

DESERT RESEARCH INSTITUTE  
CHANGE IN LEADERSHIP  
Internal Audit Report  
July 1, 2018 through June 30, 2019

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, 2018 through June 30, 2019.

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 38 expenditures that were charged to the President's Office 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 38 expenditures, no material exceptions were noted with 31. The following exceptions were noted with the seven remaining transactions.

1. One purchase order was issued "after-the-fact" that is, after an invoice for services was issued to DRI.

We recommend that purchase requisitions be completed and submitted to the Business Center North Purchasing Department in advance of purchases, in accordance with established procedures.

### Institution Response

- **Corrective Action Taken – Reminders have been sent to DRI's Admin Council members to ensure the proper purchasing policies are followed and after-the-fact purchases are minimized.**

- **Compliance, Measurement and Documentation – Any deviations from the BCN Purchasing policies will include documentation of the business reason and an explanation of how compliance will be ensured in the future.**
  - **Responsibility – The Financial Services Office (FSO) in conjunction with BCN Purchasing is responsible for monitoring the purchasing activities of DRI to ensure compliance with policies and documentation of discrepancies.**
2. On one occasion, the president was over reimbursed for phone service charges while on an international trip.

We recommend that greater care be taken when reviewing phone service billings that are submitted for international travel.

### **Institution Response**

- **Corrective Action Taken – The President’s office and the Financial Services Office (FSO) travel office have been educated and asked to use greater care when entering and approving such transactions.**
  - **Compliance, Measurement and Documentation – The FSO travel office will ensure proper documentation and calculation of reimbursable expenses.**
  - **Responsibility – The FSO travel office is responsible for approving expenses requested for reimbursement via expense report.**
3. On five occasions, a detail code was not input in Workday for hosting transactions. As a result, the transactions did not post to the proper ledger account in Workday. We also noted the account to which the expenditures were charged was not approved for hosting activity.

For improved financial accounting, we recommend that a detail code be input in Workday when hosting transactions occur. We also recommend that hosting transactions be charged to properly authorized accounts.

### **Institution Response**

- **Corrective Action Taken – Members of the DRI Administrative Council, which includes the President’s Office staff, and the Financial Services Office (FSO) team have been reminded of the DRI and Board of Regents’ hosting**

**policies and asked to use greater care when entering and approving such transactions. In addition, DRI has set all the approved hosting accounts to include the required detail code as a default.**

- **Compliance, Measurement and Documentation – The FSO team will ensure proper coding of hosting transactions.**
- **Responsibility – The accounts payable staff in FSO are responsible for approving hosting expenses and ensuring proper coding of all transactions.**

## **DEFICIT ACCOUNTS**

During a review of DRI's financial accounts, we noted 17 accounts contained a deficit balance in excess of \$500. We were informed the DRI Financial Services Office is in the process of clearing the deficits with the appropriate departments. It should be noted one of the 17 accounts had a deficit in excess of \$80,000. The account and corresponding corrective actions for resolving the deficit have been properly reported to the Board of Regents' Business, Finance, and Facilities Committee.

We recommend the DRI Financial Services Office continue to work on clearing the deficit balances.

## **Institution Response**

- **Corrective Action Taken – The Budget Manager was made aware of this recommendation and smaller negative balances cleared. With respect to the major account deficit (\$80,000 account), the Budget Office worked with the PI in charge of the lab associated with the account and the deficit balance was cleared within 6 months.**
- **Compliance, Measurement and Documentation – All negative balances are identified monthly, monitored and cleared in a timely manner.**
- **Responsibility – The Budget Office staff 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. During this review, we noted one contract was not signed by all parties until after the contract went into effect.

We recommend that a signed and completed contract be executed before the contract period begins.

### Institution Response

- **Corrective Action Taken –The appropriate DRI personnel have been reminded of the importance of timely approval and signature of contracts.**
- **Compliance, Measurement and Documentation – All contracts, will be required to be signed before the period begins.**
- **Responsibility – The President’s Office and Controller are responsible for reviewing and assuring that all contracts are signed and executed timely.**

## OTHER – LEAVE RECORDS

The following item was noted during this review; however, since institutional presidents’ leave records are maintained by the Nevada System of Higher Education (NSHE) Human Resources Office and not the institutions, it is not the responsibility of DRI.

The president’s leave records were reviewed during the audit period for completeness and proper record keeping procedures. During this review, we noted annual leave was not being properly accrued and deducted from the president’s accumulated leave balance in Workday. We subsequently contacted the NSHE Human Resources Office to determine the reason these processing errors occurred. We were informed the errors were due to configuration issues related to Workday and that System Computing Services (SCS) had been requested to look into the matter.

We recommend that SCS continue its review so this issue can be corrected.

### **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.**

**On December 5, 2019, a Human Capital Management (HCM) Absence Business Analyst in System Computing Services (SCS), created a “Workday trouble ticket” in their “JIRA” system. The ticket number was “WCR-2156.” The ticket outlined the leave findings outlined above.**

**The HCM Absence Business Analyst was working closely with a Heron Consultant who specializes in Absence.**

**After conducting several test scenarios, the Analyst and the Consultant were unable to reproduce the issues in the former president’s leave record. However, they were able to determine that the issue was a result of a Workday configuration change that took place in October 2018.**

**Through the testing process, they were also able to determine that other, more recent configuration changes over-rode the October 2018 configuration changes that caused the accrual issues in the former president’s leave record, thus the inability to recreate the errors detected in the “Change of Leadership Audit.”**

**Current configuration of leave in Workday will prevent this issue from occurring again in the future. As a result, JIRA ticket WCR-2156 was closed on January 15, 2020. As an added measure, the NSHE Human Resources Office will implement a periodic review system to help ensure presidential leave balances are accurate.**

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

**It is anticipated that the recent configuration changes noted above will alleviate the errors noted in the audit. This will be measured and documented in future audits.**

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

**SCS personnel and Workday consultants who initiate configuration changes that affect proper leave accrual, as well as the NSHE Human Resources Office, will be held responsible if similar observations are noted in the future.**

As a result of the processing errors, the president's annual leave payout upon separation from DRI was understated by approximately 18 hours or \$2,700.

We recommend the former president be compensated for the shortage.

### **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.**

**On December 5, 2019, a special check request was processed to compensate the former president for the additional 18 hours of annual leave, or \$2,752.56. It is anticipated that recent configuration changes made in Workday will alleviate the errors noted in the audit and the subsequent need to process special check requests. As an added measure, the NSHE Human Resources Office will implement a periodic review system to help ensure presidential leave balances are accurate.**

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

**Proper leave accrual and accounting will be measured and documented in future audits.**

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

**SCS personnel and Workday consultants who initiate configuration changes that affect proper leave accrual, as well as the NSHE Human Resources Office, will be held responsible if similar observations are noted in the future.**

## STATEMENT OF REVENUES AND EXPENDITURES

The statement of revenues and expenditures provided below is based on the activity of one state, thirteen self-supporting, and four gift accounts 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	Gifts and Endowments	Total
Balance July 1, 2018	\$ -	\$ 2,935	\$ 71,305	\$ 74,240
Transfers In	\$ -	\$ -	\$ -	\$ -
Revenues				
State Appropriations	\$ 565,297	\$ -	\$ -	\$ 565,297
Gifts	\$ -	\$ -	\$ -	\$ -
Facilities & Administration	\$ -	\$ 901,559	\$ -	\$ 901,559
Sales and Service	\$ -	\$ 230	\$ -	\$ 230
Total Revenues	<u>\$ 565,297</u>	<u>\$ 901,789</u>	<u>\$ -</u>	<u>\$ 1,467,086</u>
Transfers Out	\$ -	\$ (3,974)	\$ -	\$ (3,974)
Expenditures				
Salaries	\$ 565,297	\$ 598,961	\$ -	\$ 1,164,258
Operations	\$ -	\$ 212,408	\$ -	\$ 212,408
Travel	\$ -	\$ 85,495	\$ -	\$ 85,495
Host Expense	\$ -	\$ 8,668	\$ -	\$ 8,668
Total Expenditures	<u>\$ 565,297</u>	<u>\$ 905,533</u>	<u>\$ -</u>	<u>\$ 1,470,830</u>
Balance June 30, 2019	<u>\$ -</u>	<u>\$ 3,165</u>	<u>\$ 71,305</u>	<u>\$ 74,470</u>



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

Reno, Nevada  
November 25, 2019

/-----SIGNATURE ON FILE-----/  
Eric Wilber  
Senior Internal Auditor

/-----SIGNATURE ON FILE-----/  
Scott Anderson  
Internal Audit Manager

/-----SIGNATURE ON FILE-----/  
Joseph Sunbury  
Chief Internal Auditor