

DESERT RESEARCH INSTITUTE
CHANGE IN LEADERSHIP
Internal Audit Report
July 1, 2015 through June 30, 2016

GENERAL OVERVIEW

The Internal Audit Department performs a change in leadership, or “exit” audit, each time an institutional president leaves office. The audit focuses on areas for which the president is both directly and indirectly responsible, as noted in the Scope of Audit section below. The president has high level responsibility over Desert Research Institute (DRI) as well as direct responsibility for activities conducted within the President’s Office.

SCOPE OF AUDIT

The Internal Audit Department has completed a Change in Leadership audit at DRI. The audit was conducted for the period of July 1, 2015 through June 30, 2016.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures as we considered necessary. The tests included, but were not necessarily limited to, these areas.

1. Testing President’s Office expenditures, including the president’s host, operating and travel expenses for reasonableness and compliance with related policies.
2. Reviewing DRI financial accounts to determine whether deficit balances exist and the reason for the deficits.
3. Reviewing contracts entered into by DRI for proper form and compliance with NSHE policies.
4. Reviewing litigation filed against DRI to determine materiality of legal issues.

5. Examining and testing equipment inventory and the president's leave records for proper accountability.
6. Reviewing capital projects initiated by DRI and the president.

In our opinion, we can be reasonably assured that DRI operated in a satisfactory manner during the audit period and that no material deficiencies were noted. However, implementation of the following recommendations would provide an opportunity to further improve processes.

EXPENDITURES

The Internal Audit Department reviewed a sample of 79 expenditures that were charged to DRI accounts during the audit period. A variety of operating transactions were selected as well as the president's hosting and travel expenditures. The expenditures were examined for proper supporting documentation and approval, reasonableness, and compliance with established purchasing and other required procedures. Of the 79 expenditures, no material exceptions were noted with 77. The following exceptions were noted with the two remaining items.

1. One expenditure involved payment for an airline club membership that provided complimentary food, beverages and internet service to the president while at airports. We recommend such expenses be paid with personal rather than institutional funds.

Institution Response

We agree with this recommendation.

- **Corrective Action Taken – The President's office has been notified that airline club memberships are a personal and not an institutional expense.**
- **Compliance, Measurement and Documentation – The DRI Travel Policy is currently under revision and includes airline club memberships as a prohibited travel expense.**
- **Responsibility – The Financial Services Office (FSO) travel office is responsible for monitoring travel expenses to insure club memberships are not charged to institutional funds.**

2. On one occasion, a Travel Authorization Form for foreign travel taken by the president was not approved by the chancellor as required by DRI policy.

We recommend that travel be properly approved.

Institution Response

We agree with this recommendation.

- **Corrective Action Taken – The President’s office has been reminded to obtain the Chancellor’s signature on the Travel Authorization Form.**
- **Compliance, Measurement and Documentation – The FSO travel office will insure that all Travel Authorizations have been signed by the Chancellor before processing any travel claims or travel reimbursements.**
- **Responsibility – The President’s office is responsible for obtaining the Chancellor’s signature on the Travel Authorization Form.**

EQUIPMENT

A review of the equipment inventory assigned to the president was performed to determine whether items listed on the equipment inventory reports were physically present and whether there were other items that met the \$5,000 capitalization threshold that were not included on the reports. During this review, we noted the equipment inventory reports listed the former president as the responsible person for three equipment items.

We recommend an update be made to the fixed assets system to correctly identify the person responsible for these items.

Institution Response

We agree with this recommendation.

- **Corrective Action Taken – The equipment inventory system has been updated, listing the current president as the responsible person.**
- **Compliance, Measurement and Documentation – A physical equipment inventory is taken annually and signed by the President.**

- **Responsibility – the Assistant Controller and Business Asset Specialist is responsible to insure the departing president’s equipment inventory has been transferred to the current president.**

DEFICIT ACCOUNTS

During a review of DRI’s financial accounts, we noted one self-supporting account and one capital project account that had deficit balances at the end of fiscal year 2015-16. We were informed deficit accounts are reviewed on a monthly basis and that funds are transferred at this time to cover the deficits. However, a review and transfer of funds for the two accounts mentioned did not take place until it was brought to the attention of DRI personnel which was several months after the deficits occurred.

We recommend greater care be taken to ensure accounts are reviewed and balanced in a timely manner.

Institution Response

We agree with the recommendation.

- **Corrective Action Taken – The Director of Planning and Budget Analysis was made aware of this recommendation and immediately had the negative balances cleared.**
- **Compliance, Measurement and Documentation – All negative balances are identified monthly, monitored and cleared in a timely manner.**
- **Responsibility – The Director of Planning and Budget Analysis is responsible for reviewing all accounts monthly and following up on all negative accounts.**

CONTRACTS

We reviewed a sample of eight DRI contracts that were initiated during the audit period. The agreements were reviewed for proper form and compliance with established NSHE contract policies. The following exceptions were noted.

1. Two contracts did not state that the Board of Regents was the contracting party on behalf of DRI.

We recommend contracts include the appropriate language, as required by Board of Regents policy.

Institution Response

We agree with this recommendation.

- **Corrective Action Taken – For future reference, the appropriate DRI personnel have been notified that the “Board of Regents of the Nevada System of Higher Education on behalf of DRI” is the contracting party.**
 - **Compliance, Measurement and Documentation – All contracts, even non-monetary memorandum of understanding contracts will be required to reference the language above.**
 - **Responsibility – The Legal Counsel and AVP/Controller are responsible for reviewing and assuring that all contracts contain the language above.**
2. One agreement involved a temporary easement of NSHE property to a public entity in Las Vegas to allow for the installation of a traffic signal and other improvements. Upon review of the agreement, a permanent easement was to be completed for the improvements. We noted a permanent easement was not completed.

We recommend a public easement document be prepared and approved by the chancellor.

Institution Response

We agree with the recommendation.

- **Corrective Action Taken – The AVP Campus Planning & Physical Plant has initiated the permanent NSHE easement review and approval process.**
- **Compliance, Measurement and Documentation – The AVP has established a calendar with expected milestones to insure future easement requests are coordinated with the System Administration in a timely manner.**
- **Responsibility – The AVP Campus Planning & Physical Plant is responsible for the NSHE property easement agreements on behalf of DRI.**

OTHER

The following item was noted during this review; however, it is the responsibility of the Nevada System of Higher Education System Office.

LEAVE RECORDS

The president's leave records were reviewed during the audit period for completeness and proper record keeping procedures. During this review, we noted one day of annual leave taken by the president was not considered in the final calculation of unused leave. As a result, unused annual leave was overstated by one day upon the president's separation.

We recommend greater care be taken to ensure unused annual leave is properly calculated.

Institution Response

Detailed corrective action taken, including what will be done to avoid the identified issues in the future, and when these measures will be in place: Under extremely unusual circumstances the president was paid at his request by a handwritten check on July 1, which was the actual day of his separation. Payroll processed the check based on his leave accrual as of June 30, not July 1 which did not account for the final leave day taken on July 1.

How compliance and performance will be measured and documented for future audit, management and performance review: effective October 1, 2017, the current leave keeping system will be replaced by Workday's Enterprise Resource System Absence Management business process. The new system and business process will not allow for this type of error to occur upon separation. In-between now and October 1, 2017, greater care will be taken to not process final paychecks on the last day of employment.

Who will be responsible and may be held accountable in the future if repeat or similar observations are noted: The Absence Management Lead for the new HCM System will help to ensure the new system is configured accordingly.

CONTRACTS

During our review of contracts, we noted an agreement with a public transportation agency in Las Vegas included an open-ended term but was not signed by the chancellor as required by NSHE policy. The agreement was signed at the institution level after review by the NSHE Office of Legal Affairs. We were informed by the NSHE Office of Legal Affairs that the clause in the Procedures and Guidelines Manual requiring the chancellor to sign open-ended agreements may not apply to contracts involving real property, such as the one noted.

We recommend the Procedures and Guidelines Manual be updated to provide clarification regarding this matter.

Institution Response

- **Detailed corrective action taken, including what will be done to avoid the identified issues in the future, and when these measures will be in place:**

This finding stems from a conflict between the Handbook and the Procedures and Guidelines Manual.

Generally speaking, Chapter 5, Section 3 of the Procedures and Guidelines Manual outlines the requirements and procedures for the preparation and execution of NSHE contracts. Among other things, the P&G Manual explains that contracts with “open ended” terms must be executed by the Chancellor. This requirement is intended to ensure System level review of contracts that purport to bind the Board for indefinite terms.

Real property transactions, however, are different from commercial contracts and are subject to and governed by a more specific set of requirements and procedures set forth in Title 4, Chapter 10, Section 9 of the Handbook (Real Property Transactions). That section includes a detailed chart (Table 9.1) describing various types of real estate transactions, the conditions related to each transaction type, and the appropriate approving authority for each transaction type. Table 9.1 was approved by the Board and added to the Handbook in June of 2014. Under Table 9.1 Institution Presidents are granted authority to approve and execute certain low risk real estate transactions – including the approval of licenses. A license is defined as “written permission to use NSHE property for a limited purpose for a limited time.” A person to whom a license is granted “obtains no interest in the property” and the license “is revocable at the will of the grantor.”

The agreement at issue fits the definition of a license under Table 9.1 because it does not grant an interest in real property and can be terminated at any time. While the agreement does contain an open ended term that automatically renews – as a legal and practical matter - that provision is rendered null by the ability to unilaterally terminate the

license. As a result, the Office of Legal Affairs advised that the agreement could be executed by the President of DRI.

As a general rule, the Handbook is the superior and controlling document in any conflict with the Procedures and Guidelines Manual. Nonetheless, in order to eliminate the conflict highlighted by this finding, the Office of Legal Affairs will prepare an appropriate amendment to the Procedures and Guidelines Manual. This amendment will avoid this conflict and resulting confusion in the future.

- **How compliance and performance will be measured and documented for future audit, management and performance review:**

Going forward compliance will be accomplished through both review and approval by the Office of Legal Affairs and audits conducted in the normal course of business.

- **Who will be responsible and may be held accountable in the future if repeat or similar observations are noted:**

Responsibility for future compliance will continue to rest primarily at the institutional level, with the Office of Legal Affairs providing System level review and oversight as necessary.

STATEMENT OF REVENUES AND EXPENDITURES

The statement of revenues and expenditures provided below is based on the activity of one state, four self-supporting, and one gift account that have been assigned to the DRI President's Office. The revenue and expenditure information was obtained from the financial accounting system and is provided for informational purposes only.

	State Accounts	Self Supporting Accounts	Gift Accounts	Total
Balance July 1, 2015	\$ -	\$ -	\$ 15,832	\$ 15,832
Transfers In	-	-	-	-
Revenues				
State Appropriations	460,516	-	-	460,516
Indirect Cost Recovery	-	324,987	-	324,987
Private Gifts Restricted	-	-	29,380	29,380
Total Revenues	460,516	324,987	29,380	814,883
Transfer Out	-	5,000	-	5,000
Expenditures				
Salaries	460,516	235,073	22,000	717,589
Travel	-	61,558	-	61,558
Operations	-	18,683	7,660	26,343
Hosting	-	4,673	-	4,673
Total Expenditures	460,516	319,987	29,660	810,163
Balance June 30, 2016	\$ -	\$ -	\$ 15,552	\$ 15,552

The Internal Audit Department appreciates the cooperation and assistance received from
DRI personnel during this review.

Reno, Nevada
March 22, 2017

/-----SIGNATURE ON FILE-----/

Stefania Pacheco
Internal Auditor II

/-----SIGNATURE ON FILE-----/

Eric Wilber
Senior Internal Auditor

/-----SIGNATURE ON FILE-----/

Scott Anderson
Internal Audit Manager

/-----SIGNATURE ON FILE-----/

Joseph Sunbury
Chief Internal Auditor