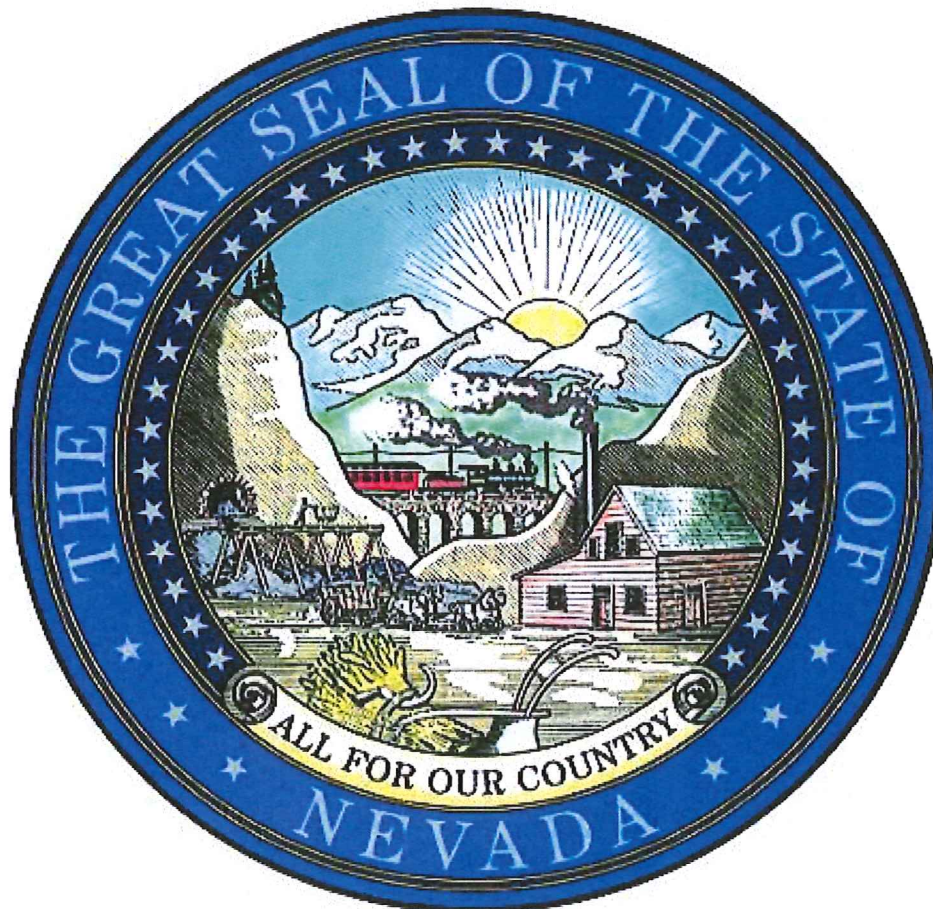


**Department of Administration
Division of Internal Audits**

2013 Annual Report



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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.

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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' transactions comply with State and federal guidelines, and government accounting principles.

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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, 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

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.

Internal Audit Process

At the direction of the Executive Branch Audit Committee, during fiscal year 2013 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

December 6, 2013 Committee Meeting – The Committee approved the Annual Report and Annual Plan. We presented three audits and three 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 Health and Human Services

- Health Division – Early Intervention Services

Department of Public Safety

- Nevada Highway Patrol

Department of Corrections

Audits in Progress

As of June 30, 2013 we had the following audits in progress:

- Department of Health and Human Services, Division of Public and Behavioral Health
- Department of Transportation – Employee Settlements
- Department of Wildlife
- Department of Education – Subrecipient Monitoring
- Department of Motor Vehicles, Compliance Enforcement Division
- Colorado River Commission

Audit Follow-ups

Six Months

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.

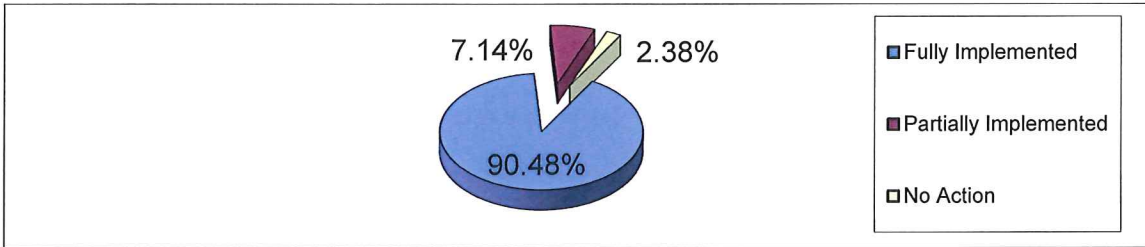
We presented the following six month follow-ups to the Executive Branch Audit Committee during the fiscal year:

- Department of Taxation - Audit and Collection Processes
- Department of Employment, Training, and Rehabilitation – Workforce Investment Board

Annual Follow-ups

During the fiscal year, we performed 15 annual follow-ups to determine the implementation status of outstanding recommendations.

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	489	432	0	0	57
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	2	1	0	2
Housing Division - Weatherization Assistance Program	08-01	2	1	1	0	0
Department of Agriculture	08-03	12	10	1	0	1
MHDS - Lake's Crossing Center and Substance Abuse Prevention and Treatment Agency	10-01	11	3	5	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	3	1	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	0	1	3	0
Department of Public Safety - Nevada Highway Patrol	13-02	4	0	3	1	0
Department of Corrections	13-03	4	1	3	0	0
Total[2]		607	494	39	13	61
Percentages exclude items that are "no longer applicable."		546	90.48%	7.14%	2.38%	

[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 Veterans' Services (LA12-03)
- Department of Health and Human Services, Aging and Disability Services (LA12-04)
- Department of Health and Human Services, Division of Child and Family Services (LA12-05)
- Department of Health and Human Services, Oversight of Child Care Facilities (LA12-06)
- Department of Conservation and Natural Resources, Division of Environmental Protection (LA12-07)
- Department of Administration, Buildings and Grounds Section (LA12-10)
- Department of Motor Vehicles (LA12-11)
- Department of Administration, Division of Enterprise Information Technology Services (LA12-12)
- Department of Business and Industry, Housing Division (LA12-14)
- Division of Mental Health and Developmental Services, Substance Abuse Prevention and Treatment Agency (LA12-15)
- Department of Business and Industry, Division of Industrial Relations (LA12-17)
- Department of Conservation and Natural Resources, Division of State Lands (LA12-18)
- Department of Health and Human Services, Division of Welfare and Supportive Services (LA12-19)
- Department of Business and Industry, Division of Insurance (LA12-20)

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 2013, 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 \$95.

The following summarizes Internal Audit's performance measures:

Performance Measures	FY 2012		FY 2013		FY 2014
	Projected	Actual	Projected	Actual	Projected
Audit effectiveness based on agency satisfaction surveys (Scale: Low = 1 and High = 5)	5.0	4.9	5.0	4.8	5.0
Percentage of recommendations fully implemented	95	92	95	90	92



***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 2013, 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

Eleven classes were held in which 27 agencies were represented in fiscal year 2013:

- Department of Administration
 - Director's Office
 - Administrative Services Division
 - Buildings and Grounds Division
 - Fleet Services Division
 - Grant Office
 - Hearings and Appeals
 - Division of Internal Audits
 - Purchasing Division
- Department of Conservation and Natural Resources
 - Division of Forestry
 - Division of Environmental Protection
- Department of Cultural Affairs
 - Division of Museums and History
- Department of Health and Human Services
 - So. NV Adult Mental Health Services
 - So. NV. Child and Adolescent Services
 - Desert Regional Center
- Department of Motor Vehicles

- Department of Public Safety
 - Director's Office
 - Emergency Management and Homeland Security
 - Investigations Division
 - Records and Technology Division
 - Training Division
- Department of Taxation
- Department of Wildlife
- Charter Public School Authority
- Commission on Economic Development
- Commission on Ethics
- Commission on Mineral Resources
- Office of Veteran's Services

Internal Control Procedures

We 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 2013, State staff increased knowledge by 28 percent. Additionally, their pre-test scores were approximately 11% higher than those of fiscal year 2012.

The following summarizes Financial Management's performance measures:

Performance Measures	FY 2012		FY 2013		FY 2014
	Projected	Actual	Projected	Actual	Projected
Percentage of all agencies attending training sessions	25	25	20	26	20
Percentage increase in trainee's overall test score	35	35	43	28	30
Average training class evaluation score (Scale: Low = 1 and High = 5)	4.8	4.8	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. Reviews included expenditures for the following areas: purchases, procurement cards, travel, contracts, grants and fixed assets. In addition, the most current Self-Assessment Questionnaires for the agencies were 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 2013, post reviews of 38 agencies were performed. We sampled 3,610 transactions and noted an average error rate of 19 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 2012		FY 2013		FY 2014
	Projected	Actual	Projected	Actual	Projected
Percentage of agencies examined annually	33	18 ^a	33	29	30
Average annual rating from surveys after reviews (Scale: Low = 1 and High = 5)	4.5	4.7	4.9	4.7	4.8

^a Staff had a 50% vacancy rate for FY2012. Agencies scheduled but not reviewed were included in the FY2013 plan.