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We have completed an audit of the Department of Cultural Affairs, Nevada Arts Council. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Council's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Nevada Arts Council for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

February 9, 2006
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF CULTURAL AFFAIRS
NEVADA ARTS COUNCIL

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS NEVADA ARTS COUNCIL

Background

The Nevada Arts Council was created as a state agency in 1967. In 1993, the Council became part of the newly created Department of Museums, Library and Arts, which was renamed the Department of Cultural Affairs during the 2001 Legislative Session.

The mission of the Council is to enrich the cultural life of the State by making the arts accessible to all Nevadans. To meet its mission, the Council supports Nevada artists and art organizations by awarding grants, commissioning exhibits, sponsoring professional development workshops and conferences, producing newsletters and other publications, and providing technical assistance to artists.

A nine-member board, appointed by the Governor, advocates on behalf of the arts, promotes cultural policies and programs to benefit residents throughout the State and makes final decisions of grant allocations. Offices are maintained in Carson City and Las Vegas and staffed by 10 full-time positions. The Council is funded primarily by a general fund appropriation and grants from the National Endowment for the Arts. In fiscal year 2004, the Council's total revenues and expenditures were approximately \$2.1 million.

Purpose

The purpose of this audit was to evaluate the Council's financial and administrative practices, including whether grants and other activities were carried out in accordance with applicable laws, regulations, policies, and procedures. This audit included a review of the Council's financial and administrative activities during the period July 1, 2003 to December 31, 2004.

EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS NEVADA ARTS COUNCIL

Results in Brief

The Nevada Arts Council can improve its financial and administrative practices in several areas. Specifically, additional controls are needed to help ensure grant management activities comply with state, federal, and agency requirements. Additional controls would also improve the management of payroll and travel activities. Good control systems contribute to the successful administration of an organization. By developing additional control procedures, the Council can improve its operations.

Principal Findings

- To record expenditures in the state's accounting system, the Council uses specific budget categories which relate to various agency programs. Guidelines for using these categories are provided by agency policy and the configuration of the biennial budget. However, the Council did not consistently apply these guidelines when accounting for grant related activities. Inconsistent accounting practices increase the risk of noncompliance with state budgetary laws. For example, budget categories for the Artist Services and Arts in Education Programs would have been exceeded by about \$3,100 and \$400 respectively, had several transactions been coded properly. (page 8)
- The Council has not implemented adequate control procedures regarding the processing of federal grant reimbursement requests. As a result, documentation supporting reimbursement calculations was not routinely maintained for the four reimbursements tested from fiscal years 2004 and 2005. Detailed

EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS NEVADA ARTS COUNCIL

support for these calculations is a federal requirement. (page 9)

- Although the Council has implemented some procedures for administering grants, these procedures were not adequate to ensure compliance with relevant laws, regulations, and procedures. We tested 20 grant files totaling \$151,803 from fiscal years 2004 and 2005 and noted grants were awarded improperly; grants were paid before final reports were submitted; and grant files lacked evidence of the Council's monitoring activities. (page 10)
- The Council did not always comply with state and federal overtime laws. We tested four payroll periods from fiscal years 2004 and 2005 and identified three employees who worked in excess of a 40-hour workweek without receiving paid overtime or compensatory time. For example, one employee worked 16 hours of overtime one week without officially recording this overtime in the state payroll system. The following week this employee used the 16 hours as leave, but did not receive the additional half-time premium required by law. Although department policy requires compliance with state and federal overtime laws, the Council has not developed controls to ensure these requirements are followed. (page 12)
- The Council did not always document key control activities associated with the preparation of its payroll as required by state regulation and department policy. During our testing, we noted instances where the approval of timesheets, overtime, compensatory time, or variable workweeks was not documented. In addition, payroll documentation often lacked details regarding hours worked and leave used. Although the Council has developed some control procedures related to payroll processing, these controls are not

EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS NEVADA ARTS COUNCIL

sufficient to ensure compliance with state regulation and department policy. (page 14)

- The Council did not adequately monitor travel claims to ensure they complied with state policy or agency procedures. In our review of 20 employee travel claims from fiscal years 2004 and 2005, we identified 5 claims that were not properly approved or supported by adequate documentation. Proper review and oversight of travel activities helps ensure the validity and accuracy of these expenditures. (page 15)

Recommendations

This audit report contains six recommendations to improve the Council's financial and administrative practices. Specifically, the Council needs to develop procedures to ensure program expenditures are accounted for consistently; federal grant reimbursement calculations are documented and maintained; and grant activities comply with laws, regulations, and policies. In addition, the Council needs to develop procedures to ensure compliance with overtime laws and regulations and policies regarding timesheet preparation and review. Furthermore, the Council needs to monitor travel claims to ensure compliance with state policy and agency procedures. (page 24)

Agency Response

The Council, in its response to our report, accepted four recommendations, partially accepted one recommendation, and rejected one recommendation. (page 20)

Introduction

Background

The Nevada Arts Council was created as a state agency in 1967. In 1993, the Council became part of the newly created Department of Museums, Library and Arts, which was renamed the Department of Cultural Affairs during the 2001 Legislative Session.

The mission of the Council is to enrich the cultural life of the State by making the arts accessible to all Nevadans. To meet its mission, the Council supports Nevada artists and art organizations by awarding grants, commissioning exhibits, sponsoring professional development workshops and conferences, producing newsletters and other publications, and providing technical assistance to artists. These activities are accomplished through six basic programs:

- **Artist Services Program**—serves all artistic disciplines by providing technical assistance to individual artists through grants, exhibition opportunities, and professional development workshops.
- **Arts in Education Program**—supports the goal of lifelong learning in the arts by sponsoring school and community artist residencies, providing grants for innovative arts education projects, and participating in statewide partnerships to enhance arts curricula.
- **Community Arts Development Program**—supports art organizations and the community through grants, workshops, research, and referrals.
- **Folklife Program**—preserves and supports Nevada's traditional art forms and cultural expressions through grants, partnerships, exhibitions, publications, and educational activities.
- **Grants Program**—helps provide access to cultural activities for Nevada citizens by providing nonprofit organizations and individuals with grants that help sponsor concerts, exhibitions, festivals, and literary publications.
- **Public Awareness and Arts Initiative Program**—provides constituent services such as the Governor's Arts Awards, surveys, and planning documents.

In fiscal year 2004, the Council expended approximately \$2.1 million to operate its programs. Exhibit 1 shows these expenditures by type and as a percentage of the total.

Exhibit 1

**Expenditures by Type
Fiscal Year 2004**

Type	Amount	% of Total
Grants	\$1,105,443	52.9%
Personnel	586,602	28.0%
Other Operating Expenditures	399,357	19.1%
Total	\$2,091,402	100.0%

Source: Analysis of state accounting records.

A nine-member board, appointed by the Governor, advocates on behalf of the arts, promotes cultural policies and programs to benefit residents throughout the State and makes final decisions of grant allocations. Offices are maintained in Carson City and Las Vegas and staffed by 10 full-time positions. The Council is funded primarily by a general fund appropriation and grants from the National Endowment for the Arts (NEA). Exhibit 2 shows the Council's fiscal year 2004 revenues by source and as a percentage of the total.

Exhibit 2

**Revenues by Source
Fiscal Year 2004**

Source	Amount	% of Total
General Fund Appropriation ⁽¹⁾	\$1,486,639	71.1%
NEA Grants	531,969	25.4%
License Plate Fees	61,661	3.0%
Miscellaneous	11,133	0.5%
Total	\$2,091,402	100.0%

Source: State accounting system.

⁽¹⁾ Net of reversions and carry forwards.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's

oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Nevada Arts Council's financial and administrative activities during the period July 1, 2003 to December 31, 2004. The objective of this audit was to evaluate the Council's financial and administrative practices, including whether grants and other activities were carried out in accordance with applicable laws, regulations, policies, and procedures.

Findings and Recommendations

The Nevada Arts Council can improve its financial and administrative practices in several areas. Specifically, additional controls are needed to help ensure grant management activities comply with state, federal, and agency requirements. Additional controls would also improve the management of payroll and travel activities. Good control systems contribute to the successful administration of an organization. By developing additional control procedures, the Council can improve its operations.

Additional Controls Needed for Grant Management Activities

The Council did not have adequate controls to ensure it complied with state, federal, and agency requirements regarding grant accounting and administration. As a result, we noted that grant related expenditures were not accounted for consistently; supporting documentation for federal reimbursements was not maintained; and grants were not always awarded, paid, or monitored properly. The Council needs to develop additional procedures to improve the management of these processes.

Grant Related Expenditures Not Accounted for Consistently

To record expenditures in the state's accounting system, the Council uses specific budget categories which relate to various agency programs. Guidelines for using these categories are provided by agency policy and the configuration of the biennial budget. However, the Council did not consistently apply these guidelines when accounting for grant related activities. For instance, in August 2004, the Council:

- Coded \$1,400 in grant expenditures between three budget categories. Council documentation indicated these expenditures should be coded to the Artist Services Program. However, only \$671 was charged to that program's budget category. The remaining costs were charged to other programs.
- Transferred over \$2,300 from the Artist Services Program to another budget category. These expenditures pertained to publications printed for the Artist Services Program and agency documentation indicated they should have been charged to that program.

- Transferred over \$400 from the Artist Services Program to the Grant Program's budget category without documentation to support the validity of the transfer. After reviewing these expenditures, the Council's staff concluded these expenditures pertained to the Arts in Education Program.

The Council has established a control procedure that requires all grant related expenditures to be charged to the category specific to that program. Consistent with this procedure, the Council's biennial budget is configured with a category for each of the agency's grant programs. For example, expenditures associated with the Artist Services Program are charged to Category 32. During the budget process, the expenses associated with the various categories are allotted and approved. State budgetary laws require that all future expenditures be made on the basis of these allotted amounts. A revision to these amounts can be made if approved by the Budget Director, Governor, or the Legislature's Interim Finance Committee. The level of approval required depends on the amount of the change.

Inconsistent accounting practices increase the risk of noncompliance with state budgetary laws. For instance, in the above examples, the budget categories associated with the Artist Services Program and the Arts in Education Program would have been exceeded by about \$3,100 and \$400 respectively, had the transactions been coded properly.

Documentation for Federal Reimbursements Not Maintained

The Council has not implemented adequate control procedures regarding the processing of federal grant reimbursement requests. As a result, documentation supporting reimbursement calculations was not routinely maintained for the four reimbursements tested from fiscal years 2004 and 2005. Detailed support for these calculations is a federal requirement.

The Council receives grant funding from the National Endowment for the Arts (NEA) to support its activities. During fiscal year 2004, over \$500,000 was received from the NEA. To obtain this funding, the Council submits a reimbursement request based on expenditures that have been incurred. These expenditures are tracked through the use of an agency database. Periodically, this database is queried to identify expenditures qualifying for reimbursement. From these queries, the reimbursement

request is prepared. However, the Council has not formally documented this process nor have they retained a record of the results.

Federal grant reimbursement standards require recipients to maintain a financial management system that provides effective control over the accountability of funds. The system must include accounting records supported by source documentation. In addition to this federal requirement, the Council's internal control procedures require that a grant summary sheet be maintained in each grant file as backup for reimbursement requests. During our testing, we did not find evidence these summary sheets were used by the Council.

Supporting documentation for federal reimbursement requests should be maintained and readily available. This will help ensure compliance with federal grant accounting requirements and also contribute to the accuracy of the reimbursement requests.

Grants Not Always Awarded, Paid, or Monitored Properly

Although the Council has implemented some procedures for administering grants, these procedures were not adequate to ensure compliance with relevant laws, regulations, and procedures. We tested 20 grant files totaling \$151,803 from fiscal years 2004 and 2005 and noted several problems related to the award, payment, and monitoring of these grants.

NRS 233C.090 states that the Board of the Nevada Arts Council shall approve grant applications and allocations within the limits of legislative appropriations. For two of the files we examined, grants were awarded without obtaining Board approval. In one of these examples, the Council paid \$37,487 to an art organization using funds generated from the sale of special license plates designated to support children's art education. These payments were made without a competitive award process and represented more than 50% of the license plate fees distributed in fiscal year 2004.

In response, the Council indicated its award of license plate fees does not require Board approval. The Council cited NRS 233C.094 as support for their position.

NRS 233C.094(1) states:

The Account for License Plates for the Support of the Education of Children in the Arts is hereby created in the State General Fund. The Division shall administer the Account.

According to the Council, this statute allows them to distribute license plate fees without Board involvement. In addition, the Council does not consider distributions from this account to be grants. Further, they believe the Legislature intended that a portion of these funds be handled as pass-through payments to a specific entity. The Council also contends that this entity is the only statewide organization that provides arts education activities for children of all abilities.

We disagree with the Council's position for several reasons. First, the money distributed from this account is identified as grant funds in the agency's budget and in the state's financial system. Consequently, we feel any distribution is subject to the Board's statutory approval requirement. Additionally, our review of the legislative record associated with the creation of this account did not indicate these funds were earmarked for a specific entity. Further, we noted that the Council has distributed these funds to several organizations. Finally, other grants are awarded through a competitive process that includes review and approval by the Council's Board. We believe the open and competitive approach applied in these circumstances is more appropriate for the award of state funds.

In addition to the above issues, we observed other problems with the Council's awarding and monitoring of grants. Additional examples noted in our testing of the 20 grant files include:

- One grant for \$150 was paid to a private company. NAC 233C.020 requires that an organization applying for a grant from the Council must be a nonprofit organization incorporated in Nevada and have a tax-exempt status.
- Four grantees were paid their entire award amount before they submitted a final report. The total award for these four grants was \$43,337. During fiscal year 2004, NAC 233C.100 required that 10% of a grant award be retained until the recipient submitted a final report. A similar requirement—applicable to fiscal year 2005 grants—was established by the agency in one of its grant management documents.

- Two grant files, totaling \$38,487, did not contain evidence that a final report was submitted by the grantee, or other monitoring activities were performed by Council staff. NAC 233C.100 requires a grantee to file a final report upon completion of the project.

A good control system promotes the proper award, payment, and monitoring of grants. The Council's existing grant administration process does not always ensure this occurs. For example, in related testing we noted that grantees were sometimes paid more than the amount awarded or expended. In this testing, we identified duplicate payments and overpayments exceeding \$5,000 on three grants. These payment errors went undetected until reported and reimbursed by the grantees.

Recommendations

1. Develop procedures to ensure program expenditures are accounted for consistently.
2. Develop procedures to ensure federal grant reimbursement calculations are documented and maintained.
3. Develop procedures to ensure grant activities comply with laws, regulations, and policies.

Additional Controls Needed for Payroll and Travel Activities

The Council lacked controls to ensure payroll and travel transactions were processed correctly. As a result, we noted instances when the Council did not comply with overtime laws; properly document payroll activities; or adequately monitor travel claim reimbursements. By developing additional controls, the Council will help improve compliance with established payroll and travel requirements.

Overtime Laws Not Complied With

The Council did not always comply with state and federal overtime laws. We tested four payroll periods from fiscal years 2004 and 2005 and identified three employees who worked in excess of a 40-hour workweek without receiving paid overtime or compensatory time. For example, one employee worked 16 hours of overtime one week without officially recording this overtime in the state payroll system.

The following week this employee used the 16 hours as leave, but did not receive the additional half-time premium required by law.

In addition, the Council did not have written agreements for all employees who accrued compensatory time in lieu of receiving paid overtime. However, when we brought this to the attention of the Council, agreements were signed for these four employees. All other Council employees had written agreements in their personnel files.

The Fair Labor Standards Act (FLSA) establishes that employees shall not work more than 40 hours in a workweek unless they receive compensatory time or paid overtime. To receive compensatory time, employees must enter into an individual contract or an agreement made as a result of collective bargaining. For qualifying employees, credit for overtime is accrued at time and one-half of their regular rate. State laws and regulations consistent with the FLSA have also been established. For example:

- NRS 284.180 establishes that overtime is generally considered time worked in excess of a 40-hour week with overtime compensation at time and one-half.
- NRS 284.181 authorizes agencies to enter into agreements with state employees for the provision of compensatory time instead of paid overtime.
- NAC 284.250 establishes that the method of compensating an employee for overtime is cash payment computed at time and one-half of the employee's normal rate of pay. In addition, the agency may enter into agreements to provide state employees compensatory time in lieu of cash payments for overtime.
- NAC 284.524 (1) defines the workweek for a state employee as 40 hours.

Although department policy requires compliance with state and federal overtime laws, the Council has not developed controls to ensure these requirements are followed. Compliance with overtime laws is necessary to ensure the state is not monetarily liable to employees for overtime worked.

Payroll Activities Not Documented

The Council did not always document key control activities associated with the preparation of its payroll as required by state regulation and department policy. During our testing, we noted instances where the approval of timesheets, overtime, compensatory time, or variable workweeks was not documented. In addition, payroll documentation often lacked details regarding hours worked and leave used.

NAC 284.5255 requires an employee to provide an accurate accounting of the hours worked and leave used during a pay period. In addition, timesheets must include the specific times of a work shift and entries to account for all hours in the pay period. The regulation also requires that an employee's supervisor review the timesheet and verify the accuracy of the hours reported.

Regarding the accrual of overtime, the Department of Cultural Affairs has established a policy that states overtime will be kept to an absolute minimum. To accomplish this goal, the use of a variable workweek is encouraged. This convention results in a temporary alteration of an employee's 40-hour work schedule, within a week, to avoid the payment of overtime or the accrual of compensatory time. To use a variable workweek, a form is submitted in advance for approval by the appropriate authority. If a variable workweek is not possible, compensatory time must also be requested and approved in advance. This request must also include a justification for not using a variable workweek.

To determine compliance with these payroll requirements, we reviewed 37 timesheets and their supporting documentation related to the four payroll periods tested. The following exceptions were found:

- 2 of 37 timesheets did not have documentation of supervisory review.
- 9 of 37 timesheets did not document the pre-approval of overtime, compensatory time, or the use of a variable workweek.
- 9 of 37 timesheets did not include specific details regarding hours worked and leave used.

Although the Council has developed some control procedures related to payroll processing, these controls are not sufficient to ensure compliance with state regulation

and department policy. Improved compliance with these requirements will increase the likelihood that payroll expenditures are valid and accurate.

Travel Claims Not Adequately Monitored

The Council did not adequately monitor travel claims to ensure they complied with state policy or agency procedures. In our review of 20 employee travel claims from fiscal years 2004 and 2005, we identified 5 claims that were not properly approved or supported by adequate documentation. For example:

- 3 of 20 claims were not signed by the employee's supervisor. In addition, one of these employees was paid about \$267 without submitting the appropriate claim form.
- 2 of 20 claims did not include receipts to support the propriety of all expenditures. In total, these two employees were paid \$45 for parking and other expenditures without supporting receipts.

The State has established a policy to help ensure the validity of travel expenses. The State Administrative Manual, section 0220.0, requires all staff reimbursements for travel be filed on the state's authorized claim form. Both the claimant and their supervisor must sign this form attesting to its accuracy and appropriateness. In addition, the Council has internal procedures that require administrative staff to verify all travel expenditures are legitimate and properly supported.

Proper review and oversight of travel activities helps ensure the validity and accuracy of these expenditures. Even though the exceptions identified in our testing did not involve significant financial resources, better compliance with existing control procedures is warranted. This will help ensure the integrity of the agency's future travel claims.

Recommendations

4. Develop procedures to ensure compliance with overtime laws.
5. Develop procedures to ensure compliance with regulations and policies regarding timesheet preparation and review.
6. Monitor travel claims to ensure compliance with state policy and agency procedures.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Nevada Arts Council, we interviewed agency staff and reviewed laws, regulations, policies, and procedures significant to the operation of the Council. We also reviewed prior audit reports, financial reports, budgets, and other information describing activities of the Council. In addition, we documented key control processes and assessed their susceptibility to risk.

To accomplish our audit objective, we evaluated the Council's grant and financial administration activities. To determine if grants were properly managed, we randomly selected 20 grant files and verified the Council's awarding and monitoring practices complied with applicable laws, regulations, and policies. We then determined if agency documentation supported the grant payments and if they exceeded the awarded amount. In addition, we verified grant expenditures were coded to the proper category.

To determine if grant expenditures were properly reported on federal reports, we judgmentally selected four reimbursement claims and determined if agency documentation supported the requested amount. Furthermore, we verified reimbursement calculations were mathematically correct.

To evaluate the Council's processing of payroll transactions, we systematically selected four pay periods and reviewed staff timesheets to ensure they complied with applicable laws, regulations, and policies. In addition, we traced employee timesheet events to state accounting records to verify they were properly recorded.

For non-grant expenditures we randomly selected and tested 60 transactions to ensure they were properly supported, accounted for, and in compliance with applicable laws, regulations, and policies. This sample included 20 travel claims and 10 professional service expenditures, which were tested for compliance requirements specific to those transactions. In addition, we determined if the Council had taken an annual fixed asset inventory during fiscal year 2004. We then tested the accuracy of this inventory list. We also judgmentally selected eight journal vouchers to verify they

were recorded properly. Finally, we judgmentally selected 18 transactions to verify they were recorded to the proper fiscal year.

Our audit work was conducted from December 2004 to June 2005 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Interim Director of the Department of Cultural Affairs and the Administrator of the Nevada Arts Council. On January 18, 2006, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 20.

Contributors to this report included:

Todd Peterson
Deputy Legislative Auditor

George Allbritten, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Prior Audit Recommendations

The scope of our current audit included all seven of the recommendations from our 1996 audit of the Nevada Arts Council. These recommendations addressed the Council's grant management process. As part of the current audit, we evaluated the status of these recommendations and determined they were not fully implemented. We have modified and repeated these recommendations in the current audit.

Appendix C
Response From the Nevada Arts Council



January 30, 2006

Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701

State of Nevada
Kenny C. Guinn
Governor

Department of Cultural
Affairs

Scott K. Sisco
Interim Department Director

Board Members
Candy Schneider
Chair

Firouzeh Forouzmand
Shaun Griffin
Carol Johnson
Tim Jones
Joan Lolmaugh
Margo Piscevich
Marcia Robinson
William E. Snyder, FAIA

Susan Boskoff
Executive Director

Dear Mr. Townsend:

Pursuant to NRS 218.821(1), please find attached our agency response to your draft audit report dated January 5, 2006.

We regret that we were unable to come to agreement on all items contained within the report. As you will note, we have accepted four recommendations and partially accepted one, while rejecting one item. You will find our comments included on our "Response to Audit Recommendations" form.

The Department of Cultural Affairs promotes the development and utilization of "Best Practices" in its agencies and respective professional fields. In doing so, demand for our public programs increases and our services are well received. We continue to direct staff to observe and comply with both state and federal regulations, while at the same time utilizing very limited resources to provide an ever-growing constituency with creative and appropriate programs.

We anticipate meeting the changes identified in those areas of agreement within the required timeline, which we know will result in improvements as we continue to follow our mission to serve the citizens of Nevada.

Sincerely,

Susan Boskoff
Administrator

Enclosures

cc: Scott K. Sisco, Interim Director
Department of Cultural Affairs

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**Nevada Arts Council
Response to Audit Recommendations**

Recommendation Number	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
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<p>1 Develop procedures to ensure program expenditures are accounted for consistently</p>	_____	_____	<u> X </u>
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While the recommendation itself appears to be sensible, the Division was unable to reconcile its difference of opinion with the audit staff related to the listed findings. As such, the Division cannot accept this recommendation. The Division feels that it is correct and appropriate for its program areas to collaborate on projects to respond to requests from its constituents and changes in the external environment. During the development phase of a new initiative, unanticipated opportunities present themselves that may involve increased or new participation of another agency program or one or more nonprofit organizations.

In fact, we view an example identified as a finding in the audit report as a good illustration of how these collaborations can enhance a new initiative. As we developed the Traveling Exhibition Program (TEP), which was designed to offer communities throughout the state access to affordable, quality visual arts exhibits, the Folklife Program expanded its role in creating a folk and traditional art exhibit even though TEP management was placed in the Artist Services Program. As well, the relationship between the Nevada Museum of Art and the Arts Council evolved into a much deeper collaboration, which resulted in bilingual exhibit panels, expanded marketing materials, and the chance to purchase the first piece for the Nevada State Art Collection. None of these activities deviated from the intent of the Traveling Exhibition Program as it had been briefly described in various budget documents, but they did require additional participation from other agency programs.

The Division's current budget set-up was specifically built to allow flexibility for just such responsive programming. During the last base-budget audit, a multi-category budget was created so that the "primary" program expenditures were paid from a single category. However, it was never the intention that collaborative projects and initiatives would not be paid for out of multiple categories.

<p>2 Develop procedures to ensure federal grant reimbursement calculations are documented and maintained</p>	<u> X </u>	_____	_____
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Due to extensive staff changes in the Fiscal Manager's position at the Nevada Arts Council, a newly hired Fiscal Manager failed to maintain full backup on a federal reimbursement request. An Internal Control has been created to ensure that this does not happen again.

**Nevada Arts Council
Response to Audit Recommendations**

<u>Recommendation Number</u>	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
3 Develop procedures to ensure grant activities comply with laws, regulations, and policies	_____	_____ X _____	_____

Within this recommendation, the Division agrees with certain identified errors in grant activities and accepts the advice included in the audit report to update and improve existing policies and procedures for grants management, which we believe should include ongoing staff training and internal auditing. However, the Division cannot fully accept this recommendation due to its inability to reconcile differences of opinion with audit staff on the distribution of funds in the Arts License Plate account, which is incorporated in the various findings outlined on pages 10 -12. This account established in NRS 233C.094 (1) designates in Paragraph 3 that, "The Account for License Plates for the Support of the Education of Children in the Arts is hereby created in the State General Fund. The Division shall administer the Account."

We interpret that the legislative intent for direction to the Arts Council was to determine the most effective way to distribute these funds on a statewide basis to support arts education for Nevada's children. At that time, the only existing statewide arts organization providing programming for children at that time was VSA of Nevada. It remains the only such organization today. Transportation Committee hearing minutes from the 1995 Legislative Session note that VSA was involved in planning the competition and selection process for the license plates' final artwork, as well as the marketing of the project from the outset. Upon approval of the Arts license plate, the Arts Council determined that sharing the revenues with VSA would provide an effective and immediate mechanism to provide arts education experiences to children of all abilities on a statewide basis. If another statewide organization materializes in the future that can provide arts education activities to children throughout the state, we will certainly reconsider how these revenues are distributed.

It should be noted that although the Arts Council opted to process these payments by using a grant GL, the payments are viewed as a pass-through. These payments to VSA were not intended to be for competitive grants as the audit states (though we do distribute a portion of Category 55 funds through competitive grant processes). Therefore, the references to requiring final reports holding back 10% of grant funds, and quarterly reviews, from the board are not applicable.

**Nevada Arts Council
Response to Audit Recommendations**

<u>Recommendation Number</u>	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
4 Develop procedures to ensure compliance with overtime laws	<u> X </u>	<u> </u>	<u> </u>
<p style="margin-left: 40px;">The Division agrees that several employees made errors in reporting flex and comp time and that the appropriate supervisor and the Fiscal Manager did not find these mistakes. Correct procedures have been clarified with all staff about overtime laws to ensure this does not happen again.</p>			
5 Develop procedures to ensure compliance with regulations and policies regarding timesheet preparation and review	<u> X </u>	<u> </u>	<u> </u>
<p style="margin-left: 40px;">The Division agrees that supervisor signatures were missing from the identified timesheets. Correct procedures about timesheet preparation have been clarified with all staff to ensure this does not happen again.</p>			
6 Monitor travel claims to ensure compliance with state policy and agency procedures	<u> X </u>	<u> </u>	<u> </u>
<p style="margin-left: 40px;">The Division agrees that the identified travel claims were processed without supervisor or agency administrator's signatures. Correct procedures have been clarified with all staff about travel regulations and requirements to ensure this does not happen again.</p>			
TOTALS	<u> 4 </u>	<u> 1 </u>	<u> 1 </u>

Nevada Arts Council Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop procedures to ensure program expenditures are accounted for consistently.....	_____	_____X_____
2	Develop procedures to ensure federal grant reimbursement calculations are documented and maintained.....	_____X_____	_____
3	Develop procedures to ensure grant activities comply with laws, regulations, and policies	_____X*_____	_____
4	Develop procedures to ensure compliance with overtime laws	_____X_____	_____
5	Develop procedures to ensure compliance with regulations and policies regarding timesheet preparation and review.....	_____X_____	_____
6	Monitor travel claims to ensure compliance with state policy and agency procedures	_____X_____	_____
TOTALS		<u>5</u>	<u>1</u>

*Partially accepted. See "Auditor's Comments on Agency Response" on page 25 for additional discussion.

Appendix D

Auditor's Comments on Agency Response

The Nevada Arts Council, in its response, does not agree with certain of our findings, conclusions, and recommendations. Additionally, despite our request that the Council respond to our audit report by either accepting or rejecting our recommendations, it has only partially accepted one of our six recommendations. The following identifies those sections of the report where the Division has taken exception to our position. We have provided our comments on the issues raised in its response to assure the reader that we believe our findings, conclusions, and recommendations, as stated in the report, are appropriate.

1. The Council has rejected our recommendation that procedures be developed to ensure program expenditures are accounted for consistently. In its response, the Council indicates it is correct and appropriate for program areas to collaborate on projects and pay expenditures out of multiple categories. As an example, the Council refers to a collaboration between the Folklife and Artist Services programs to purchase an art piece for the Nevada State Art Collection. (See page 21)

Legislative Auditor's Comments

As stated on pages 8 and 9, guidelines for coding program expenditures to the various budget categories are provided by agency policy and the state's budgetary laws. We agree these guidelines do not preclude the Council from collaborating and sharing costs between programs. However, our recommendation simply proposed that procedures be developed to ensure expenditures are consistently accounted for within these guidelines.

The transaction cited by the Council as justification for its accounting practices provides a good example of the inconsistencies noted in our testing. In its response, the Council seems to argue that the cost of this art piece should be shared between the two collaborating programs (Artist Services and Folklife—see page 21). However, this did not occur as none of the expenditures were coded to the Folklife program—which had less than \$4 of budget authority at the time this transaction was processed. Instead, the \$1,400 cost was allocated to the following three budget categories:

<u>Program</u>	<u>Amount</u>	<u>Category</u>
Grants Program	\$ 428.88	28
Artists Services Program	\$ 670.60	32
Public Info/Arts Initiatives Program	\$ 300.52	33
Total	\$1,400.00	

Our analysis of the Council's accounting records provided no basis for the above expenditure allocation. Further, our review of related budget documentation provided no justification for this treatment. We did note that the transaction was processed at the end of the fiscal year and brought two of the three budget categories to a zero balance. Consequently, we viewed the allocation as an arbitrary use of available budget authority. As a result, we considered the treatment inconsistent with established accounting guidelines.

2. The Council only partially accepted our recommendation to develop procedures to ensure grant activities comply with laws, regulations, and policies. Although the Council agrees with certain errors identified in its grant activities, it disagrees with our finding concerning funds distributed from the arts license plate account. Regarding this account, the Council feels it was the Legislature's intent that it determine the most effective way to distribute these funds. Further, the Council describes distributions from this account as "pass-through" payments—not competitive grants. As a result, the Council considers its normal award, payment, and monitoring processes to be non-applicable. (See page 22)

Legislative Auditor's Comments

As stated on pages 10 and 11, NRS 233C.094 created a special license plate account to support arts education for children. The account was to be administered by the Arts Council. Our review of the legislative record associated with the creation of this account does not support the Council's interpretation of this statute. Rather, we believe distributions from this account should be processed as grants and subject to the Council's normal oversight processes—as other legislative appropriations and federal funds are administered. Since this did not occur, we considered these distributions to be non-compliant. As a result of this and other exceptions, we recommended that procedures be developed to ensure compliance with established grant requirements. Furthermore, we considered the open and competitive approach typified by the Council's standard grant award process to be more transparent and therefore more appropriate for the award of these public funds.