

# Audit Highlights



Highlights of Legislative Auditor report on the Commission on Economic Development issued on February 19, 2004. Report #LA04-13.

## Background

The Commission's mission is to bring high-wage primary jobs to Nevada by attracting companies and subsidiaries, corporate start-ups and investment, as well as by expanding and retaining Nevada companies currently offering primary jobs in the Nevada economy. The Commission has two divisions: the Division of Economic Development and the Division of Motion Pictures. The Commission's four budget accounts had revenue of \$7.7 million in fiscal year 2002 and expenditures totaling \$7.2 million.

## Purpose of Audit

The purpose of this audit was to review the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. Our audit included a review of financial and administrative activities for the fiscal year ended June 30, 2002, and activities through July 2003 for certain audit issues.

## Audit Recommendations

The audit report contains 14 recommendations to improve the Commission's financial and administrative activities. Specifically, the Commission should establish comprehensive contract policies and procedures. In addition, management should receive training on laws and policies over accounting and administrative control functions. Furthermore, the Commission should implement and monitor existing accounting policies and procedures to provide controls over receipts, expenditures, and accounting functions. Finally, the Commission should ensure its policies and procedures integrate statewide policies and procedures and ensure appropriate review of internal accounting and administrative controls.

The Commission on Economic Development accepted all 14 recommendations.

## Status of Recommendations

The Commission's 60-day plan for corrective action is due on May 13, 2004. In addition, the six-month report on the status of audit recommendations is due on November 15, 2004.

# Commission on Economic Development

## Results in Brief

The Commission on Economic Development's system of internal control needs improvement to ensure activities are carried out in compliance with state laws, regulations, and policies. The internal control system was not effective because policies and procedures were not complete, and management did not effectively monitor the implementation of existing policies and procedures.

## Principal Findings

The Commission did not use appropriate solicitation methods for three of five contracts tested. The value of these contracts ranged from \$9,999 to \$494,000, as amended, for administrative support, advertising and promotion, and conference development services. Because the agency had other on-going contracts with two of these contractors and misunderstood sole-source criteria for the third contract, the agency did not solicit bids for the three contracts. Therefore, these contracts were awarded without competition from other vendors. In addition, vendors performed \$18,000 of work outside of contract effective dates for two of five contracts reviewed. When work is provided outside of a contract, the Board of Examiner's oversight is diminished. Further, disagreement and confusion between the agency and the contractor could occur.

Other contract-related problems included not verifying contractors had adequate insurance coverage. Contract files did not contain evidence of contractor liability insurance and workers compensation insurance for three contracts reviewed. In addition, the Commission did not use the Purchasing Division's statewide contracts for two contracts for temporary administrative support. It is a duplication of effort for agencies to procure separate contracts for administrative support when the Purchasing Division has such contracts in place. Finally, the Commission did not always prepare written agreements or document changes to written agreements for joint responsibilities with public and non-profit entities.

The Commission provided little control over two outside bank accounts for the Industry Appreciation Luncheon program. Bank records indicate the agency spent \$122,500 from these accounts during fiscal year 2002. The agency did not retain basic accounting documents, including a receipt log or book, check registers, cancelled checks, or bank reconciliations. In addition, one person performed all fiscal duties over these accounts, including signature authority, paying invoices, reconciling the accounts, and preparing financial statements. Furthermore, we could find no evidence that contracts were written for four vendors that were paid a total of \$84,000 during fiscal year 2002. In fiscal year 2003, the Commission's responsibility for the program ended and the accounts were closed.

The Commission's controls over receipts provided little assurance that all dollars collected were deposited, were deposited in a timely manner, or were deposited in the correct fiscal year. Since the Carson City office began using written receipt forms and a check log at the end of October 2001, we could not verify deposit of collections received at the office during the first quarter of the fiscal year. We also found 21 of 36 deposits had receipts that took from 7 to 59 days from receipt until deposit. In eight instances, receipts totaling \$10,000 and more were held up to 27 days before deposit. In addition, some computer-generated receipts were dated after the deposit date and issued out of sequence.

The Commission did not always monitor expenditures' supporting documents to ensure state laws and policies, internal procedures, and good business practices were followed. We tested 30 expenditure transactions and noted 6 totaling more than \$10,000 were processed without necessary approvals and adequate support. For example, the agency purchased a database program without obtaining approval from the State Purchasing Division and the Department of Information Technology. In addition, the agency incorrectly recorded \$3,000 in expenditures as reductions of revenue.

The Commission inappropriately balanced forward nearly \$75,000 over two fiscal years. The agency's written justification why funds not used one year could be carried forward did not provide accurate information. These funds should have reverted to the General Fund, the University and Community College System of Nevada, and the Commission on Tourism.