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We have completed an audit of the Office of Governor. 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 findings, conclusions, recommendations, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Office and the Administrative Services Division of the Department of Administration 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 11, 2008
Carson City, Nevada

STATE OF NEVADA
OFFICE OF GOVERNOR

AUDIT REPORT

Table of Contents

	<u>Page</u>
Executive Summary	1
Introduction	4
Background	4
Scope and Objective	5
Findings and Recommendations	6
Financial and Administrative Controls Can Be Strengthened.....	6
Controls Over Purchasing and Credit Card Expenditures Need Improvement.....	6
Procedures Over Petty Cash Can Be Strengthened.....	8
Travel Claims Not Submitted Timely	8
Appendices	
A. Audit Methodology	10
B. Response From the Office of Governor	12

EXECUTIVE SUMMARY

OFFICE OF GOVERNOR

Background

The Office of Governor (Office) was established by Article 5 of the Nevada Constitution. The Governor is the Chief Executive Officer of the State and serves as the Commander in Chief of all state military forces. The Nevada Constitution requires the Governor to faithfully execute the laws of the state and communicate by message on the condition of the state at each regular Legislative Session. Further, the Governor recommends legislation he deems necessary and submits a proposed executive budget at each regular session of the Legislature.

During fiscal year 2007, the Office had 24.5 full-time authorized positions and 4.5 positions for the Mansion. Fiscal year 2007 expenditures for operations related to the Office of Governor equaled almost \$3 million. In addition, NRS 223.025 allows for transitional expenditures for the Governor-elect to be paid from the Department of Administration's budget. During fiscal year 2007, the Office incurred \$29,114 of transitional costs.

Purpose

The purpose of this audit was to determine if the Office's financial and administrative practices were carried out in accordance with applicable state laws, regulations, policies, and procedures. This audit included a review of the Office's financial related activities for fiscal year 2007.

Results in Brief

Although the Office substantially complied with state laws, regulations, policies, and procedures significant to its financial and administrative practices, existing internal controls can be strengthened. Improvements are needed over purchasing and credit card transactions to ensure expenditures are properly approved, sales tax is not paid, and late payment fees are minimized. Additionally, controls should ensure the security of the petty cash account, and travel claims are submitted within timeframes established in state policies.

Principal Findings

- Policies and procedures over purchasing and credit cards were not always followed. We noted 7 of 34 Mansion purchases made by the same individual who also approved the transaction. In addition, sales tax was often paid on purchases even though the State is exempt. We also noted late payment fees were incurred and paid. (page 6)
- The petty cash account was not always properly safeguarded. Staff mistakenly maintained petty cash in their personal bank account instead of at the Office. However, improved controls can ensure the petty cash account is properly safeguarded in the future. (page 8)
- Travel claims were not always submitted within timeframes established by state policy. Seven of the 13 travel claims tested were not submitted within one month of travel. A majority of these claims were submitted approximately 30 days late. (page 8)

Recommendations

This report contains three recommendations to strengthen the Office's financial and administrative controls. Specifically, the Office should continually review and enforce policies and procedures over purchasing and credit cards to ensure transactions are appropriate. Also, the Office should modify current policies and procedures to ensure the petty cash account is properly safeguarded and administered. Finally, the Office should continue to comply and enforce state policies regarding timely travel claim submittal. (page 15)

Agency Response

The Office, in response to our audit report, accepted the three recommendations. (page 12)

Introduction

Background

The Office of Governor (Office) was established by Article 5 of the Nevada Constitution. The Governor is the Chief Executive Officer of the State and serves as the Commander in Chief of all state military forces. The Nevada Constitution requires the Governor to faithfully execute the laws of the state and communicate by message on the condition of the state at each regular Legislative Session. Further, the Governor recommends legislation he deems necessary and submits a proposed executive budget at each regular session of the Legislature. The Governor also serves as chairman for the State Board of Examiners, the Board of Directors of the Department of Transportation, the Board of State Prisons Commissioners, the State Board of Pardons Commissioners, the Executive Branch Audit Committee, and as a member of several other boards and commissions.

The Governor is responsible for the operations and budgets of the Office and the Governor's Mansion. The Office's main budget account funds staff and operating expenditures for the Carson City and Las Vegas offices. The Mansion budget account provides for the staff, maintenance, operations, and the First Lady's travel expenses to official functions. Both budget accounts are funded by general fund appropriations.

The Office of Governor administers a contract funding the state's Washington, D.C. office. The mission of this office is to serve as both liaison and lobbyist for the State of Nevada to Congress and the federal government. The Commission on Economic Development, Commission on Tourism, and the Department of Transportation provide the office's funding.

During fiscal year 2007, the Office had 24.5 full-time authorized positions and 4.5 positions for the Mansion. Fiscal year 2007 expenditures for operations related to the Office of Governor equaled almost \$3 million. In addition, NRS 223.025 allows for transitional expenditures for the Governor-elect to be paid from the Department of Administration's budget. During fiscal year 2007, the Office incurred \$29,114 of

transitional costs. Exhibit 1 shows the Office's total revenues and expenditures by budget account for fiscal year 2007.

Exhibit 1

**Revenues and Expenditures
Fiscal Year 2007**

	Governor's Office	Mansion Maintenance	Washington D.C. Office	Total
Revenues				
State Appropriations ⁽¹⁾	\$2,370,593	\$282,969	\$ --	\$2,653,562
Transfers from Other Agencies	--	--	267,079	267,079
Total Revenues	\$2,370,593	\$282,969	\$267,079	\$2,920,641
Expenditures				
Personnel Services	1,761,834	125,693	--	\$1,887,527
Travel	35,404	3,689	--	39,093
Operating	528,568	99,989	--	628,557
Maintenance of Buildings & Grounds	--	5,586	--	5,586
Washington Office Expense	--	--	267,079	267,079
Information Services	44,018	3,377	--	47,395
Utilities	--	44,485	--	44,485
Purchasing Assessment	768	150	--	918
Total Expenditures	\$2,370,592	\$282,969	\$267,079	\$2,920,640

Source: State's Accounting System.

Note: Does not include transitional expenditures paid from Department of Administration's budget per NRS 223.025.

⁽¹⁾ Net of reversions and adjustments.

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 provision 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 operation of state agencies, programs, activities, and functions.

This audit included a review of the Office's financial related activities for fiscal year 2007. The objective of the audit was to determine if the Office's financial and administrative practices were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Findings and Recommendations

Financial and Administrative Controls Can Be Strengthened

Although the Office substantially complied with state laws, regulations, policies, and procedures significant to its financial and administrative practices, existing internal controls can be strengthened. Improvements are needed over purchasing and credit card transactions to ensure expenditures are properly approved, sales tax is not paid, and late payment fees are minimized. Additionally, controls should ensure the security of the petty cash account, and travel claims are submitted within timeframes established in state policies.

Controls Over Purchasing and Credit Card Expenditures Need Improvement

Policies and procedures over the use and administration of purchasing and credit cards need strengthening. Expenditures made by these methods were not always properly approved, sales tax was paid, and late payment fees were incurred. Strengthening controls will help ensure these transactions are proper and adequately monitored in the future.

Late in fiscal year 2007, the Office obtained purchasing cards through a state approved vendor. The Office currently has three purchasing cards, one for the Governor's Office and two for the Mansion. In addition, the Mansion uses credit cards to purchase food and various household supplies. The purpose of the purchasing cards is to establish an efficient, cost-effective method of purchasing and paying for small dollar transactions within established limits.

Policies and procedures over purchasing and credit cards were not always followed. As a result, we identified the following:

- Purchasing card expenditures were not always properly approved. We noted purchases made by the same individual who also approved the transaction. For instance on the June 2007 purchasing card statement, 7 of 34 Mansion purchases were made by the same individual who also approved the monthly invoice for payment. Procedures require the segregation of purchasing and approval activities. Because many of the items purchased through this method

are easily converted to personal use, it is essential this policy be followed to ensure purchases are proper.

- Our review of expenditures found that sales tax was often paid on purchases. For instance, 19 of 34 transactions stated on the June 2007 purchasing card statement included sales tax. Total sales tax paid on these purchases was \$116. While this amount is not significant to the Office's total expenditures, NRS 372.325 exempts State agencies from paying sales tax on purchases. Furthermore, our last audit of the Office found sales tax was paid on purchases as well. As a result, the Office obtained a tax exempt letter in February of 2000 to satisfy the prior audit recommendation. However, we noted this letter was not always utilized by the Office to alleviate the payment of sales tax.
- Our review also found a transaction where late payment fees were incurred and paid. A credit card payment was not processed in a timely manner resulting in the assessment of late payment fees and interest. On the March 2007 credit card statement, February's payment arrived after the date due. Hence, a \$29 late fee and a \$9 interest charge were incurred by the Office. Although these fees are minimal, the Office should ensure billings are promptly processed to avoid payment of unnecessary fees.

Purchasing and credit card transactions are generally known to be at increased risk for improper use. Therefore, strong controls are necessary to ensure transactions are valid and proper. In response to this risk, the State Purchasing Division, who authorizes each agency to obtain purchasing cards, has developed agreements dictating policies that must be established prior to the use of cards. These agreements require the segregation of duties between the individual using the card and the individual approving the purchases. Purchasing limits for each card are also established through these agreements. While the Office had signed these agreements for the purchasing cards used in the Governor's Office, similar agreements were not established for purchasing cards used in the Mansion. After our inquiry, Mansion agreements for purchasing cards were executed in October of 2007. In the future, the Office should monitor purchasing and credit card expenditures to ensure current policies and procedures are adequate and are followed.

Procedures Over Petty Cash Can Be Strengthened

Improved processes over petty cash can ensure it is properly safeguarded. During our audit, the petty cash account was not always maintained at the Office. Therefore, strengthening controls over petty cash will ensure the security of the amount and reduce the risk of loss or unauthorized use.

In August 1999, the Office was authorized to maintain a petty cash account of \$150. This account was established for miscellaneous office expenses, host activities, and office supplies. Expenditures made from this fund are typically less than \$30 and are reimbursed based on receipts submitted.

During our audit, petty cash was not always maintained at the Governor's Office. On October 11, 2007, we attempted to reconcile the petty cash account to the total stated in Office records. However, the amount held in the Office did not agree to the records by \$98. Office staff indicated the difference was because the balance was maintained in the Office Manager's personal bank account. After bringing this issue to management's attention, the petty cash was returned to the Office account. Subsequent procedures performed showed the petty cash account was maintained in the Office and the balance agreed to the appropriate records.

While the Office has some policies and procedures regarding petty cash, they do not include periodic counts of cash to Office records. Good internal controls include ongoing monitoring of petty cash to ensure proper administration and storage.

Travel Claims Not Submitted Timely

Travel claims were not always submitted within timeframes established by state policy. Failure to submit travel claims in a timely manner increases the risk that the Office's travel claims will not be recorded in the proper fiscal year or budget. Additionally, budget overruns could occur late in the fiscal year.

The State Administrative Manual states all travel claims should be submitted within one month of the completion of travel unless prohibited by exceptional circumstance. However, the Office did not always comply with this policy. Seven of the 13 travel claims tested were not submitted within one month of travel. A majority of these claims were submitted approximately 30 days late. Since many travel claims

reviewed included multiple travel dates, it is imperative claims be submitted in a timely manner to ensure the accuracy and propriety of each claim.

Even though travel expenditures make up less than 2% of the Office's total expenditures, compliance with the state's travel policies is necessary. The Office initiated a policy in September 2007 requiring employees to submit travel claims by the fifth working day of the following month, not to exceed 30 days from the date of travel. Promptly submitting travel claims will help the Office monitor its travel activities and ensure the validity and accuracy of these expenditures.

Recommendations

1. Continually review and enforce policies and procedures over purchasing and credit cards to ensure transactions are appropriate.
2. Modify current policies and procedures to ensure the petty cash account is properly safeguarded and administered.
3. Continue to comply and enforce state policies regarding timely travel claim submittal.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Office of Governor, we interviewed staff and reviewed applicable laws, regulations, policies, and procedures significant to the Office's operation. We also reviewed the Office's 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 over financial activities.

To accomplish our objective, we determined if the Office had taken an annual property and equipment inventory during fiscal year 2007. We then tested the accuracy of the inventory list by verifying the existence of assets that had a high risk of loss or misuse. We also determined if the State Purchasing Division had taken an inventory at the Governor's Mansion.

Next, we randomly selected a total of 61 expenditure transactions and tested each for proper recording, approval, and compliance with laws, regulations, policies, and procedures. The sample included travel and contract-related expenditures. In addition, we randomly selected a total of 16 transactions recorded in fiscal years 2006, 2007, and 2008 to verify they were recorded in the correct fiscal year. We also reviewed stale claims expenditures. Next, we reviewed the five largest credit entries to expenditures to determine their propriety. Additionally, we determined if the Office's petty cash account was properly authorized and the balance agreed with Office records. Finally, to verify that the Office complied with applicable personnel and payroll laws, regulations, and policies, we randomly selected two pay periods and verified the payroll transactions were processed correctly.

Our audit work was conducted from July to October 2007, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Governor. On January 28, 2008, we met with agency officials 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 12.

Contributors to this report included:

Tammy A. Goetze, CPA
Deputy Legislative Auditor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Shannon Ryan, CPA
Audit Supervisor

Appendix B
Response From the Office of Governor

JIM GIBBONS
GOVERNOR



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Office of the Governor

February 6, 2008

Paul V. Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
Legislative Building
Carson City, NV 89701

Dear Mr. Townsend:

Please find attached our written statement of explanation to the audit conducted by the Legislative Counsel Bureau on the Office of the Governor.

Controls Over Purchasing and Credit Card Expenditures Need Improvement

In the initial audit it was noted that there were internal control weaknesses related to purchasing and credit card transactions. The audit recommended continual review and enforcement of policies and procedures over purchasing and credit cards to ensure transactions are appropriate. Please note the following has been implemented to ensure adherence with State policy:

The Mansion currently has and maintains two cards - a GE Capital Purchasing Card and a Costco credit card. These cards are issued to Bonnie Bowlen, Executive Assistant and Sherri Gadbois, Mansion Assistant. The Mansion has designated Helen Wiemer, Mansion Coordinator, as the Procurement and Credit Card Administrator. As of October 08, 2007, these cards are used and reconciled under the Procurement Card Internal Control Policies and Procedures (a copy of which is attached). The original of this document is maintained on file with the State Purchasing Division. Control and reconciliation of the charges on these cards is conducted by the Card Administrator, and there are periodic reviews done by the Governor's Office Manager.

Mansion staff has been instructed to work with all merchants to ensure that our Tax Exempt Status letter is on file and no transaction is to be completed until it is verified that sales tax is not included in final total. Also, the Costco card is set-up to automatically process transaction as tax exempt and the GE Card is preprinted with tax exempt information as well as State Tax Id number. Additionally, staff takes this letter on all shopping trips for further verification and documentation if needed.

Paul Townsend, CPA
February 6, 2008
Page 2

Mansion staff and the Mansion Coordinator have been instructed to reconcile and process all card statements immediately upon receipt and forward directly to Administration for payment. If there are late charges incurred due to untimely mailing by the credit card company, the situation is to be discussed with the companies customer service department and outcome documented. Also, the Office Manager is notified in case additional intervention is needed.

Procedures Over Petty Cash Can Be Strengthened

Another deficiency that was noted was the control and auditing of the petty cash fund. The audit recommended current policies and procedures be modified to ensure the petty cash account is properly safeguarded and administered. The following is the corrective action taken.

The petty cash policy has been updated to include periodic auditing of the fund by a Governor's Office senior staff member and Department of Administration. The funds are maintained in a separate cash box in the Office Manager's desk and she is the only one with a key. As disbursements are made, receipts are placed in the cash box and random audits are conducted by the Chief Operating Officer to ensure the cash box and receipts balance.

It should be noted that these funds are deposited directly into the Office Manager's personal bank account by Administration, which then requires the Office Manager to write and cash a check in order to redeem the funds for the cash box. In lieu of this practice, it has been requested by the Governor's office that a separate check be issued to avoid future confusion and commingling of funds. This office was advised that this policy cannot be changed.

Office of the Governor
Petty Cash Policy

The Office Manager (OM) is the only one authorized to disperse petty cash. The petty cash and receipt log are kept in a locked drawer in the OM's office. When items are needed, the OM will make/authorize purchases, taking appropriate amount from petty cash fund, not to exceed \$30.00 per purchase. After purchase is made, the original cash receipt is sent to Administration when reimbursement is requested. When the petty cash fund reaches approximately \$25.00, OM will send original receipts along with current and accurate log to Administration for reimbursement. Total petty cash fund is never to exceed \$150.00. Periodic auditing of fund is to be conducted by Governor's Office Senior Staff member in addition to Department of Administration. Evidence of this reconciliation is to be kept with funds and also forwarded to Administration when reimbursement is requested

Paul Townsend, CPA
February 6, 2008
Page 3

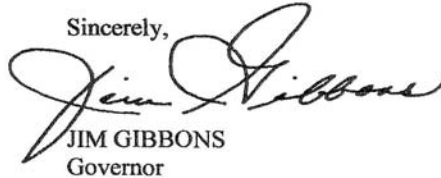
Travel Claims Not Submitted Timely

Finally, there were concerns noted about the untimely submissions of travel claims. It was recommended that the Office continue to comply and enforce state policies regarding timely submission of travel claims.

The Office has advised all staff members of the State of Nevada's travel reimbursement policy of submission within 30 days of travel date. In addition, monthly reminders are sent to staff to assist in enforcing compliance. Every effort is being made to comply with this policy.

We would like to thank the Legislative Counsel Bureau and the audit team for assisting us in ensuring that we are conducting business in compliance with State of Nevada policies and procedures. It has been a pleasure working with your staff. If you have any further concerns or questions, we would be happy to discuss them with you.

Sincerely,



JIM GIBBONS
Governor

Enclosure

**Office of Governor
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Continually review and enforce policies and procedures over purchasing and credit cards to ensure transactions are appropriate	<u> X </u>	<u> </u>
2	Modify current policies and procedures to ensure the petty cash account is properly safeguarded and administered.....	<u> X </u>	<u> </u>
3	Continue to comply and enforce state policies regarding timely travel claim submittal	<u> X </u>	<u> </u>
	TOTALS	<u> 3 </u>	<u> 0 </u>