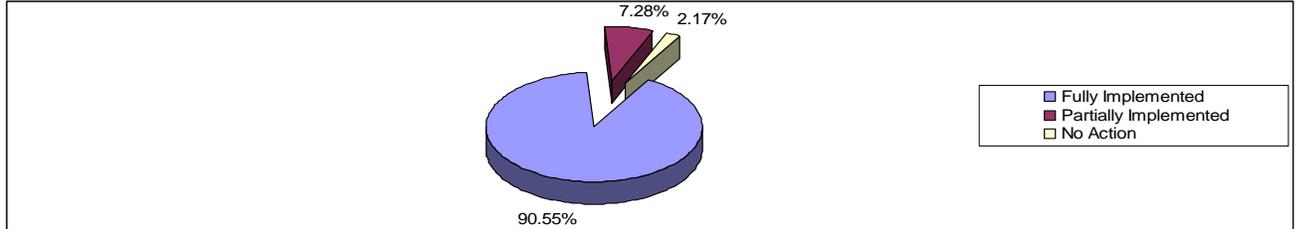
Audits in Progress

As of June 30, 2011 we had the following audits in progress:

- Department of Taxation
- Department of Employment, Training & Rehabilitation – Workforce Investment Boards

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 audit recommendations we issued to State agencies:



Annual Follow-ups	Report #	Total Recs.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
All Previous Reports [1]	N/A	431	387	0	0	44
Nevada Highway Patrol	02-01	26	18	2	0	6
Division of Parole and Probation	06-01	8	7	1	0	0
B&I Financial Institutions Division	07-04	5	4	1	0	0
B&I Real Estate Division	07-07	5	0	4	0	1
Nevada Office of Veteran's Services	07-09	3	1	2	0	0
Correctional Programs Division	07-12	3	2	1	0	0
Housing Division - Weatherization Assistance Program	08-01	2	1	1	0	0
Department of Agriculture	08-03	12	8	3	0	1
Tourism - Nevada Magazine	08-04	4	2	1	0	1
Commission on Economic Development	08-05	3	1	1	0	1
Search for Steve Fossett	08-07	9	8	1	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

Annual Follow-ups	Report #	Total Recs.	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
Division of Mental Health and Developmental Services - Residential Services	10-05	11	5	5	0	1
Division of Mental Health and Developmental Services - Mental Health Services	10-06	11	4	4	3	0
Department of Administration - Vehicle Fleet Management	10-07	4	2	2	0	0
Total[2]		563	460	37	11	55
Percentages exclude items that are "no longer applicable."		508	90.55%	7.28%	2.17%	

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

- Department of Administration:
 - Motor Pool Division, and
 - Purchasing Division.
- Department of Agriculture.
- Department of Business and Industry:
 - Division of Financial Institutions, and
 - Real Estate Division.
- Department of Conservation and Natural Resources – Information Technology Security.
- Department of Education – Programs for Innovation and the Prevention of Remediation (2 Audits).
- Department of Health and Human Services,
 - Health Division – Inspection Programs, and
 - Office of State Public Defender.
- Department of Personnel – Statewide Payroll System.
- Public Utilities Commission.
- Department of Taxation – Alcoholic Beverage Awareness Program Fines.
- Department of Transportation.

Performance Measures

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 2011, we estimate the Division benefited the State and citizens for every dollar spent on the agency as follows:

✓ **Every \$1 spent on the Internal Audit section benefits the State by \$73.**

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2010		FY 2011		FY 2012
	Projected	Actual	Projected	Actual	Projected
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	5.0	4.1	5.0	4.4	5.0
Percentage of recommendations fully implemented	90	88	95	91	95



***Financial
Management
Section***

Staff Qualifications

The Financial Management section staff consists of the Financial Manager who is a CPA.

Financial Management Process

For fiscal year 2011, the Financial Management process included:

- ✓ Training agencies on internal control requirements for executive branch agencies, and other issues pertinent to the agency.
- ✓ Creating and providing tools to assist agencies develop their internal control procedures and provides assistance upon request.
- ✓ Reviewing agencies who received American Recovery & Reinvestment Act (ARRA) funds for compliance with federal and State laws and guidelines.
- ✓ Collaborating with State Purchasing on updated Contract regulations.
- ✓ Assisting agencies evaluate, test, and report on the adequacy of their internal control systems as part of the Biennial Report. Reviewing agencies' reports on their internal control system and providing a comprehensive summary of the reports to the Governor, Legislative Counsel Bureau, and Budget Director.

Accomplishments

The following 35 agencies were trained in fiscal year 2011:

Department of Agriculture

- Administrative Division
- Animal Industry Division
- Livestock Identification Division
- Measurement Standards Division
- Plant Industry Division
- Resource Protection Division

Office of the Attorney General

Department of Education

Division of Forestry

Gaming Control Board

Department of Health & Human Services

- Director's Office
- Division of Health Care Financing & Policy

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

- Division of Mental Health and Developmental Services
 - Lakes Crossing
 - Northern Nevada Adult Mental Health Services

Division of Internal Audits

Public Utilities Commission

Department of Public Safety

- Director's Office
- Capitol Police
- Division of Emergency Management
- State Fire Marshall
- Highway Patrol
- Investigation Division
- Division of Parole and Probation
- Nevada Board of Parole Commissioners
- Office of Criminal Justice Assistance
- Office of Traffic Safety
- Records and Technology Division
- Training Division

Office of the Secretary of State

Internal Control Procedures

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

ARRA Reviews

Department Agriculture

Financial Management reviewed the United States Department of Agriculture Forest Service ARRA Grants administered by the Nevada Department of Agriculture's Plant Industry Division.

Department of Health and Human Services

Financial Management reviewed the United States Department of Health and Human Services ARRA Community Services Block Grant administered by the Nevada Department of Health & Human Services' Director's Office.

Biennial Report

Financial Management issued the Biennial Report on Internal Controls on February 1, 2011.

Performance Measures

Financial Management administers a pre-training and post training test. For fiscal year 2011, State staff increased knowledge 32 percent.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2010		FY 2011		FY 2012
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	25	27	25	26	25
Percentage increase in trainee's overall test score	35	20	35	32	35
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.8	4.5	4.8	4.5	4.8



***Post Review
Section***

Staff Qualifications

The Post Review section staff consisted of a supervisor and one auditor. 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.

Post Reviews

Post 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.

Other Reviews

Post Review performed reviews of the Gaming Control Board and State Public Works Board at the request of the Board of Examiners.

Accomplishments

Post Reviews

For fiscal year 2011, post reviews of 41 agencies were performed. We statistically sampled over 4,800 transactions and noted an average error rate of 4.2 percent.

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

Other Reviews

Gaming Control Board

Post Review reviewed employee time tracking procedures for compliance with State laws and guidelines and best business practices.

State Public Works Board

Post Review performed a limited review to determine if the Board approved and inspected projects as required by State guidelines and a review of employee travel procedures.

Performance Measures

The following summarizes Post Review's performance measures:

Performance Measures	FY 2010		FY 2011		FY 2012
	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 (Scale: Low = 1 and High = 5)	4.5	4.5	4.5	4.9	4.9