GENERAL OVERVIEW

The Board of Regents Handbook requires the Nevada System of Higher Education (NSHE) Internal Audit Department to conduct annual reviews of institutional hosting expenses. The reviews are intended to determine the extent to which institutions are in compliance with established hosting policies.

SCOPE OF AUDIT

The Internal Audit Department has completed a review of hosting expenditures for the Desert Research Institute (DRI) for the period of July 1, 2009 through June 30, 2010.

The scope of our review included an examination of institutional hosting expenditures for proper supporting documentation, signature approval, and compliance with hosting policies listed in the Board of Regents Handbook, the NSHE Procedures and Guidelines Manual, and the DRI Administrative Manual.

In our opinion, hosting expenses are handled in a satisfactory manner; however, implementation of the following recommendations would further improve compliance with established policies.

HOST EXPENDITURE REVIEW

A sample of 22 host expenditures was reviewed. Of these, no exceptions were noted with 19. The following exceptions were noted with the three remaining transactions.
1. The documentation for one hosting transaction, involving a hosted event, did not provide
the business relationship of non-DRI employees in attendance.

We recommend that the business relationship of attendees be provided, as required.

Institution Response

We agree with this recommendation.

Correction

We have updated the DRI Administrative Manual Host Policy to include
designating the business relationship of any non-DRI employees in attendance at a
hosted event. We have also updated the Host expense form to identify non-DRI
employees.

Prevention and Monitoring

We have reviewed this new requirement with the Administrative Council, published
it through email to the community and will post it to the Administrative Manual
website after governance review and approval.

2. Two hosting transactions were not charged to the hosting expense category. As a result,
the transactions were not approved by a proper authority and were not documented in
accordance with the requirements stipulated in the NSHE Procedures and Guidelines
Manual and the DRI Administrative Manual. We also noted that the account charged for
one of the transactions was not authorized for hosting. Both transactions involved the
purchase of DRI merchandise that was to be given as gifts by faculty when traveling.

We recommend greater care be taken to ensure host expenditures are identified and
processed as required and are charged to authorized accounts.

Institution Response

We agree with this recommendation. When DRI merchandise is given to faculty to
be used as promotional material in a authorized and documented
marketing/promotional program this is treated as a program expense not host. When merchandise is given out to individuals as gifts and not as part of a marketing program this is a host expense and not a program expense.

Correction

We have updated the Administrative Manual Host Policy to clarify the difference between a merchandise gift as a host expense and promotional material given as advertising/marketing program for the institute and the proper form of documentation for both.

Prevention and Monitoring

We have reviewed this area with the Administrative Council, the DRI Store operator, and posted the policy change on the Administrative Manual website after governance review and approval. The Financial Services Office (Controller’s Office) monitors each of these types of transactions to determine whether the transaction is host or program expense.

HOSTING POLICIES

During our review of the hosting policies provided in the DRI Administrative Manual, it was noted that food and beverage purchases for special events are considered non-hosting transactions. Such expenditures should be considered a hosting transaction. We also noted that a separate expense category has been established, within the financial accounting system, to which these transactions are posted. The transactions should be charged to the hosting expense category.

We recommend the institute’s hosting policies be updated. We also recommend that these transactions be charged as hosting and that the special events expense category, as described above, be discontinued from use.

Institution Response

We agree with this recommendation.
Correction

The special events policy is a policy that applies only to the DRI Research Foundation, not to general DRI operations. The DRI Financial Services Office does the accounting for the DRI Research Foundation which is a separate corporate entity with their own accounting policies and chart of accounts. The Foundation special events accounting policy language was inadvertently included in the DRI Administrative Manual policy language. We removed that language and have already established a separate non-DRI account coding system so there will not be any future confusion in this area.

Prevention and Monitoring

We have reviewed the removal of the special events language from the DRI Host Policy with the Administrative Council and the Foundation leadership.

PRIOR AUDIT

The prior DRI hosting audit was conducted for the period of July 1, 2007 through June 30, 2008. All recommendations from that audit have been implemented, are no longer applicable, or have been addressed in this report.
The Internal Audit Department appreciates the cooperation received from DRI personnel during this review.

Reno, Nevada
October 18, 2010

Eric Wilber  
Internal Auditor II

Mary Stoltz  
Senior Internal Auditor

Scott Anderson  
Internal Audit Manager

Sandra K. Cardinal  
Assistant Vice Chancellor for Internal Audit and Risk Management

(AUDIT COMMITTEE 03/10/11) Ref. A-10, Page 5 of 7
January 20, 2011

Ms. Sandi Cardinal  
Assistant Vice Chancellor  
Nevada System of Higher Education  
2601 Enterprise Road  
Reno, Nevada 89512

RE: Hosting Internal Audit Report July 1, 2009 through June 30, 2010

Dear Sandi:

Attached please find the Desert Research Institute response to the above mentioned audit. Appropriate action has been taken on each recommendation as summarized below.

AUDIT: DRI Hosting

AUDIT PERIOD: July 1, 2009 – June 30, 2010

NUMBER OF FINDINGS: 3

NUMBER OF RECOMMENDATIONS IMPLEMENTED: 3

<table>
<thead>
<tr>
<th>Number</th>
<th>Finding</th>
<th>Agree</th>
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<tbody>
<tr>
<td>1.</td>
<td>Designate business relationship at hosted event</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2.</td>
<td>Merchandise gifts treated as host, not program expense</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3.</td>
<td>Special events treated as host</td>
<td>Yes</td>
<td>Yes</td>
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As always, thank you and your staff for your continued assistance.

Sincerely,

Stephen Salaber
Interim Assistant Vice President/Controller

Cc: Olin Cleve McDaniel
Senior Vice President for Finance and Administration
And Chief Operations Officer