STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6600

LEGISLATIVE COMMISSION (775) 684-6800
RANDOLPH J. TOWNSEND, *Senator, Chairman*
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
MORSE ARBERRY JR., *Assemblyman, Chairman*
Mark W. Stevens, *Fiscal Analyst*
Gary L. Ghiggeri, *Fiscal Analyst*

LORNE J. MALKIEWICH, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

We have completed an audit of the Office of Lieutenant 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 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 for their assistance during the audit.

Respectfully presented,

Paul V. Townsend, CPA
Legislative Auditor

May 2, 2008
Carson City, Nevada

STATE OF NEVADA
OFFICE OF LIEUTENANT GOVERNOR

AUDIT REPORT

Table of Contents

EXECUTIVE SUMMARY

OFFICE OF LIEUTENANT GOVERNOR

Background

The Office of Lieutenant Governor (Office) was established by Article 5 of the Nevada Constitution. The Lieutenant Governor is President of the Senate and assumes the duties of Governor if the Governor is impeached, removed from office, unable to discharge the duties of the office, resigns, or is absent from the state.

The Office's mission is to foster and encourage global business and tourism opportunities for the people and the state, while protecting the state's pioneer entrepreneurial spirit. With offices in Carson City and Las Vegas, seven full-time authorized positions existed during fiscal year 2007.

The Office operates under one budget account funded entirely by a general fund appropriation. Fiscal year 2007 expenditures totaled approximately $586,000.

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

The 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. Controls over inventory and expenditures need improvement to ensure transactions are proper. Additionally, the Office needs to update its procedures. Complete and accurate policies and procedures and ongoing monitoring of internal controls will help ensure the Office's transactions are in compliance with applicable state laws and regulations.

Principal Findings

- Proper approval was not always obtained on property disposition reports and management did not review the annual inventory. Additionally, asset tags were not attached to many items or were incorrect. Inadequate maintenance of fixed asset inventories increases the risk that theft, loss, or misappropriation of Office assets could occur and go undetected. (page 6)

- Office expenditures did not always receive proper managerial approval. Fourteen of 30 expenditures tested did not receive management approval prior to submission for payment as required by state and Office policies. (page 7)

- Travel claims were not always submitted within timeframes established by state and Office policies. Five of ten travel claims tested were not submitted within one month of travel. A majority of these claims were submitted over 30 days late. (page 8)

- Current practices are not necessarily reflected in the Office's policies and procedures. We found duties being performed by employees other than those specified in written procedures and certain procedures no longer performed by the Office. Travel policies should also be enhanced to address the times in which employees are eligible for meal per diems. (page 8)

Recommendations

This report contains four recommendations to strengthen the Office's financial and administrative controls. Three recommendations address controls to help ensure fixed assets are properly tagged, all transactions receive proper approval, and travel claims are submitted timely. The remaining recommendation includes updating the Office's policies and procedures to ensure they reflect the Office's actual practices. (page 14)

Agency Response

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

Introduction

Background

The Office of Lieutenant Governor (Office) was established by Article 5 of the Nevada Constitution. The Lieutenant Governor is President of the Senate and assumes the duties of Governor if the Governor is impeached, removed from office, unable to discharge the duties of the office, resigns, or is absent from the state. The Lieutenant Governor also serves as chairman for the Nevada Commission on Tourism and the Nevada Commission on Economic Development, vice-chairman of the Board of Directors of the Department of Transportation, and a member of the Executive Branch Audit Committee.

The Office's mission is to foster and encourage global business and tourism opportunities for the people and the state, while protecting the state's pioneer entrepreneurial spirit. With offices in Carson City and Las Vegas, seven full-time authorized positions existed during fiscal year 2007.

The Office operates under one budget account funded entirely by a general fund appropriation. Fiscal year 2007 expenditures totaled approximately $586,000. Additionally, the Office incurred about $3,500 in transitional costs which were paid from the Department of Administration's budget. Exhibit 1 shows the Office's total revenue and expenditures for fiscal year 2007.

Exhibit 1

Revenue and Expenditures
Fiscal Year 2007

Revenue	Amount
State Appropriations[1]	$585,820
Total Revenue	$585,820
Expenditures	
Personnel Services	$472,341
Travel	31,924
Operating	66,304
Information Services	15,090
Other	161
Total Expenditures	$585,820

Source: State accounting system.

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

[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

The 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. Controls over inventory and expenditures need improvement to ensure transactions are proper. Additionally, the Office needs to update its procedures. Complete and accurate policies and procedures and ongoing monitoring of internal controls will help ensure the Office's transactions are in compliance with applicable state laws and regulations.

Controls Over Inventory and Expenditures Need Improvement

Enhanced fixed asset and expenditure controls will help the Office ensure assets are safeguarded and transactions are proper. Specifically, controls need to ensure annual inventories are reviewed, disposition reports are approved, and assets are tagged. Additionally, controls over expenditure transactions need to be strengthened to ensure all transactions receive proper approval, and travel claims are submitted timely.

Tracking of Fixed Assets Needs Improvement

Fixed asset controls need improving to ensure the Office's assets are adequately safeguarded. Proper approval was not always obtained on property disposition reports and management did not review the annual inventory. Additionally, asset tags were not attached to many items or were incorrect. Inadequate maintenance of fixed asset inventories increases the risk that theft, loss, or misappropriation of Office assets could occur and go undetected.

During our review of the Office's fixed assets, we noted the Office removed several items from the Office's inventory listing that had been disposed of during the prior administration. While some of these dispositions received review and approval from Office management, computer equipment located in the Las Vegas office was removed from the Office's inventory reports without management's approval. State law and Office policy require supervisory approval on fixed asset disposition reports. These procedures are necessary to ensure the Office's inventory listing is complete and accurate, and property is not inappropriately excessed or disposed of.

Assets listed on the Office's fixed asset inventory listing did not always have state identification tags affixed to them. Of the ten assets we tested that were on the Office's inventory, six did not have an asset tag, and one asset had an incorrect tag affixed to it. State policy requires asset tag numbers be attached to inventoriable assets when received. Tag numbers are important for tracking, identifying, and locating assets. Assets that do not have identification tags attached are at a greater risk of being lost or misappropriated.

Furthermore, we identified a $9,300 video conferencing unit listed on the Office's inventory. Although the unit is periodically used by the Office, it is located and primarily used by the Commission on Tourism. The Purchasing Division developed location codes to identify and track the physical location of assets within the State's inventory system. Because the asset is physically located at another agency, the asset should be listed on the Commission on Tourism's fixed asset listing to ensure proper monitoring and accounting of the asset. Accurate property records are important for maintaining accountability and preventing loss or theft.

Expenditures Lack Proper Approval

Office expenditures did not always receive proper managerial approval. Controls were not sufficient to ensure expenditures were approved by appropriate Office personnel prior to entry in the state accounting system. Inadequate review and approval can increase the risk that inappropriate or improper expenditures are processed.

Fourteen of 30 expenditures tested did not receive management approval prior to submission for payment as required by state and Office policies. State policy requires each transaction be signed or initialed by the agency's approving authority, and Office policy requires management approval on all expenditures. Due to a lack of managerial review, the Office paid a late fee on an invoice. After we inquired, the Office reviewed this invoice and disputed the late fee with the vendor resulting in the reimbursement of the late fee. Furthermore, another expenditure transaction contained an amount that the Office staff could not fully explain. In this instance, the Office paid an amount to terminate a copier service contract including a contract balance. Discussions with Office staff did not provide sufficient explanation regarding what the contract balance consisted of or its appropriateness. Strengthening controls to require appropriate review prior to entry in the state accounting system will ensure expenditures are proper and adequately monitored in the future.

Travel Claims Submitted Late

Travel claims were not always submitted within timeframes established by state and Office policies. 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. Additionally, budget overruns could occur late in the fiscal year.

State and Office policies require travel claims to be submitted within one month of the completion of travel. However, the Office did not always comply with these policies. Five of ten travel claims tested were not submitted within one month of travel. A majority of these claims were submitted over 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.

Better compliance with existing control procedures is warranted even though the exceptions indentified did not involve significant financial resources. Promptly submitting travel claims will help the Office monitor its travel activities and ensure the validity and accuracy of these expenditures.

Office Procedures Need Updating

Office procedures should be reviewed and updated to ensure they are sufficient and reflect the actual practices of the Office. Since only a few employees have a comprehensive understanding of the Office's financial and administrative practices, it is imperative written procedures reflect actual processes in the event of key employee turnover. Additionally, updated policies and procedures help ensure transactions are completed as intended.

Current practices are not necessarily reflected in the Office's policies and procedures. We found duties being performed by employees other than those specified in written procedures and certain procedures no longer performed by the Office. Discussion with Office personnel indicated procedures do not reflect actual practices due to anticipated changes to Office practices. However, variation between written and actual procedures may have contributed to expenditures being processed without proper management approval. Therefore, the Office should review and modify written policies on a periodic basis to ensure they are accurate, complete, and comprehensive.

Office travel policies should be enhanced. Travel policies and procedures do not address the hours and conditions during which an employee is allowed to claim meal per diems. The State Administrative Manual requests agencies specify in its written policies the times in which employees are eligible for meal per diems. These policies are needed to ensure travel claims are proper.

NRS 353A.020 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 state laws and regulations.

Recommendations

1. Ensure assets are properly tagged, and fixed asset inventory and disposal reports are complete and properly approved.
2. Develop controls to ensure expenditures are properly approved prior to entry in the state accounting system.
3. Ensure travel claims are submitted timely in accordance with state and Office policies.
4. Review and modify written policies and procedures periodically to ensure they reflect the Office's actual practices.

Appendices

Appendix A

Audit Methodology

To gain an understanding of the Office of Lieutenant Governor, we interviewed staff and reviewed applicable laws, regulations, policies, and procedures significant to the Office's operations. 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 inventory of its equipment on an annual basis. We tested the accuracy of the inventory by selecting ten assets that had a high risk of loss or misuse and verified their existence. We also reviewed property disposition reports for compliance with state policies and proper approval.

Next, we randomly selected 30 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 12 transactions recorded in fiscal years 2006, 2007, and 2008 to verify they were recorded in the correct fiscal year. We also reviewed the four largest credit entries to expenditures and four randomly selected journal vouchers to determine their propriety. Finally, we reviewed stale claims expenditures.

To verify that the Office complied with applicable personnel and payroll laws, regulations, and policies, we reconciled the salaries of the Lieutenant Governor and three randomly selected positions to the statutorily authorized amounts. We then randomly selected two pay periods and verified the payroll transactions were processed correctly. We also reviewed employee leave activity for additional compliance requirements.

Our audit work was conducted from January to February 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Lieutenant Governor. On April 22, 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 page12.

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 Lieutenant Governor

Brian K. Krolicki
Lieutenant Governor

Kathryn A. Besser
Chief of Staff

STATE OF NEVADA
OFFICE OF THE LIEUTENANT GOVERNOR

May 2, 2008

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

Dear Mr. Townsend:

Thank you for the opportunity to respond to the recommendations made by Legislative Council Bureau auditors designed to improve upon the efficiency and accountability of the Lieutenant Governor's Office.

My office agrees with the four audit recommendations made by your office, and have taken steps to ensure that all recommendations have been implemented.

Recommendation #1:
We believe it is important to note that the items without asset tags were properly accounted for on the Lt. Governor's Office asset inventory list posted in the online Data Warehouse of Nevada (DAWN). Replacement asset tags have been affixed to the items that were missing tags. Future asset inventory lists will be reviewed and approved by management pursuant to the office's internal policies and procedures.

The auditors also noted that several items had been removed from the asset inventory list as a result of disposition during a prior administration. Upon taking occupancy in January 2007, we found that there were some items listed in the inventory that were not located in either office. The Property Disposition Reports for the former administration were not complete and did not indicate the disposition of the assets. State Purchasing was not able to provide copies of disposition sheets from the prior administration showing the disposition of the missing items. These facts were noted when our office filed a disposition sheet with State Purchasing to indicate we did not have possession of the assets, nor were we able to verify how they had been disposed. Going forward, all disposition reports will receive proper management review approval.

CARSON CITY OFFICE
101 N. Carson Street
Carson City, Nevada 89701
(775) 684-7111 Telephone
(775) 684-7110 Fax

President, Nevada State Senate
Chairman, Nevada Commission on Tourism
Chairman, Nevada Commission on Economic Development
Board of Directors, Nevada Department of Transportation

LAS VEGAS OFFICE
555 E. Washington Avenue, Suite 5500
Las Vegas, Nevada 89101
(702) 486-2400 Telephone
(702) 486-2404 Fax

Internet: http://ltgov.nv.gov

The $9,300 video conferencing unit was jointly purchased in fiscal year 2007 by the Lt. Governor's Office, the Nevada Commission on Economic Development and the Nevada Commission on Tourism (NCOT). The paperwork and arrangements necessary to acquire this unit was done by a member of the Lt. Governor's staff and was coded by a third party as being located in the Lt. Governor's Carson City office even though it was always intended to be located in NCOT's commission chambers. We requested that NCOT update the location code, and this change has been made.

Recommendation #2:
When we took office half-way through the fiscal year, all accounts payable functions were performed at NCOT. This had been the practice of the previous administration. Our involvement was limited to confirming the office had received the items or services for which we were being billed. At that time, there were no files located in our office and all input and authorization of invoices was conducted by NCOT staff.

Since that time, the Lt. Governor's Office has assumed the accounts payable function, with the exception of entering data into the State Advantage system, and all expenditures are now properly approved by management within our office pursuant to the office's internal controls.

Recommendation #3:
The office's current travel policy addresses the times in which employees are eligible for meal per diems and mandates all employees submit travel claims within the 30 days required by the State.

Recommendation #4:
Internal controls have been updated to reflect the accurate responsibilities of each staff position. These controls will be reviewed semi-annually and updated as needed to reflect a changing office structure.

Thank you for the time you and your staff spent with my office to ensure our compliance with state policies and procedures early in my administration. We appreciate your assistance.

Best regards,

Brian K. Krolicki
Lieutenant Governor

Office of Lieutenant Governor
Response to Audit Recommendations

Recommendation Number		Accepted	Rejected
1	Ensure assets are properly tagged, and fixed asset inventory and disposal reports are complete and properly approved.	X	
2	Develop controls to ensure expenditures are properly approved prior to entry in the state accounting system	X	
3	Ensure travel claims are submitted timely in accordance with state and Office policies.......................................	X	
4	Review and modify written policies and procedures periodically to ensure they reflect the Office's actual practices	X	
	TOTALS	4	0