

**Department of Administration  
Division of Internal Audits**

**2012 Annual Report**



**Steve Weinberger CPA, Administrator**  
209 East Musser Street, 302  
Carson City, Nevada 89701  
Telephone (775) 687-0120 • Fax (775) 687-0145

## Introduction

The Division of Internal Audits assists Executive Branch management by offering recommendations that enhance efficiency in State government. These recommendations help agencies reduce spending and increase benefits to citizens while complying with State and Federal regulations. 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.....	11

### Post Review Section

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

Staff Qualifications.....	13
Post Review Process.....	13
Accomplishments.....	13
Performance Measures.....	14



***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. There were three vacancies during fiscal year 2012 which are now filled. 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.

## **Internal Audit Process**

At the direction of the Executive Branch Audit Committee, during fiscal year 2012 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**

May 1, 2012 Committee Meeting – The Committee approved the Annual Report and Annual Plan. We presented two audits and five follow-ups. We also 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 Taxation

- Audit and Collection Processes

#### Department of Employment, Training, and Rehabilitation

- Workforce Investment Board

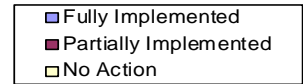
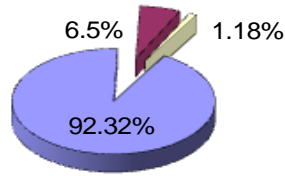
### **Audits in Progress**

As of June 30, 2012 we had the following audits in progress:

- Department of Health and Human Services, Health Division – Early Intervention Services
- Department of Corrections
- Department of Public Safety

### **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 Reccs	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
<a href="#">All Previous Reports [1]</a>	N/A	434	390	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	3	1	0	1
Nevada Office of Veteran's Services	07-09	3	1	2	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	4	4	3	0
Department of Transportation - Utilization of State Equipment	10-02	6	5	1	0	0
Division of Insurance - Insurance Premium Tax	10-03	2	1	1	0	0
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
<a href="#">Total[2]</a>		563	469	33	6	55
Percentages exclude items that are "no longer applicable."		508	92.32%	6.50%	1.18%	

[1] [All previous audits with recommendations with dispositions.](#)

[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:

- Office of the Labor Commissioner, (LA12-02)
- Gaming Control Board (LA12-01),
- Contracts with Consultants (A.B. 463), (LA10-27)
- Department of Business and Industry, Information Technology Security (LA10-25)
- Department of Taxation, Insurance Premium Tax, (LA10-22)
- Board of Parole Commissioners, (LA10-21)
- Programs for Innovation and the Prevention of Remediation, (LA10-20)
- Department of Transportation, (LA10-19)
- Department of Agriculture, (LA10-18)
- Public Utilities Commission, (LA10-17)
- Motor Pool Division (LA10-16)



## 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 2012, 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 \$86.**

The following summarizes Internal Audit’s performance measures:

Performance Measures	FY 2011		FY 2012		FY 2013
	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	95	91	95	92	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 2012, 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 providing assistance upon request.
- ✓ Assisting Executive Branch Auditors.
- ✓ Assisting agencies evaluate, test, and report on the adequacy of their internal control systems as part of the Biennial Report.

## **Accomplishments**

The following 22 agencies were trained in fiscal year 2012:

### Department of Health & Human Services

- Division of Mental Health and Developmental Services
- Division of Aging & Disability Services

### Office of the Governor

- State Office of Energy

### Office of the Military

### Department of Conservation & Natural Resources

- Division of Environmental Protection
- Division of State Lands
- Division of State Parks
- Division of Forestry
- Division of Water Resources
- Natural Heritage Program
- State Historic Preservation Office
- Administration

Department of Public Safety

- Director’s Office
- Capitol Police
- Division of Emergency Management
- State Fire Marshall
- Highway Patrol
- Division of Parole and Probation
- Nevada Board of Parole Commissioners
- Office of Criminal Justice Assistance
- Office of Traffic Safety
- Office of Professional Responsibility

**Internal Control Procedures**

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

**Performance Measures**

Financial Management administers a pre-training and post-training test. For fiscal year 2012, State staff increased knowledge 43 percent.

The following summarizes Financial Management’s performance measures:

Performance Measures	FY 2011		FY 2012		FY 2013
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	25	26	25	25	20
Percentage increase in trainee’s overall test score	35	20	35	43	43
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.8	4.5	4.8	4.3	4.8



***Post Review  
Section***

## **Staff Qualifications**

The Post Review section staff consists of two auditors. For ten months of fiscal year 2012 the section was staffed at 50% (one vacancy). The vacancy has since been filled.

## **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
- ✓ Nature of Transactions

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 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**

### **Post Reviews**

For fiscal year 2012, post reviews of 18 agencies were performed. We sampled 1,888 transactions and noted an average error rate of 12.2 percent.

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

## Performance Measures

The following summarizes Post Review's performance measures:

Performance Measures	FY 2011		FY 2012		FY 2013
	Projected	Actual	Projected	Actual	Projected
Percentage of agencies examined annually	33	33	33	18 <sup>a</sup>	33
Average annual rating from surveys after reviews ( <b>Scale: Low = 1 and High = 5</b> )	4.5	4.9	4.5	4.7	4.9

---

<sup>a</sup> Staff had a 50% vacancy rate for FY2012. Agencies scheduled but not reviewed are included in the FY2013 plan.