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WORK SESSION

Assembly Committee on Government Affairs

PREPARED BY
RESEARCH DIVISION
LEGISLATIVE COUNSEL BUREAU
Nonpartisan Staff of the Nevada State Legislature

ASSEMBLY BILL 216

**Revises manner in which certain claims against state are audited.
(BDR 31-491)**

Sponsored by: Assembly Committee on Government Affairs
On behalf of the Department of Administration,
Division of Internal Audits
Date Heard: March 12, 2003

Assembly Bill 216 changes internal audits by the Division from a preaudit to a postaudit and clarifies that the standards of the Institute of Internal Audits are applicable only as to internal audits.

Concerns were raised during the hearing as to the impetus for a change from preaudits to postaudits and as to the legislative oversight role in such audits. Attached is background information from Paul Townsend, Director of the Audit Division, on the legislative audit role and the changes in state government that spawned AB 216.

Proposed amendments: None.

Testimony in opposition: None

Fiscal Impact: Local Government: No
State Government: No

3/12/2003

ASSEMBLY GOVERNMENT AFFAIRS
DATE: 3/13/03 ROOM: 3143 EXHIBIT F, 1 of 2
SUBMITTED BY: Susan Scholley

BACKGROUND INFORMATION FOR ASSEMBLY BILL 216 CHANGES IN THE DIVISION OF INTERNAL AUDITS

According to information received from Paul Townsend, Director of the Audit Division of the Legislative Counsel Bureau (LCB), there has been a significant change in the way expenditures are processed by state agencies due to the implementation of the new Integrated Financial System (IFS). Under the old process, agencies sent paper documents to a *Pre-Audit* section within the Department of Administration. Pre-Audit performed the review and approval function for the Board of Examiners and provided a centralized control function.

The IFS uses various modules to meet the specific needs of the agencies within the state, including financial reporting, human resource management, and purchasing. The IFS has been receiving funding from the Legislature over the past three sessions.

Under the new IFS, state agencies now process expenditures electronically - without a pre-approval function. Although this method is believed to be more efficient, it is a major shift to decentralized control and provides state agencies with much greater authority. The new control over this system is in the *Post-Audit* function within the Division of Internal Audits. The Division of Internal Audits sends auditors out to agencies and examines a sample of transactions that have already occurred to determine if the required documentation and approvals were obtained.

These postaudits, as well as other audits performed by the Division of Internal Audits, are available to the Audit Division of LCB. Because the shift to the IFS is such a radical change, LCB has identified this issue as a high-risk area and is currently performing an audit of the process to see if state agencies are handling transactions properly. The LCB audit of the *Security and Integrity of the State's Integrated Financial System* will be released later this year. The Audit Division of LCB also reviews this area in its routine audits of state agencies. The Fiscal Analysis Division that monitors the budgets of state agencies provides additional legislative oversight.