

**Department of Administration
Division of Internal Audits**

2014 Annual Report



Steve Weinberger, CPA, Administrator
209 East Musser Street, Suite 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.....	9

Financial Management Section

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

Staff Qualifications.....	11
Financial Management Process.....	11
Accomplishments.....	11
Performance Measures.....	13

Post Review Section

Goal: Ensure agencies' transactions comply with state and federal guidelines, and government accounting principles.

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



***Internal Audit
Section***

**Executive Branch Audit Committee Members
(NRS 353A.038)**

The Administrator of the Division of Internal Audits administratively reports to the Director of the Department of Administration, and functionally 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

Trudy L. Cross, 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.

Internal Audit Process

At the direction of the Executive Branch Audit Committee, during fiscal year 2014 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

September 27, 2013 Committee Meeting – The committee approved the Annual Report and Annual Plan. We presented three audits and four follow-ups. We also reported on the status of recommendations issued by the Internal Audit section and the Legislative Auditor.

June 26, 2014 Committee Meeting - We presented three 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:

Colorado River Commission

Department of Education

- Subrecipient Monitoring

Department of Health and Human Services

- Division of Public and Behavioral Health

Department of Motor Vehicles

- Compliance Enforcement

Department of Transportation

- Employee Settlements

Department of Wildlife

Audits in Progress

As of June 30, 2014 we had the following audits in progress:

- Department of Agriculture
- Department of Health and Human Services, Division of Child and Family Services
- Commission on Off-Highway Vehicles

Audit Follow-ups

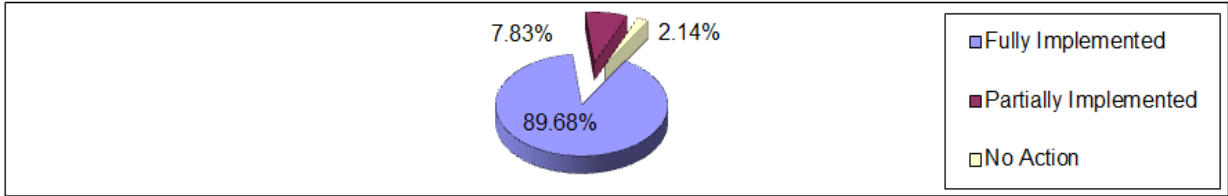
Within six months of issuing the final report and annually thereafter until fully implemented, we review the status of agencies' outstanding recommendations. We then report the results to the Executive Branch Audit Committee.

We presented the following six month follow-ups to the Executive Branch Audit Committee during the fiscal year:

- Department of Health and Human Services – Health Division, Early Intervention Services
- Department of Public Safety
- Department of Corrections
- Department of Health and Human Services – Aging and Disability Services Division (Early Intervention Services)
- Department of Transportation - Employee Settlements
- Department of Health and Human Services – Division of Public and Behavioral Health
- Department of Education – Subrecipient Monitoring

We also presented two committee requested follow-ups of the Department of Health and Human Services – Division of Public and Behavioral Health, Doctor Attendance.

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
All Previous Reports [1]	N/A	495	437	0	0	56
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	5	2	1	0	2
Department of Agriculture	08-03	14	12	1	0	1
MHDS - 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 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	4	0	0	0
Welfare - Child Care Subsidy	11-02	11	9	2	0	0
Department of Taxation	12-01	10	8	2	0	0
Department of Employment, Training, and Rehabilitation, Workforce Investment Board	12-02	10	0	7	3	0
Health Division - Early Intervention Services	13-01	4	1	3	0	0
Department of Public Safety - Nevada Highway Patrol	13-02	5	1	3	1	0
Department of Corrections	13-03	4	1	3	0	0
Department of Health and Human Services - Public and Behavioral Health	14-02	7	2	5	0	0
Department of Education - Subrecipient Monitoring	14-03	3	0	1	2	0
Total[2]		624	504	44	12	62
Percentages exclude items that are "no longer applicable."		562	89.68%	7.83%	2.14%	

[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:

- Department of Business and Industry, Housing Division (12-14)
- Department of Health and Human Services, Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (12-15)
- Department of Business and Industry, Industrial Relations (12-17)
- Department of Conservation and Natural Resources, Division of State Lands (12-18)
- Department of Health and Human Services, Welfare and Supportive Services (12-19)
- Department of Business and Industry, Division of Insurance (12-20)
- Public Employees' Benefits Program (12-23)
- Department of Employment, Training and Rehabilitation, Employment Security Division (12-24)
- Department of Conservation and Natural Resources, Division of Forestry (14-01)
- Department of Corrections, Accuracy of Criminal History Information (14-02)
- Department of Conservation and Natural Resources, Division of Water Resources (14-03)
- Department of Business and Industry, Taxicab Authority (14-04)
- Department of Administration, Risk Management Division (14-05)
- Department of Conservation and Natural Resources, Division of State Parks (14-06)

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 dollar estimates in our audit reports. For example, in fiscal year 2014, we estimate the benefits to the state and citizens for every dollar spent on the Internal Audit section as follows:

✓ **Every \$1 spent on the Internal Audit section benefits the state by \$96.**

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2013		FY 2014		FY 2015
	Projected	Actual	Projected	Actual	Projected
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	5.0	4.8	5.0	4.8	4.8
Percentage of recommendations fully implemented	95	90	92	90	90



***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 2014, the Financial Management process included:

- ✓ Training agencies on internal control requirements for executive branch agencies, and other issues pertinent to the agency.
- ✓ Providing tools to assist agencies develop their internal control procedures and providing assistance upon request.
- ✓ Assisting Executive Branch Auditors.
- ✓ Assisting agencies to evaluate, test, and report on the adequacy of their internal control systems as part of the Biennial Report.

Accomplishments

Fifteen Internal Control training classes were held in which 28 agencies were represented in fiscal year 2014:

- Department of Business and Industry
 - Director's Office
 - Athletic Commission
 - Attorney for Injured Workers
 - Employee Management Relations Board
 - Financial Institutions
 - Housing
 - Industrial Relations and Bond Program
 - Insurance
 - Labor Commissioner
 - Manufactured Housing
 - Mortgage Lending
 - Real Estate
 - Taxicab Authority
 - Transportation Authority
- Department of Conservation and Natural Resources
 - Forestry
- Department of Tourism and Cultural Affairs
 - Nevada Arts Council
 - Tourism

- Department of Employment, Training and Rehabilitation
 - Administrative Services
 - Employment Security
 - Rehabilitation
 - Training
- Department of Health and Human Services
 - Health Care Financing & Policy
 - Lakes Crossing
 - Sierra Regional Center
 - Northern Nevada Adult Mental Health Services
- Department of Motor Vehicles
- Department of Transportation
- Office of the Controller

Requested Reviews

Upon request from executive branch management, Financial Management performed the following reviews with the assistance from the Internal Audit Section:

- Division of Human Resource Management – Employee Status Maintenance Transaction forms and procedures
- Department of Business and Industry, Insurance Division - Contract administration
- Governor’s Office of Energy – Grant administration
- Nevada Department of Transportation – Request for pay grade step adjustments

Internal Control Procedures

Financial Management helped agencies develop internal controls for new fiscal processes and responded to general fiscal related questions.

Performance Measures

Financial Management administers a pre-training and post-training test. For fiscal year 2014, state staff increased knowledge by 29 percent. Additionally, their pre-test scores were approximately 3 percent higher than those of fiscal year 2013.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2013		FY 2014		FY 2015
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	20	26	20	31	20
Percentage increase in trainee's overall test score	43	28	43	29	30
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.8	4.3	4.8	4.3	4.5



***Post Review
Section***

Staff Qualifications

The Post Review section staff consists of two auditors in Auditor III classifications.

Post Review Process

Selection of Reviews

Post Review selected the agencies based on the date of their last post review 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 and sampling expenditures. In addition, the most current Self-Assessment Questionnaire for the agencies was reviewed for any required agency follow-up. Results of the reviews were issued to agency management and the Clerk of the Board of Examiners.

Accomplishments

Post Reviews

For fiscal year 2014, post reviews of 50 agencies were performed. Post Review sampled 3,248 transactions and noted an average error rate of 14.5 percent.

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

Performance Measures

The following summarizes Post Review's performance measures:

Performance Measures	FY 2013		FY 2014		FY 2015
	Projected	Actual	Projected	Actual	Projected
Percentage of agencies examined annually	33	29	33	39	30
Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)	4.9	4.7	4.9	3.9	4.8