

SENATE BILL NO. 550—COMMITTEE ON FINANCE

MAY 26, 1999

Referred to Committee on Finance

SUMMARY—Creates division of internal audits of department of administration and executive branch audit committee. (BDR 18-1766)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State or on Industrial Insurance: Contains Appropriation not included in Executive Budget.

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EXPLANATION – Matter in ***bolded italics*** is new; matter between brackets ~~omitted material~~ is material to be omitted.

AN ACT relating to public financial administration; creating the division of internal audits of the department of administration and the executive branch audit committee; providing the powers and duties of the new division and committee; making an appropriation; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE
AND ASSEMBLY, DO ENACT AS FOLLOWS:

- 1 **Section 1.** NRS 232.213 is hereby amended to read as follows:
2 232.213 1. The department of administration is hereby created.
3 2. The department consists of a director and the following divisions:
4 (a) Budget division.
5 (b) Risk management division.
6 (c) Hearings division, which consists of hearing officers, compensation
7 officers and appeals officers.
8 (d) Buildings and grounds division.
9 (e) Purchasing division.
10 (f) State printing division.
11 (g) Administrative services division.
12 ***(h) Division of internal audits.***
13 3. The director may establish a motor pool division or may assign the
14 functions of the state motor pool to one of the other divisions of the
15 department.

1 **Sec. 2.** NRS 232.215 is hereby amended to read as follows:

2 232.215 The director:

3 1. Shall appoint a chief of the:

4 (a) Risk management division;

5 (b) Buildings and grounds division;

6 (c) Purchasing division;

7 (d) State printing division;

8 (e) Administrative services division; ~~and~~

9 (f) *Division of internal audits; and*

10 (g) Motor pool division , if separately established.

11 2. Shall appoint a chief of the budget division, or may serve in this
12 position if he has the qualifications required by NRS 353.175.

13 3. Shall serve as chief of the hearings division and shall appoint the
14 hearing officers and compensation officers. The director may designate one
15 of the appeals officers in the division to supervise the administrative,
16 technical and procedural activities of the division.

17 4. Shall serve as chairman of the state public works board.

18 5. Is responsible for the administration, through the divisions of the
19 department, of the provisions of chapters 331, 333, 336 and 344 of NRS,
20 NRS 353.150 to 353.246, inclusive, *sections 7 to 15, inclusive, of this act*,
21 and all other provisions of law relating to the functions of the divisions of
22 the department.

23 6. Is responsible for the administration of the laws of this state relating
24 to the negotiation and procurement of medical services and other benefits
25 for state agencies.

26 7. Has such other powers and duties as are provided by law.

27 **Sec. 3.** NRS 232.2165 is hereby amended to read as follows:

28 232.2165 1. The chief of:

29 (a) The buildings and grounds division;

30 (b) The purchasing division;

31 (c) The state printing division;

32 (d) The administrative services division; ~~and~~

33 (e) *The division of internal audits; and*

34 (f) If separately established, the motor pool division,
35 of the department serves at the pleasure of the director, but, except as
36 otherwise provided in subsection 2, for all purposes except removal is in
37 the classified service of the state.

38 2. The chief of the motor pool division , if separately established ~~is~~ ,
39 *and the chief of the division of internal audits are* in the unclassified
40 service of the state.

- 1 **Sec. 4.** NRS 232.217 is hereby amended to read as follows:
2 232.217 Unless federal law or regulation otherwise requires, the chief
3 of the:
4 1. Budget division;
5 2. Buildings and grounds division;
6 3. Purchasing division;
7 4. State printing division; ~~and~~
8 5. *Division of internal audits; and*
9 6. Motor pool division, if separately established,
10 may appoint a deputy and a chief assistant in the unclassified service of the
11 state, who shall not engage in any other gainful employment or occupation
12 except as otherwise provided in NRS 284.143.
13 **Sec. 5.** NRS 232.219 is hereby amended to read as follows:
14 232.219 1. The department of administration's operating fund for
15 administrative services is hereby created as an internal service fund.
16 2. The operating budget of each of the following entities must include
17 an amount representing that entity's share of the operating costs of the
18 central accounting function of the department:
19 (a) State public works board;
20 (b) Budget division;
21 (c) Buildings and grounds division;
22 (d) Purchasing division;
23 (e) State printing division;
24 (f) Hearings division;
25 (g) Risk management division;
26 (h) ~~Office of financial management, training and controls;~~ *Division of*
27 *internal audits; and*
28 (i) If separately established, the motor pool division.
29 3. All money received for the central accounting services of the
30 department must be deposited in the state treasury for credit to the
31 operating fund.
32 4. All expenses of the central accounting function of the department
33 must be paid from the fund as other claims against the state are paid.
34 **Sec. 6.** Chapter 353A of NRS is hereby amended by adding thereto the
35 provisions set forth as sections 7 to 15, inclusive, of this act.
36 **Sec. 7.** *As used in NRS 353A.045, 353A.055 and 353A.065 and*
37 *sections 7 to 15, inclusive, of this act, unless the context otherwise*
38 *requires, the words and terms defined in sections 8 and 9 of this act have*
39 *the meanings ascribed to them in those sections.*
40 **Sec. 8.** *"Chief" means the chief of the division.*
41 **Sec. 9.** *"Division" means the division of internal audits of the*
42 *department of administration.*

Sec. 10. 1. The chief must:

(a) Be a certified public accountant licensed by this state or a public accountant qualified pursuant to chapter 628 of NRS to practice public accounting in this state; and

(b) Have at least 5 years of progressively responsible experience in professional auditing and performing internal audits or postaudits. The experience must include, without limitation, the performance of audits of governmental entities or of private business organizations, whether or not organized for profit.

2. The chief may employ, within the limits of legislative appropriations, such staff as is necessary to the performance of his duties.

Sec. 11. 1. The executive branch audit committee is hereby created.

2. The committee must consist of one member who is a representative of the general public appointed by the governor, who has at least 5 years of progressively responsible experience in the field of auditing and who does not engage in business with any agency, and the following ex officio members:

(a) The governor, who shall serve as chairman of the committee;

(b) The lieutenant governor;

(c) The secretary of state;

(d) The state treasurer;

(e) The state controller; and

(f) The attorney general.

3. The member of the committee who is a representative of the general public is entitled to receive a salary of \$80 per day while engaged in the business of the committee.

4. While engaged in the business of the committee, each member of the committee is entitled to receive the per diem allowance and travel expenses provided for state officers and employees generally.

5. The committee shall:

(a) Adopt policies and procedures for the operation of the division;

(b) Approve, with or without revision, each annual plan for auditing agencies presented by the chief pursuant to NRS 353A.045, and any revisions to such a plan, before the plan is implemented; and

(c) Approve, with or without revision, each annual report submitted by the chief pursuant to NRS 353A.065.

Sec. 12. 1. Except as otherwise provided in subsection 2, upon the request of the chief or his authorized representative, all officers and employees of each executive branch agency shall make available to the division all books, accounts, claims, reports, vouchers or other records of

1 *information, confidential or otherwise, in the possession or control of the*
2 *agency.*

3 *2. This section does not authorize the chief or his authorized*
4 *representative to have access to any books, accounts, claims, reports,*
5 *vouchers or other records or information of any business or activity*
6 *which NRS 665.130 and 668.085 require to be kept confidential.*

7 **Sec. 13.** *1. After each audit is completed, the chief or his*
8 *designated representative shall submit a copy of the preliminary findings*
9 *and recommendations of the audit to the head of the audited agency.*
10 *Within 10 working days after receipt of the preliminary findings and*
11 *recommendations, the head of the agency shall submit to the chief a*
12 *written statement of acceptance, explanation or rebuttal concerning the*
13 *findings. The chief shall include the statement of the head of the agency*
14 *in the final report.*

15 *2. The chief shall submit a final report to the committee and the*
16 *head of the audited agency.*

17 *3. Except as otherwise provided in sections 7 to 15, inclusive, of this*
18 *act, the chief shall not disclose the content of any audit before the final*
19 *report is submitted to the committee pursuant to subsection 2 except in*
20 *the case of alleged illegal acts which must be reported immediately upon*
21 *discovery.*

22 **Sec. 14.** *Within 6 months after the date that the final report is*
23 *submitted pursuant to section 13 of this act, if corrective action is*
24 *recommended for an agency, the chief shall determine whether*
25 *appropriate corrective actions are being taken and whether those actions*
26 *are achieving the desired result. The chief shall inform the committee*
27 *and the head of the audited agency of the effect of any corrective actions*
28 *taken.*

29 **Sec. 15.** *1. The chief shall keep or cause to be kept a complete file*
30 *of copies of all reports of audits, examinations, investigations and all*
31 *other reports or releases issued by him.*

32 *2. All working papers from an audit are confidential and may be*
33 *destroyed by the chief 5 years after the report is issued, except that the*
34 *chief:*

35 *(a) Shall release such working papers when subpoenaed by a court of*
36 *competent jurisdiction;*

37 *(b) Shall make such working papers available to the legislative auditor*
38 *upon his request; and*

39 *(c) May make such working papers available for inspection by an*
40 *authorized representative of any other governmental entity for a matter*
41 *officially before him.*

1 **Sec. 16.** NRS 353A.010 is hereby amended to read as follows:
2 353A.010 As used in this chapter, unless the context otherwise
3 requires:

4 1. “Agency” means every agency, department, division, board,
5 commission or similar body, or elected officer, of the executive branch of
6 the state . ~~[-except:~~

7 ~~—(a) A board or commission created by the provisions of chapters 623 to~~
8 ~~625, inclusive, 628 to 644, inclusive, 654 and 656 of NRS.~~

9 ~~—(b) The University and Community College System of Nevada.~~

10 ~~—(c) The public employees’ retirement system.~~

11 ~~—(d) The state industrial insurance system.~~

12 ~~—(e) The housing division of the department of business and industry.~~

13 ~~—(f) The Colorado River commission.]~~

14 2. ***“Committee” means the executive branch audit committee created***
15 ***pursuant to section 11 of this act.***

16 3. “Director” means the director of the department of administration.

17 ~~[3.]~~ 4. “Internal accounting and administrative control” means a
18 method through which agencies can safeguard assets, check the accuracy
19 and reliability of their accounting information, promote efficient operations
20 and encourage adherence to prescribed managerial policies.

21 **Sec. 17.** NRS 353A.020 is hereby amended to read as follows:

22 353A.020 1. The director, in consultation with the ~~[state-controller]~~
23 ***committee*** and legislative auditor, shall adopt a uniform system of internal
24 accounting and administrative control for agencies. The elements of the
25 system must include, without limitation:

26 (a) A plan of organization which provides for a segregation of duties
27 appropriate to safeguard the assets of the agency;

28 (b) A plan which limits access to assets of the agency to persons who
29 need the assets to perform their assigned duties;

30 (c) Procedures for authorizations and recordkeeping which effectively
31 control accounting of assets, liabilities, revenues and expenses;

32 (d) A system of practices to be followed in the performance of the duties
33 and functions of each agency; and

34 (e) An effective system of internal review.

35 2. The director, in consultation with the ~~[state-controller]~~ ***committee***
36 and legislative auditor, may modify the system whenever he considers it
37 necessary.

38 3. Each agency shall develop written procedures to carry out the
39 system of internal accounting and administrative control adopted pursuant
40 to this section.

41 4. ***For the purposes of this section, “agency” does not include:***

42 ***(a) A board or commission created by the provisions of chapters 623***
43 ***to 625, inclusive, 628 to 644, inclusive, 654 and 656 of NRS.***

1 *(b) The University and Community College System of Nevada.*

2 *(c) The public employees' retirement system.*

3 *(d) The state industrial insurance system.*

4 *(e) The housing division of the department of business and industry.*

5 *(f) The Colorado River Commission.*

6 **Sec. 18.** NRS 353A.025 is hereby amended to read as follows:

7 353A.025 1. The head of each agency shall periodically review the
8 agency's system of internal accounting and administrative control to
9 determine whether it is in compliance with the uniform system of internal
10 accounting and administrative control for agencies adopted pursuant to
11 subsection 1 of NRS 353A.020.

12 2. On or before July 1 of each even-numbered year, the head of each
13 agency shall report to the director whether the agency's system of internal
14 accounting and administrative control is in compliance with the uniform
15 system adopted pursuant to subsection 1 of NRS 353A.020. The reports
16 must be made available for inspection by the members of the legislature.

17 **3. For the purposes of this section, "agency" does not include:**

18 *(a) A board or commission created by the provisions of chapters 623*
19 *to 625, inclusive, 628 to 644, inclusive, 654 and 656 of NRS.*

20 *(b) The University and Community College System of Nevada.*

21 *(c) The public employees' retirement system.*

22 *(d) The state industrial insurance system.*

23 *(e) The housing division of the department of business and industry.*

24 *(f) The Colorado River Commission.*

25 **Sec. 19.** NRS 353A.045 is hereby amended to read as follows:

26 353A.045 The chief of the ~~{office of financial management, training~~
27 ~~and controls}~~ **division** shall:

28 1. Report to the director.

29 2. Develop long-term and annual work plans to be based on the results
30 of periodic documented risk assessments. The annual work plan must:

31 (a) List the agencies to which the ~~{office}~~ **division** will provide training
32 and assistance;

33 ~~{(b) Ensure that the internal accounting, administrative controls and~~
34 ~~financial management of those agencies are to be reviewed periodically;~~
35 ~~and~~

36 ~~—(c)—~~ **and**

37 *(b)* Be submitted to the director for approval.

38 3. Provide a copy of the approved annual work plan to the legislative
39 auditor.

40 **4. In consultation with the director, prepare a plan for auditing**
41 **executive branch agencies for each fiscal year and present the plan to the**
42 **committee for its review and approval. Each plan for auditing must:**

1 (a) State the agencies which will be audited, the proposed scope and
2 assignment of those audits and the related resources which will be used
3 for those audits; and

4 (b) Ensure that the internal accounting, administrative controls and
5 financial management of each agency are reviewed periodically.

6 5. Perform the audits of the programs and activities of the agencies
7 in accordance with the plan approved pursuant to subsection 5 of section
8 11 of this act and prepare audit reports of his findings.

9 6. Review each agency that is audited pursuant to subsection 5 and
10 advise those agencies concerning internal accounting, administrative
11 controls and financial management.

12 7. Submit to each agency that is audited pursuant to subsection 5
13 analyses, appraisals and recommendations concerning:

14 (a) The adequacy of the internal accounting and administrative
15 controls of the agency; and

16 (b) The efficiency and effectiveness of the management of the agency.

17 8. Report any possible abuses, illegal actions, errors, omissions and
18 conflicts of interest of which the division becomes aware during the
19 performance of an audit.

20 9. Adopt the standards of the Institute of Internal Auditors for
21 conducting and reporting on audits.

22 10. Consult with the legislative auditor concerning the plan for
23 auditing and the scope of audits to avoid duplication of effort and undue
24 disruption of the functions of agencies that are audited pursuant to
25 subsection 5.

26 **Sec. 20.** NRS 353A.055 is hereby amended to read as follows:

27 353A.055 1. The ~~{office of financial management, training and~~
28 ~~controls}~~ **division** shall:

29 (a) Determine the adequacy of the system of internal accounting,
30 administrative control and financial management of each agency to which
31 the ~~{office}~~ **division** provides training and assistance.

32 (b) ~~{Develop regulations for adoption by the state board of examiners}~~
33 **Adopt regulations, approved by the committee**, requiring the provision of
34 training to any employee of an agency who is responsible for administering
35 budgetary accounts. The training must address:

36 (1) The laws and regulations of this state and the Federal Government
37 applicable to the operations of the agency.

38 (2) Internal accounting, administrative controls and financial
39 management.

40 (3) Techniques to address the adequacy of controls of the agency.

1 (c) Develop and administer a procedure to evaluate the effectiveness of
2 any training provided to an agency.

3 (d) Provide technical assistance to agencies in developing and carrying
4 out their systems of internal accounting, administrative controls and
5 financial management.

6 (e) Prepare separate reports for each agency which summarize the
7 results of the training and assistance provided to the agency.

8 2. The ~~{office of financial management, training and controls}~~ **division**
9 shall not:

10 (a) Provide any services to an agency that is under the direct control or
11 administration of a constitutional officer unless the constitutional officer
12 requests such services.

13 (b) Conduct investigations, but shall refer such matters to the
14 appropriate agency.

15 **Sec. 21.** NRS 353A.065 is hereby amended to read as follows:

16 353A.065 1. Within 90 days after the end of each fiscal year, the
17 chief ~~{of the office of financial management, training and controls shall~~
18 ~~issue}~~ **shall submit** an annual report **to the committee for its approval**
19 which:

20 (a) Lists the agencies to which the ~~{office provided training, evaluated~~
21 ~~controls and carried out systems of internal accounting, administrative~~
22 ~~controls and financial management;}~~ **division provided training and**
23 **assistance;**

24 (b) Separately lists any other ~~{related}~~ activities undertaken by the
25 ~~{chief}~~ **division that are related to the provision of training and assistance**
26 and the status of those activities; ~~{and}~~

27 (c) **Contains a list of the final reports that have been submitted**
28 **pursuant to section 13 of this act;**

29 (d) **Contains a separate list of any other activities undertaken by the**
30 **division that are related to the final reports submitted pursuant to section**
31 **13 of this act and the status of those activities; and**

32 (e) Describes the accomplishments of the office.

33 2. The chief shall provide a copy of the annual report to the:

34 (a) ~~{Governor;}~~ **Committee;**

35 (b) Director;

36 (c) Interim finance committee; and

37 (d) Legislative auditor.

38 **Sec. 22.** Section 1 of Assembly Bill No. 255 of this session is hereby
39 amended to read as follows:

40 **Section 1.** NRS 353A.025 is hereby amended to read as
41 follows:

42 353A.025 1. The head of each agency shall periodically
43 review the agency's system of internal accounting and

1 administrative control to determine whether it is in compliance with
2 the uniform system of internal accounting and administrative
3 control for agencies adopted pursuant to subsection 1 of NRS
4 353A.020.

5 2. On or before July 1 of each even-numbered year, the head of
6 each agency shall report to the director whether the agency's system
7 of internal accounting and administrative control is in compliance
8 with the uniform system adopted pursuant to subsection 1 of NRS
9 353A.020. The reports must be made available for inspection by the
10 members of the legislature.

11 3. For the purposes of this section, "agency" does not include:

12 (a) A board or commission created by the provisions of chapters
13 623 to 625, inclusive, 628 to 644, inclusive, 654 and 656 of NRS.

14 (b) The University and Community College System of Nevada.

15 (c) The public employees' retirement system.

16 (d) The state industrial insurance system.

17 (e) The housing division of the department of business and
18 industry.

19 (f) The Colorado River Commission.

20 ***4. The director shall, on or before the first Monday in***
21 ***February of each odd-numbered year, submit a report on the***
22 ***status of internal accounting and administrative controls in***
23 ***agencies to the:***

24 ***(a) Director of the legislative counsel bureau for transmittal to***
25 ***the:***

26 ***(1) Senate standing committee on finance; and***

27 ***(2) Assembly standing committee on ways and means;***

28 ***(b) Governor; and***

29 ***(c) Legislative auditor.***

30 ***5. The report submitted by the director pursuant to subsection***
31 ***4 must include, without limitation:***

32 ***(a) The identification of each agency that has not complied***
33 ***with the requirements of subsections 1 and 2;***

34 ***(b) The identification of each agency that does not have an***
35 ***effective method for reviewing its system of internal accounting***
36 ***and administrative control; and***

37 ***(c) The identification of each agency that has weaknesses in its***
38 ***system of internal accounting and administrative control, and the***
39 ***extent and types of such weaknesses.***

40 **Sec. 23.** NRS 353A.035 is hereby repealed.

41 **Sec. 24.** 1. There is hereby appropriated from the state general fund
42 to the department of administration for the establishment of the division of
43 internal audits, including personnel costs, operating costs and expenses

- 1 related to travel, information services and the purchase of necessary
- 2 equipment, hardware and software:
- 3 For the fiscal year 1999-2000.....\$751,833
- 4 For the fiscal year 2000-2001.....\$1,168,609
- 5 2. Any balance of the sums appropriated by subsection 1 remaining at
- 6 the end of the respective fiscal years must not be committed for expenditure
- 7 after June 30 of the respective fiscal years and reverts to the state general
- 8 fund as soon as all payments of money committed have been made.
- 9 **Sec. 25.** This act becomes effective on July 1, 1999.

TEXT OF REPEALED SECTION

353A.035 Creation; appointment and qualifications of chief; restrictions on other employment of chief; employment of staff.

1. The office of financial management, training and controls is hereby created within the department of administration.
2. The director shall appoint a chief of the office. The chief is in the unclassified service of the state and, except as otherwise provided in NRS 284.143, shall not engage in any other gainful employment or occupation.
3. The chief must:
 - (a) Be a certified public accountant licensed by this state or a public accountant qualified pursuant to chapter 628 of NRS to practice public accounting in this state; and
 - (b) Have at least 5 years of progressively responsible professional auditing experience performing internal audits or postaudits. The auditing experience must consist of audits of governmental entities or of private business organizations, whether or not organized for profit.
4. The chief may employ, within the limits of legislative appropriations, such staff as is necessary to the performance of his duties. The chief shall not limit his own work assignments to administrative duties.