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Carson City, Nevada

We have completed an audit of the Director's Office of the Department of Cultural Affairs. 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 the finding, conclusion, recommendation, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Director's Office 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

August 15, 2005
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF CULTURAL AFFAIRS
DIRECTOR'S OFFICE

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS DIRECTOR'S OFFICE

Background

The Department of Museums, Library and Arts was created in 1993. During the 2001 Legislative Session, the agency was renamed the Department of Cultural Affairs. The Department's mission is to enrich the lives of Nevada's citizens and visitors through the preservation and promotion of the State's cultural resources.

The Director's Office is responsible for the general administration of the Department and submission of its budgets. The Director, appointed by the Governor, oversees the Department's four divisions and coordinates the various programs to best meet public needs.

The Director's Office is located in Carson City. In fiscal year 2004, the Office had six full-time equivalent positions. The Office is funded primarily by state appropriations. Expenditures in fiscal year 2004 totaled nearly \$770,000.

Purpose

The purpose of this audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. This audit included a review of the Office's financial and administrative activities for the fiscal year ended June 30, 2004.

Results in Brief

The Director's Office substantially complied with state laws, regulations, policies, and procedures significant to its

EXECUTIVE SUMMARY

DEPARTMENT OF CULTURAL AFFAIRS DIRECTOR'S OFFICE

financial and administrative activities. However, the Office's existing internal controls can be strengthened. The Office needs to finish updating their policies and procedures to reflect the agency's current practices. Updated policies and procedures would further ensure transactions are completed as intended.

Principal Finding

- We identified several processes that had been modified without a corresponding update to the procedures. Since only a few staff have a comprehensive understanding of the Office's financial and administrative practices, agency operations could be negatively impacted by key employee turnover. (page 5)

Recommendation

This audit report contains one recommendation to strengthen the Office's internal controls. The Director's Office should finish updating policies and procedures to ensure they reflect the Office's current practices. (page 9)

Agency Response

The agency, in its response to our report, accepted the one recommendation. (page 8)

Introduction

Background

The Department of Museums, Library and Arts was created in 1993. During the 2001 Legislative Session, the agency was renamed the Department of Cultural Affairs. The Department's mission is to enrich the lives of Nevada's citizens and visitors through the preservation and promotion of the State's cultural resources. The Department consists of a Director and the following divisions:

- Division of State Library and Archives,
- Division of Museums and History,
- Office of Historic Preservation, and
- Nevada Arts Council.

The Department also includes the following boards, commissions, and councils:

- Board of the Nevada Arts Council,
- Board of Museums and History,
- State Council on Libraries and Literacy,
- State Historical Records Advisory Board, and
- Commission for Cultural Affairs.

The Director's Office is responsible for the general administration of the Department and submission of its budgets. The Director, appointed by the Governor, oversees the four divisions and coordinates the various programs to best meet public needs. The Director also advises the Governor on the appointments to the boards, commissions, and councils included within the Department.

The Director's Office is located in Carson City. In fiscal year 2004, the Office had six full-time equivalent positions. The Office is funded primarily by state appropriations. Expenditures in fiscal year 2004 totaled nearly \$770,000.

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 financial and administrative activities of the Director's Office of the Department of Cultural Affairs for the fiscal year ended June 30, 2004. The objective of the audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Finding and Recommendation

Existing Controls Can Be Strengthened

The Director's Office substantially complied with state laws, regulations, policies, and procedures significant to its financial and administrative activities. However, the Office's existing internal controls can be strengthened. The Office needs to finish updating their policies and procedures to reflect the agency's current practices. Updated policies and procedures would further ensure transactions are completed as intended.

During our audit, we identified several processes that had been modified without a corresponding update to the procedures. For example, written procedures for processing payroll, travel, and other general office expenditures were not accurate. Since only a few staff have a comprehensive understanding of the Office's financial and administrative practices, agency operations could be negatively impacted by key employee turnover. In response to our finding, agency officials indicate they have attempted to update their policies and procedures; however, they have been unable to complete the task due to labor shortages. They attribute this to the state hiring freeze and inadequate staffing levels. Regarding these issues, we noted that the hiring freeze was lifted in August of 2003 and that two administrative positions were added to the Director's Office during the 2005 Legislative Session. These actions should help address the updating of policies and procedures in the future.

Nevada law requires agencies establish a written system of financial and administrative control. This includes a system of practices to be followed in the performance of each agency's duties. Furthermore, agencies are required to periodically review their system to ensure it is working as intended. Establishing an accurate and well-documented control system helps promote efficient operations and improves compliance with laws and regulations.

Recommendation

1. Finish updating policies and procedures to ensure they reflect the Office's current practices.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Director's Office of the Department of Cultural Affairs, we interviewed agency staff and reviewed statutes, policies, and procedures significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Office. Furthermore, we documented and assessed the Office's internal controls.

To determine if the Office's financial and administrative activities were carried out in accordance with applicable state laws, regulations, policies, and procedures we selected two pay periods and verified the payroll transactions were processed correctly. We also verified that work performance standards were established, employees were receiving performance evaluations, and that the Department had overtime agreements with employees. Next, we randomly selected 30 non-payroll expenditures and tested each transaction for proper recording, approval, and compliance with laws, regulations, policies, and procedures. This sample included travel and contract-related expenditures, which were also tested for compliance requirements specific to those transactions. In addition, we determined if the Office had taken an annual property and equipment inventory during fiscal year 2004. We then verified the accuracy of the inventory listing by judgmentally selecting items to trace to and from the list. Next, we randomly selected six transactions from fiscal year 2003 and 2005 to verify they were recorded in the proper fiscal year. We also reviewed three journal vouchers for propriety and examined credit entries made to the expenditure accounts. Furthermore, we reviewed the accuracy of the Office's policies and procedures.

Our audit work was conducted from February to May 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. On August 2, 2005, we met

with the Interim Director to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 8.

Contributors to this report include:

Tammy A. Goetze, CPA
Deputy Legislative Auditor

George R. Allbritten, CPA
Audit Supervisor

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Chief Deputy Legislative Auditor

Appendix B
Response From the Director's Office



KENNY C. GUINN
Governor

SCOTT K. SISCO
Interim Director

STATE OF NEVADA
DEPARTMENT OF CULTURAL AFFAIRS

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DIVISIONS
Historic Preservation
Library and Archives
Museums and History
Nevada Arts Council

August 10, 2005

Paul V. Townsend, CPA
Legislative Auditor
401 South Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

Thank you for the opportunity to respond to the recently completed Legislative Audit of the Department of Cultural Affairs, Office of the Director. The audit contains one recommendation: "to strengthen the Office's internal controls. The Director's Office should finish updating policies and procedures to ensure they reflect the Office's current practices." We accept this audit recommendation and believe it can be implemented fully by the time the required 6-month follow-up report is due.

The Department of Cultural Affairs, Office of the Director is serious about its responsibility to safeguard taxpayer funds and comply with appropriate internal controls. Although a lack of updates to our written internal controls was noted as a weakness, we were pleased with the acknowledgement that appropriate procedures were in fact being followed. As with many small, general funded agencies, the Office of the Director struggled through the many years of the hiring freeze, at one point reaching a vacancy rate of 50%. Now that the hiring freeze has been lifted, we look forward to dealing once again with the many paperwork issues that have fallen behind.

The audit process used by your staff has proven beneficial to us, as several good ideas suggested by the auditor will assist with efficiencies in our office. I would like to personally thank you and your staff, especially auditor Tammy Goetz. She was professional, courteous, and a delight to have in the office during her short stay with us.

Sincerely,

A handwritten signature in black ink that reads "Scott K. Sisco".

Scott K. Sisco
Interim Director

SKS/ll
Attachment

**Department of Cultural Affairs, Director's Office
Response to Audit Recommendation**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Finish updating policies and procedures to ensure they reflect the Office's current practices	<u> X </u>	<u> </u>
TOTALS		<u> 1 </u>	<u> 0 </u>