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We have completed an audit of the Division of Museums and History. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Division's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Division of Museums and History for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

February 9, 2006  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF CULTURAL AFFAIRS  
DIVISION OF MUSEUMS AND HISTORY

AUDIT REPORT

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# EXECUTIVE SUMMARY

## DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY

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### Background

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The Department of Museums and History was established in 1979 to consolidate the administration of the State's museums and historical societies. In 1993, it became a division of the newly created Department of Museums, Library and Arts. During the 2001 Legislative Session the Department of Museums, Library and Arts was renamed the Department of Cultural Affairs.

The Division's purpose is to collect, preserve, exhibit, and interpret material objects, documents, and records representing Nevada's historical, cultural, and natural heritage for the benefit of the general public. The Division includes the Office of the Administrator and seven museums and historical societies located throughout the state.

The Board of Museums and History is comprised of 11 members appointed by the Governor. With respect to the functions of the Division, the Board is responsible to develop, review and make policy for investments, budgets, expenditures, and general control of the Division's dedicated trust funds. In all other matters pertaining to the Division, the Board serves in an advisory capacity.

Funding for the Division is provided from several different sources, including legislative appropriations, transfers from the Commission on Tourism, federal grants, and admission and train ride fees. These funds are designated as state money. The Division also receives funding from the dedicated trust fund, which generates revenues from museum store sales, photography and publication sales, memberships, donations, gifts and bequests, investment income, and other sources. Revenues flowing into the dedicated trust fund are not state funds and are designated by statute as private money.

## **EXECUTIVE SUMMARY**

### **DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY**

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In fiscal year 2004, Division expenditures totaled \$5.6 million. This included \$4.7 million in state money and \$900,000 in private funds.

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## **Purpose**

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The purpose of this audit was to evaluate the effectiveness of the Division's strategic planning process. We also determined if the Division's financial and administrative practices complied with applicable laws, regulations, policies, and procedures. Our audit focused on the strategic planning process during fiscal years 2002 to 2005, and financial and administrative activities during fiscal year 2004. Selected information and activities from prior fiscal years and 2005 were reviewed to assist with analyzing historical trends, investment performance, and determining compliance with laws, regulations, policies, and procedures.

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## **Results in Brief**

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The Division of Museums and History needs to improve its strategic planning process. More effective planning could help address declining trends in museum attendance, store sales, and donations. Currently, the Division lacks a comprehensive approach to strategic planning. A more comprehensive approach would better address common issues facing the agency.

The Board of Museums and History, and the Division did not always comply with laws and policies relevant to their financial and administrative activities. Sufficient Board policies governing the management of private money have not been developed. In addition, Board subcommittee meeting agendas and minutes were not always prepared. Furthermore, statutory reporting requirements for private money expenditures and investments were not met. Finally,

## EXECUTIVE SUMMARY

### DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY

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Division policies and procedures were not sufficient and state and federal overtime laws were not consistently followed.

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## Principal Findings

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- Division expenditures supported by Legislative funding increased by 81% from fiscal year 1995 to 2004. During the same period, expenditures supported through funding generated by the museums (i.e., self-generated) declined by 5%. As a result, the Division is more dependent on legislative funding, which increased as a percent of total expenditures from 64% in fiscal year 1995 to 77% in 2004. The decline in self-generated funding impacts the Division's ability to provide and enhance store operations, exhibits, education programs, and other services offered to the public. (page 11)
- The number of museum visitors has declined for the past several years. According to Division records, the number of total visitors dropped from 218,680 in fiscal year 2000 to 185,042 in fiscal year 2005, a decline of 15%. Fewer visitors can impact revenues generated from admissions and museum stores. (page 13)
- The Division and each museum prepare a variety of planning documents, including an annual and long-range plan. Based on our review, the process used to develop recent plans was decentralized, focused at the museum level, and lacked a common approach. As a result, strategies were focused on specific museums rather than issues facing the entire Division. (page 15)
- The museums use different formats and issues when preparing their plans. In addition, plans were incomplete, lacking clearly defined goals, objectives,

## EXECUTIVE SUMMARY

### DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY

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and strategies. Further, issues and strategies identified in long-range plans were not always addressed in annual plans. (page 15)

- As part of the planning process, museum directors are required to prepare annual marketing and fundraising plans. Our review of these plans revealed that marketing and fundraising activities were not always addressed adequately. Most plans lacked goals and objectives for their listed strategies. In addition, some plans did not clearly identify the groups targeted by their marketing efforts. Finally, several fundraising plans lacked strategies to approach businesses, foundations, or other organizations as part of their fundraising activities. (page 16)
- Division and museum plans did not always include outcome measures to help staff monitor their progress at achieving goals. Some plans included strategies to increase visitation, education, store sales, collections, or improve the museum's facilities. However, rarely were outcomes identified to measure the success of these strategies. (page 16)
- The Board of Museums and History has not developed sufficient policies governing the management of the museums' private money. Policies are not complete or available in a readily accessible format for use by staff and Board members. (page 17)
- The Board of Museums and History has not established a clearly defined strategy for investing private funds. Although existing policy indicates a conservative strategy, the Board's allocation of funds and investment performance has not been consistent with this approach. In addition, the policy lacks clear objectives for the portfolio. (page 19)

## EXECUTIVE SUMMARY

### DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY

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- Agendas and minutes for Board subcommittee meetings were not always prepared. The Board's four subcommittees collectively held nine meetings during 2003 and 2004. Review of records from these nine meetings revealed agendas were properly prepared and retained for only six meetings, and minutes properly prepared for two meetings. (page 22)
- The Division and the Board of Museums and History did not always provide the Legislature with complete and accurate information on private money investments, expenditures, and budgets as required by NRS Chapter 381. Specifically, not all required reports were provided, and some information on investments and expenditures was inaccurate. For example, the report submitted in January 2003 indicated private money expenditures of \$534,000 for fiscal year 2002. Actual expenditures for fiscal year 2002 were \$832,000. Further, budgetary numbers were provided for the wrong fiscal years. (page 22)
- The Division has not developed sufficient policies and procedures to help the agency guide operations. A policy and procedures manual is needed to address all aspects of the Division's administrative practices. In addition, some existing internal control procedures have not been updated since January 2001 and do not always reflect current practices. (page 23)
- The Division did not always comply with state and federal overtime laws. We tested three pay periods in fiscal year 2004 and identified seven employees who worked in excess of 40 hours without receiving paid overtime or compensatory time. In all seven cases, the employees worked additional time under the Department of Cultural Affairs variable workweek policy but failed to use the time within the same week. (page 24)

## **EXECUTIVE SUMMARY**

### **DEPARTMENT OF CULTURAL AFFAIRS DIVISION OF MUSEUMS AND HISTORY**

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## **Recommendations**

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This report contains eight recommendations to improve the Division's strategic planning, and financial and administrative practices. Specifically, the Division should adopt a comprehensive approach to strategic planning that includes: a division-wide process, uniform formats and issues, common goals and objectives, marketing and fundraising strategies, and outcome measures. In addition, the Division should ensure Board policies are complete and readily available, Board subcommittee meeting agendas and minutes are prepared and maintained, and statutory reporting requirements for private money are met. Finally, the Division should develop and implement administrative policies and procedures, update existing internal controls, and comply with state and federal overtime requirements. (page 36)

## **Agency Response**

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The Division, in its response to our report, accepted two recommendations, partially accepted four recommendations, and rejected two recommendations. (page 32)



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# Introduction

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## Background

The Department of Museums and History was established in 1979 to consolidate the administration of the State's museums and historical societies. In 1993, it became a division of the newly created Department of Museums, Library and Arts. During the 2001 Legislative Session, the Department of Museums, Library and Arts was renamed the Department of Cultural Affairs.

The Division's purpose is to collect, preserve, exhibit, and interpret material objects, documents, and records representing Nevada's historical, cultural, and natural heritage for the benefit of the general public. The Division includes the Office of the Administrator and seven museums and historical societies located throughout the state including:

- Nevada State Museum in Carson City
- Nevada Historical Society in Reno
- Nevada State Museum and Historical Society in Las Vegas
- Lost City Museum in Overton
- Nevada State Railroad Museum in Carson City
- Nevada State Railroad Museum in Boulder City
- East Ely Depot Museum

The Board of Museums and History is comprised of 11 members appointed by the Governor. With respect to the functions of the Division, the Board is responsible to develop, review and make policy for investments, budgets, expenditures, and general control of the Division's dedicated trust funds. In all other matters pertaining to the Division, the Board serves in an advisory capacity.

Funding for the Division is provided from several different sources, including legislative appropriations, transfers from the Commission on Tourism, federal grants, and admission and train ride fees. These funds are designated as state money. The Division also receives funding from the dedicated trust fund, which generates revenues

from museum store sales, photography and publication sales, memberships, donations, gifts and bequests, investment income, and other sources. Revenues flowing into the dedicated trust fund are not state funds and are designated by statute as private money. Exhibit 1 shows Division expenditures by budget account and funding source (i.e., state and private money) for fiscal year 2004.

**Exhibit 1**

**Division of Museums and History  
Expenditures by Funding Source  
Fiscal Year 2004**

<b>Budget Account</b>	<b>State Money</b>		<b>Private Money</b>		<b>Total Expenditures</b>
	<b>Expenditures</b>	<b>Percent</b>	<b>Expenditures</b>	<b>Percent</b>	
Administration	\$ 229,892	95%	\$ 11,033	5%	\$ 240,925
Lost City Museum	363,085	80%	91,624	20%	454,709
Nevada Historical Society	647,162	82%	140,127	18%	787,289
Nevada State Museum	1,480,519	77%	452,449	23%	1,932,968
Nevada State Museum and Historical Society	970,926	96%	43,605	4%	1,014,531
Railroad Museums <sup>(1)</sup>	1,016,542	84%	190,512	16%	1,207,054
Board of Museums and History	n/a		16,682	100%	16,682
<b>Totals</b>	<b>\$4,708,126</b>	<b>83%</b>	<b>\$946,032</b>	<b>17%</b>	<b>\$5,654,158</b>

(1) Includes the Carson City, Boulder City, and East Ely Railroad Museums. State money excludes \$337,500 for the Boulder City Railroad Museum to restore locomotives and rolling stock.

Note: Excludes \$3,144,000 in bond proceeds spent for the new museum at the Las Vegas Springs Preserve.

Source: State financial records.

Exhibit 1 shows in fiscal year 2004, state money funded 83% of Division expenditures, while private money covered the remaining 17%. State money included \$4,256,000 in general funds; other funding sources included museum admission and train ride revenues, transfers from other state agencies, and federal grants. Private money included \$490,000 in store sales; other key funding sources were donations and gifts, investment income, service charges, and memberships.

As of June 30, 2004, the Division's private money investments totaled \$1,391,000. This included \$560,000 invested with the State Treasurer and \$831,000 with a private investment firm.

In fiscal year 2004, the Division had 78.98 full-time equivalent positions, including 6.97 positions paid with private money. Private money generally funds museum store staff and also partially funds several curator and exhibit positions at the Nevada State Museum.

Beginning in fiscal year 2001, the Division began tracking all private money through the State's Integrated Financial System (IFS). As a result, private money is now tracked using the same system as the Division's state money. Previously, the Division used outside bank accounts to deposit private money and pay bills. Using IFS has improved internal controls over private money and provided a more effective method to track and process revenues and expenditures.

In addition, voters passed Question 1 in November 2002 authorizing the State to issue \$200 million in general obligation bonds to preserve water quality; protect open spaces, lakes, rivers, wetlands, and wildlife habitat; and restore and improve parks, recreational areas, and historic and cultural resources. Included in the \$200 million was \$35 million for the Department of Cultural Affairs to establish a new museum at the Las Vegas Springs Preserve. This will involve relocating the Nevada State Museum and Historical Society to the Springs Preserve. The project is in the design phase. Through fiscal year 2004, the State paid \$3.1 million primarily for utility and infrastructure costs. Completion of the new museum is scheduled for 2008 according to Division staff.

Finally, the 2005 Legislature provided the Division with about \$7.3 million to address a variety of items through one-shot appropriations. These include funding artifact purchases; a connecting building between the two existing buildings at the Nevada State Museum; additional facilities for the State Railroad Museum in Boulder City; and money for a variety of deferred maintenance, capital improvement, and other facility needs.

## **Scope and Objectives**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on the strategic planning process during fiscal years 2002 to 2005, and financial and administrative activities during fiscal year 2004. Selected information and activities from prior fiscal years and 2005 were reviewed to assist with analyzing historical trends, investment performance, and determining compliance with laws, regulations, policies, and procedures. The audit objectives were to:

- Evaluate the effectiveness of the Division's strategic planning process, and
- Determine if the Division's financial and administrative practices complied with applicable laws, regulations, policies, and procedures.

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# Findings and Recommendations

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## Strategic Planning Process Needs to Be Improved

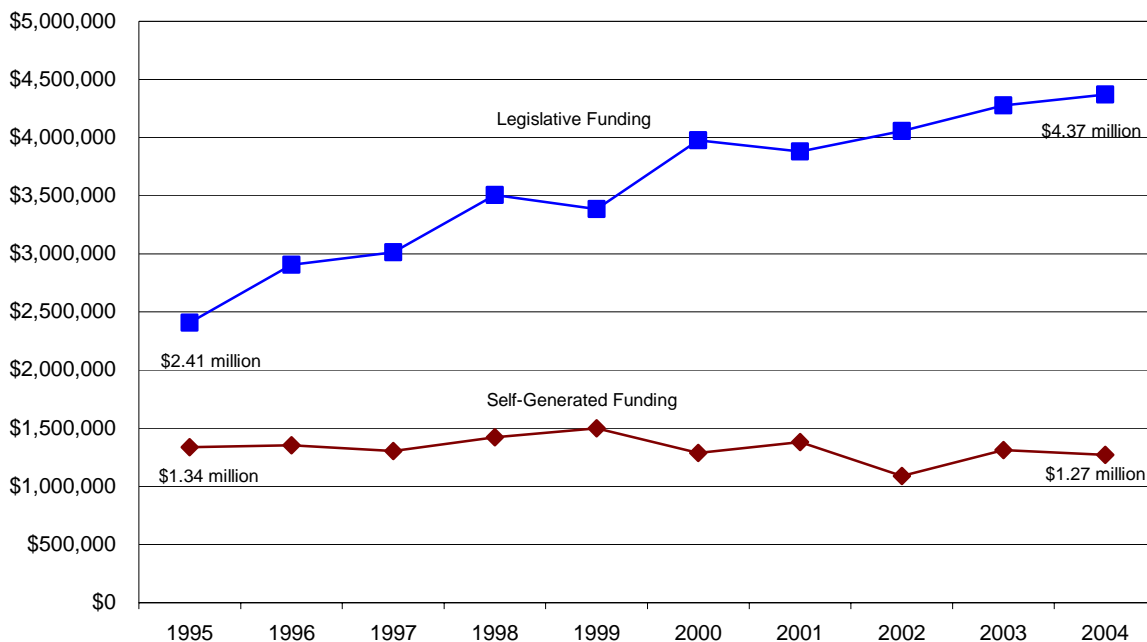
The Division of Museums and History needs to improve its strategic planning process. More effective planning could help address declining trends in museum attendance, store sales, and donations. Currently, the Division lacks a comprehensive approach to strategic planning. A more comprehensive approach would better address common issues facing the agency.

### Attendance, Store Sales, Donations Declining

Over the past 10 years, legislative funding of division expenditures has increased while funding generated by the museums has declined. These declines can impact the Division's ability to expand exhibits and provide services to the public. Exhibit 2 shows the trend in these funding sources for fiscal years 1995 to 2004.

### Exhibit 2

**Funding Sources for Expenditures  
Fiscal Years 1995 to 2004**



Sources: State financial records and external auditor reports.

Note: Legislative funding figures do not include \$1,897,000 appropriated to the Boulder City Railroad Museum for start-up costs.

The exhibit shows expenditures supported by legislative funding have increased from about \$2.41 million in fiscal year 1995 to \$4.37 million in fiscal year 2004, an increase of 81%. Legislative funding includes general fund appropriations, room tax receipts, and other miscellaneous items. During the same period, expenditures supported through funding generated by the museums (i.e., self-generated funding) dropped 5%, from \$1.34 to \$1.27 million. Self-generated funding includes admission and train ride fees, museum store sales, investment income, charges for services, grants, gifts, donations, and other sources.<sup>1</sup> As a result of the decline in self-generated funding, legislative funding as a percent of total Division expenditures increased from 64% in fiscal year 1995 to 77% in 2004.

In general, the Legislature has funded most of the Division's staff positions, facility maintenance, and operating costs. Funds generated by the museums typically support museum store operations, exhibits, education programs, and other services offered to the public. The declining trend in self-generated funding impacts the museums ability to provide and enhance these activities.

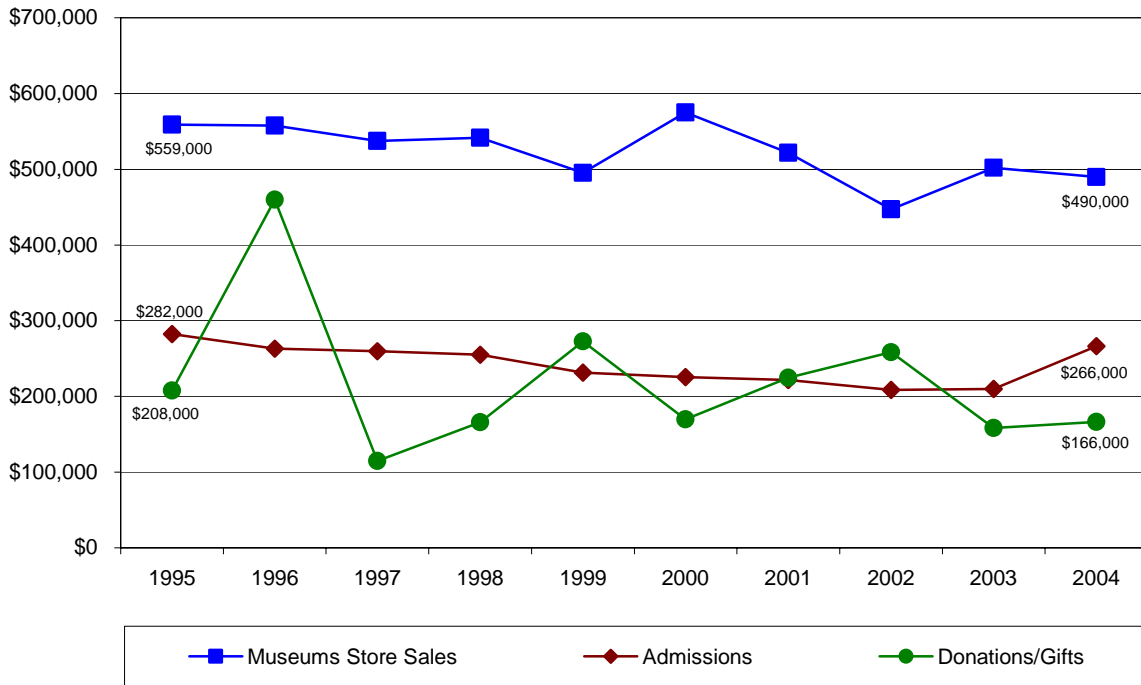
The museums rely on key funding sources including admission fees, store sales, and donations and gifts to provide self-generated revenues. Together, these sources made up 66% of all revenues generated by the museums during fiscal year 2004. Exhibit 3 shows revenues generated from these sources for fiscal years 1995 to 2004.

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<sup>1</sup> See Appendix C for further discussion on revenue sources.

### Exhibit 3

#### Selected Self-Generated Revenue Sources Fiscal Years 1995 to 2004



Sources: State financial records and external auditor reports.

Exhibit 3 shows a general decline in these revenue sources over the past 10 years. For example, admission fees have declined steadily from fiscal year 1995 to 2003. The subsequent change in 2004 resulted from a fee increase in October 2003. However, the actual number of museum visitors has declined for the past several years. According to Division records, the number of total visitors dropped from 218,680 in fiscal year 2000 to 185,042 in fiscal year 2005, a decline of 15%. Exhibit 4 shows this trend by museum.

**Attendance by Museum  
Fiscal Years 2000 to 2005**

<b>Museum</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Lost City Museum	29,584	26,690	25,254	24,844	23,445	22,943
Nevada Historical Society	32,957	36,881	38,001	33,602	37,955	28,534
Nevada State Museum	79,982	79,576	68,866	69,393	64,422	53,564
Nevada State Museum & Historical Society	23,778	27,181	21,331	22,383	22,525	19,136
Nevada State Railroad Museum, Carson City	44,328	41,067	38,832	39,199	36,688	34,950
Nevada State Railroad Museum, Boulder City	--	--	--	1,632	6,274	14,190
East Ely Depot Museum	8,051	7,323	9,007	9,143	10,902	11,725
<b>Totals</b>	<b>218,680</b>	<b>218,718</b>	<b>201,291</b>	<b>200,196</b>	<b>202,211</b>	<b>185,042</b>

Source: Division records

Fewer visitors can also impact revenues generated from museum stores. As shown in Exhibit 3 on page 13, store sales dropped from about \$559,000 in fiscal year 1995 to \$490,000 in fiscal year 2004, or 12%. According to staff, this sales decline caused the Division to reduce staffing at three museum stores. In addition, we found only one of the six stores offered Internet sales. However, our review of planning documents found several museums had expressed an interest in offering Internet sales. Providing popular items through the Internet could help increase store sales.

Concerning the Division's funding trends, we contacted four other states with museum systems. Unlike Nevada, they indicated state funding was flat or declining as a percentage of total revenue. Further, some of these states also reported a decline in museum visitation, which is consistent with Nevada. To address this issue, some states have increased marketing and fundraising efforts, along with offering special events and new exhibits.

**Comprehensive Strategic Planning Is Needed**

Improved strategic planning could help address the declining trends discussed above. Our review of the Division's planning documents indicates the process was decentralized and without a common approach. In addition, museum plans used different formats, lacked common issues, and were frequently incomplete. Further,



marketing and fundraising activities were not adequately addressed and the plans often lacked outcome measures. The Division needs to continue its current efforts to improve the planning process. A more comprehensive approach would improve the overall effectiveness of the strategic plan.

#### Division Planning Is Decentralized

The Division and each museum prepare a variety of planning documents, including annual and long-range plans. Based on our review, the process used to develop recent plans was decentralized, focused at the museum level, and lacked a common approach. The Division's overall plan was generally compiled, in part, from each museum's individual plan. This suggests a bottom-up approach where critical issues were developed at the museum level without a comprehensive, division-wide process. As a result, strategies were focused on specific museums rather than issues facing the entire agency. Planning would be more effective if goals and strategies were developed at the Division level with museums using a common framework to prepare their plans.

#### Plans Use Different Formats, Lack Common Issues, and Are Incomplete

The museums use different formats and issues when preparing their plans. For example, one museum constructed its plan around five issues. These included:

- Collections
- Education and Interpretation
- Facilities
- Staff
- Administration

Three museums constructed plans around seven critical issues. These included:

- Audience Development
- Resource Development (funding sources)
- Collection Development
- Facilities and Equipment Development
- Resource Management
- Collaboration
- Professional Development (staff)

The remaining museums used other issues in their plans. As a result, plans were not

structured on common division-wide issues and agenda. In addition, many plans were incomplete, lacking clearly defined goals, objectives, and strategies. Further, issues and strategies identified in long-range plans were not always addressed in the related annual plans.

#### Marketing and Fundraising Activities Not Adequately Addressed

As part of the planning process, museum directors are required to prepare annual marketing and fundraising plans. This involves developing marketing strategies to promote museum visitation, and fundraising activities to increase donations and gifts. Our review of museum plans revealed that marketing and fundraising activities were not always addressed adequately.

Most plans lacked goals and objectives for their listed marketing strategies. Consequently, the intended result of the strategy was unclear. In addition, some plans did not clearly identify the groups targeted by their marketing efforts. For example, plans typically listed a variety of marketing methods but did not indicate whether the goal was to reach tourists, local citizens, school children, or other groups.

Several fundraising plans lacked strategies to approach businesses, foundations, or other organizations as part of their fundraising activities. Further, plans did not identify the intended purpose for fundraising proceeds such as new exhibits, education, or other programs.

#### Plans Lacked Outcome Measures

Division and museum plans did not always include outcome measures to help staff monitor their progress at achieving goals. Some plans included strategies to increase visitation, education, store sales, collections, or improve the museum's facilities. However, rarely were outcome measures identified to monitor the success of these strategies.

In a few cases, museums have identified measurable outcomes. For example, the Carson City Railroad Museum's 2005 plan set a target to have organized bus tours represent at least 15% of all museum visits by 2007. Achieving this would increase annual attendance by 5,000 visitors. Implementing outcome measures for all goals would enable staff, Board members, legislators, and others to determine whether the museums are achieving their desired results.

### Current Efforts to Improve Planning

The Nevada State Museum in Carson City began preparing a comprehensive strategic plan in December 2002. The plan includes critical issues, goals, objectives, and annual and long-range strategies. In 2004, State Museum staff recommended the Division adopt a similar approach for all museums. This proposal would organize plans using a single approach based on division-wide agenda. It would begin with the Division and all museums committing to a common set of critical issues. Within this framework, each museum would develop specific museum based strategies. Staff indicated this approach would help articulate a common agenda, coordinate responsibilities, accommodate unique museum needs, standardize formats, connect annual and long-range plans, and provide a means for evaluation. Through discussion, management indicated the Division will adopt this planning approach and all museums will begin using it in 2006.

The Division will benefit from a comprehensive, division-wide approach to strategic planning. This will result in all plans following the same format, with common goals and objectives. Within this framework, each museum can also develop strategies to address issues specific to their operations. Finally, it will help ensure strategies are developed to address museum attendance, store sales, and fundraising.

### **Laws and Policy Requirements Not Always Complied With**

The Board of Museums and History, and the Division did not always comply with laws and policies relevant to their financial and administrative activities. Sufficient Board policies governing the management of private money have not been developed. In addition, Board subcommittee meeting agendas and minutes were not always prepared. Furthermore, statutory reporting requirements for private money expenditures and investments were not met. Finally, Division policies and procedures were not sufficient and state and federal overtime laws were not consistently followed.

#### **Sufficient Board Policies Not Developed**

The Board of Museums and History has not developed sufficient policies governing the management of the museums' private money. In general, policies are not

complete or available in an accessible format for use by staff and Board members. In addition, a clear investment strategy for private money has not been established.

#### Policies Are Not Complete or Available

NRS 381.002(5) requires the Board to develop policies for investments, budgets, expenditures, and the general control of the Division's trust funds. The Board has not developed complete policies governing these activities. In many cases, existing policies are not clear. In addition, these policies have not been maintained in a readily accessible format. As a result, to identify a specific policy issue we were required to review more than 20 years of Board minutes to locate the motion establishing the policy.

The need to organize policies in a more accessible format has been discussed by the Board. During its May 1997 and September 2000 meetings, the Board addressed the need to review past minutes and compile policies, procedures, and resolutions into a manual. However, based on our review of subsequent minutes and discussions with agency staff, a Board manual has not been formally prepared and distributed.

Regarding this issue, Division staff did locate a policy manual in a computer file during our audit. This manual was compiled by a previous Administrator who served from September 2001 to June 2003. The manual contained policies approved by the Board from 1981 to 2002. Until located, Division staff indicated they were unaware of the manual. Consequently, it was not available for their use. However, the Division represented the manual to be complete, containing all Board approved policies.

Based on our review, we found the manual contained many weaknesses. First, not all policies approved by the Board were included. For example, in June 1997, the Board approved a policy allowing museum directors to waive admission fees for certain events. This policy change was not in the manual. Second, it was unclear whether the Board had approved all of the incorporated policies. For instance, the manual contained certain general administrative policies dated July 1989. However, we found no evidence in the minutes that these policies had been approved. Third, some policies did not accurately reflect the action taken by the Board. One policy we reviewed, dated June 1998, required Board approval for museum budget changes exceeding \$10,000.

Board minutes indicate the approved threshold was actually \$5,000. Fourth, some policies were outdated. For example, the manual contained policies establishing checking accounts in July 1989 and April 1990. These checking accounts have been subsequently closed. Finally, the manual lacked written procedures to ensure policies were properly communicated and followed.

In addition to the above weaknesses, the usefulness of the policy manual is impacted by the Board's approval of certain policy statements that do not require inclusion in the manual. Regarding this issue, a Division official represented:

**Many policies of the Board do not require written policy and/or procedure documents. Some policies are simply policy statements. For example, the Board has stated that Museum Directors will not designate collection boxes to be used for "restricted" purposes. That policy statement contained within the Board minutes is the extent of the policy. As no further written documentation is required, Board minutes are maintained and there is nothing placed within the Board Policy Manual.**

The use of this convention is problematic because the Board has not defined—in writing—the difference between a “policy statement” and a “policy.” Further, the type of policy action taken is often not specified in the meeting minutes. As a result, it is unclear whether certain policies should be included in the manual. Additionally, the Division has not implemented procedures to ensure policy statements are communicated to the appropriate personnel. These practices provide little assurance that the manual serves its intended purpose.

#### Investment Strategy Not Clear

The Board of Museums and History has not established a clearly defined strategy for investing private funds. Although existing policy indicates a conservative strategy, the Board's allocation of funds and investment performance has not been consistent with this approach. In addition, the policy lacks a comprehensive statement that clearly establishes the objectives for the portfolio.

NRS 381.0031(4) requires the Board to develop an investment policy for private money. The Board established a policy in March 1985. That policy states:

**A conservative investment policy shall be established.**

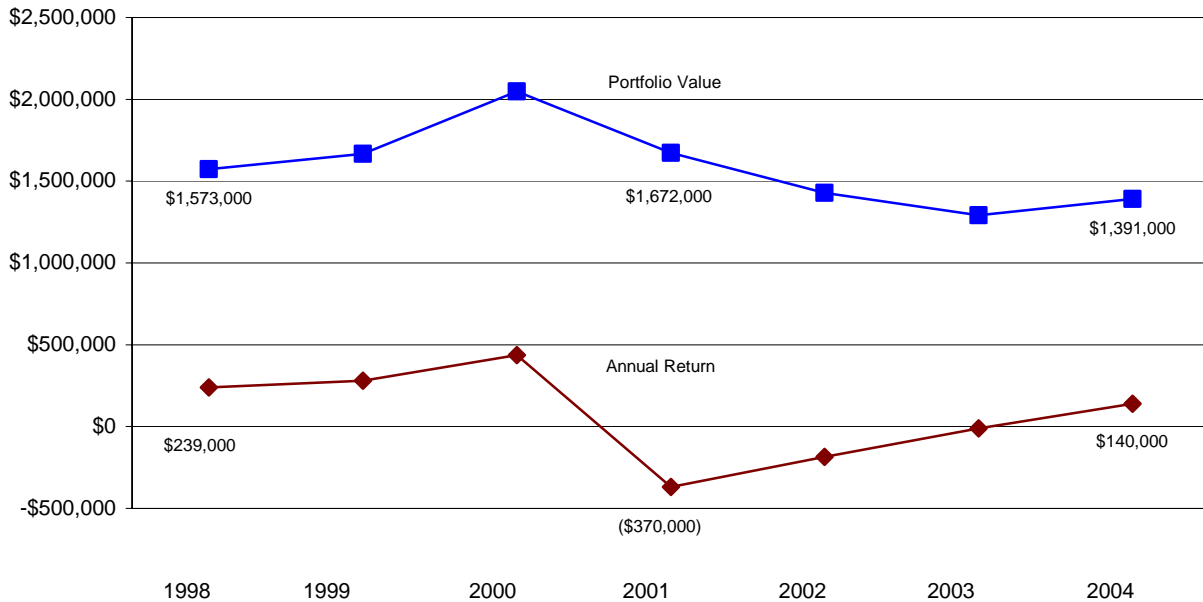
This policy was further defined in July 1989 when the Board approved the following policy:

**In recognition of the fiduciary responsibility vested in the Board of Trustees by NRS 381, all funds available will be dealt with on the basis of maximum return consistent with safe and prudent investment. This policy reflects the board's intention to maintain a conservative stance in the decisions to utilize readily available investment instruments and reputable firms for execution of those investments.**

However, this policy lacks key components including clearly defined objectives such as preserving principal; an annual targeted rate of return; and the allocation of portfolio funds between stocks, bonds, money market funds, and other investments. Although subsequent Board minutes contained ongoing discussion on investments and performance, our review identified no changes in the above policy since its approval in 1989.

The Division's private funds are held by the State Treasurer's Office and also a private investment firm. The Division's portfolio contains cash, cash equivalents, and other investments. The Division's investments held by the private investment firm consist primarily of stocks. The total portfolio value on June 30, 2004, was about \$1.4 million. At that time, 35% of the portfolio was allocated to stocks. In prior years, the portfolio had a higher allocation. For example, on June 30, 2001, 72% of the portfolio was in stocks. The more conservative approach to asset allocation was taken after losses were suffered in fiscal years 2001 and 2002. Exhibit 5 shows the year end portfolio value of the Board's private money investments and the annual return for fiscal years 1998 to 2004. The annual return includes interest, dividends, and changes in market value.

**Comparison of Portfolio Value to Annual Return  
Fiscal Years 1998 to 2004**



Source: External auditor reports.

A conservative investment policy is commonly defined as risk averse with a strategy that has capital preservation as a high priority. As illustrated in the above exhibit, the Board’s annual return on investments has fluctuated significantly in recent years. While some of these fluctuations represent “unrealized” gains and losses, this volatility seems inconsistent with a conservative investment strategy.

The Board should develop a comprehensive investment policy. This will help preserve capital and provide a more consistent rate of return on the portfolio. Components that should be considered for this policy include:

- Clearly defined objectives. Objectives should include items such as preserving portfolio principal and establishing an annual targeted rate of return.
- Roles and duties of the Board, Division staff, consultants, investment advisors, and others.
- A clear statement of risk tolerance. This includes identifying the amount of risk the Board is willing to accept, taking into account the established objectives.

- A listing of authorized investment types and an identification of investment diversification requirements. This would include limits on the allocations between investment types (e.g., stocks, bonds, money market funds). Diversification requirements will reduce the risk of loss from over-concentration in a specific investment.
- A spending rate defining the targeted amount of interest and investment funds that will be made available annually to museums.

### **Meeting Agendas and Minutes Not Always Prepared**

Although the Division does a good job preparing agendas and minutes for the Board's regular meetings, these items were not always prepared for the Board's subcommittees. In 2003 and 2004, the Board had the following four subcommittees:

- Finance;
- Stewart Indian School Museum;
- Museum Stores; and
- Membership.

During this period, these subcommittees held nine meetings. We reviewed records from these nine meetings and noted that agendas were prepared and retained for six meetings. Minutes were properly prepared for only two meetings.

In general, NRS Chapter 241 requires that all meetings of government bodies be open and public. Prior to any meeting, a notice must be posted which includes the time, place, location, and an agenda of topics to be considered. Subsequent to the meeting, the public body is required to prepare and retain written minutes that include the substance of all matters addressed. The Division needs to comply with state law by ensuring agendas and minutes are prepared and retained for all Board subcommittee meetings.

### **Statutory Reporting Requirements Not Met**

NRS Chapter 381 establishes various legislative reporting requirements for the Division and the Board of Museums and History. These requirements relate to private money investments, expenditures, and budgets. We reviewed the reports submitted in recent years and noted that these statutory requirements were not always met.

#### **Investments and Expenditures**

NRS 381.0033(1)(b) requires the Board of Museums and History, or its



designee, to submit a semiannual report to the Legislature's Interim Finance Committee concerning the investment and expenditure of private money. We reviewed reports provided for 2001 to 2004. We noted only one report was provided in 2001 and 2004. In addition, the submitted reports contained inaccurate information on expenditures. For example, the report submitted in January 2003 indicated private money expenditures of \$534,000 for fiscal year 2002. Actual expenditures for fiscal year 2002 were \$832,000. We also noted that duplicate expenditure information (for fiscal year 2004) was submitted in both October 2004 and January 2005.

### Budgets

NRS 381.0033(1)(c) requires that a separate statement concerning the anticipated amount and proposed expenditure of private money be submitted with the agency's proposed state budget. This statement must be for the same fiscal years as the proposed budget and attached to the budget when it is submitted to the Legislature. We reviewed these statements for the past two budget cycles and noted problems with both submissions. For example, the statement submitted for the 2003-2005 biennium should have included information on the Division's proposed expenditure of private money for fiscal years 2003-2004 and 2004-2005. However, the Division incorrectly submitted information for fiscal years 2001-2002 and 2002-2003. In addition, for the 2005-2007 biennium the Division incorrectly submitted information from fiscal years 2003-2004 and 2004-2005. The Division should implement controls to ensure these reporting requirements are complied with.

### Policies and Procedures Not Sufficient

The Division has developed some policies and procedures, but they are not sufficient to help the agency guide operations. For example, a policy and procedures manual is needed to address all aspects of the Division's administrative practices. Furthermore, many existing internal control procedures have not been updated since January 2001 and do not always reflect current practices.

### Administrative Policy and Procedures Manual Needed

The Division has not developed a complete policy and procedures manual to address its administrative practices. However, efforts to prepare a manual are being made. For example, the Division recently prepared three draft policies addressing

issues such as new hires, employee separation, and training. Nevertheless, additional efforts are needed. For instance, the lack of a procedure for preparing meeting agendas and minutes likely contributed to the subcommittee problems discussed earlier in this report. Furthermore, procedures are needed to ensure internal controls, the Board manual, and other Division policies are updated timely.

#### **Internal Control Policies and Procedures Outdated**

Although the Division has internal control policies and procedures, many of these documents were last updated in January 2001. As a result, some procedures do not reflect current museum practices. For example, at two museums, the position titles of individuals performing cash receipting functions have changed. At another museum, procedures indicate at the close of business each day the registers are closed out and funds from train rides and store sales are reconciled against the register tape by the volunteer and the museum director. However, these activities are primarily conducted on the weekend when the museum director is typically absent. The museum needs to update procedures to reflect cash receipting activities on weekends.

#### **Overtime Laws Not Consistently Followed**

The Division did not always comply with state and federal overtime laws. We tested three pay periods in fiscal year 2004 and identified seven employees who worked in excess of 40 hours without receiving paid overtime or compensatory time. In all seven cases, the employees worked additional time under the Department of Cultural Affairs variable workweek policy but failed to use the time within the same week.

The federal Fair Labor Standards Act establishes that employees shall not work more than 40 hours in a workweek unless they receive compensatory time or overtime pay. Credit for work in excess of the normal workweek is accrued at time and one-half. State laws, which are consistent with this federal law, have also been enacted. For example, NRS 284.180 establishes that overtime is generally considered time worked in excess of a 40-hour week and paid at time and one-half. Additionally, the accrual of compensatory time in lieu of paid overtime is authorized by NRS 284.181.

Although improvements were noted in our review of fiscal year 2005 payroll records, the Division should continue efforts to comply with these overtime laws.

## Recommendations

1. Adopt a comprehensive approach to strategic planning that includes:
  - A division-wide process;
  - Uniform formats and issues;
  - Common goals and objectives;
  - Marketing and fundraising goals, objectives, and strategies; and
  - Outcome measures.
2. Develop and maintain, in an accessible format, complete Board policies governing the general control, expenditure, and budgeting of private money.
3. Develop a comprehensive investment policy for private money with key components such as:
  - Clearly defined goals and objectives;
  - A statement identifying acceptable levels of risk;
  - A targeted rate of return; and
  - Annual amounts available to the museums.
4. Prepare and retain copies of posted agendas and written minutes for all Board subcommittee meetings.
5. Provide the Legislature with all statutorily required reports on private money and ensure reports are complete and accurate.
6. Develop and implement administrative policies and procedures.
7. Update existing internal control procedures.
8. Comply with state and federal overtime requirements.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Division of Museums and History, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Division's financial and administrative practices. We also reviewed agency records, planning documents, budgets, and minutes of the legislative committees and the Board of Museums and History. Furthermore, we documented and evaluated the Division's internal controls.

To determine whether the Division's planning process was effective we reviewed long-range and annual planning documents prepared by the Division and each museum from 2002 to 2005. We then analyzed these planning documents for key elements such as critical issues, goals, objectives, strategies and outcome measures. We also reviewed plans for strategies to increase museum attendance, memberships, store sales, fundraising, and donations and gifts. Finally, we assessed the overall effectiveness of planning and compared results to historical trends.

To evaluate state and private money trends, we reviewed state financial records and external audit reports for fiscal years 1995 to 2004. From these records, we analyzed the trends in state and private funding, and compared legislative appropriations to self-generated funding. We also analyzed key components of self-generated revenues including admissions, museum store sales, donations and gifts, and investment performance. Additionally, we reviewed Division records to identify recent trends in museum attendance. Furthermore, we discussed funding and attendance trends with four other states, Delaware, Illinois, Louisiana, and New Mexico, with museum systems like Nevada.

To determine whether the Board of Museums and History complied with state laws requiring policies for investments, budgets, expenditures, and general control of the Division's trust funds, we reviewed Board meeting minutes from 1981 through 2004

to identify policies. Next we compared meeting minutes with the Board's policy manual. We then identified discrepancies and other weaknesses between Board motions found in the minutes and policies located in the manual.

To evaluate the Board's investment policy for private funds, we reviewed Board meeting minutes and the policy manual. We also reviewed external audit and broker reports to analyze the Division's actual investment strategy and performance. We then compared this investment strategy and performance with existing policy. Finally, we reviewed investment policies from other Nevada public agencies and compared their policies with the Board's.

To determine whether the Division complied with state open meeting laws, we reviewed all Board subcommittee meeting minutes and agendas prepared during 2003 and 2004. We then compared these minutes and agendas with state requirements and identified deficiencies.

To determine if the Division complied with reporting requirements for private money, we obtained copies of reports and related documents submitted to the Legislature from January 2001 to January 2005. We then compared this information with statutory reporting requirements.

To evaluate the effectiveness of the Division's internal controls, we discussed the cash receipting process with each of the museums. We then compared the process at each museum with internal control procedures and evaluated differences. We also reviewed the Division's draft administrative policies and procedures.

To verify the accuracy of payroll processing, we randomly selected two pay periods in fiscal year 2004 and reviewed payroll records of all Division employees for these two pay periods. We also evaluated all employee timesheets for compliance with applicable State law and Department policy concerning overtime. As a result of noncompliance with the Department's variable work week policy, we judgmentally selected three additional pay periods collectively in fiscal years 2004 and 2005, and evaluated payroll records of all employees for compliance with the policy.

To verify that revenues were collected and deposited in accordance with state requirements, we judgmentally selected two monthly time periods during fiscal year 2004 for each of the five museum budget accounts. For the months selected, we

compared all revenue transactions on IFS for admission and train ride fees with deposit documents maintained in Division files. Additionally, we traced receipts to the deposit slip and the budget status report. Finally, for each budget account we examined the first and final deposits of the fiscal year to ensure revenues were deposited in the correct year.

To determine if expenditures were correctly processed, we randomly selected 30 transactions. We also judgmentally selected and reviewed 10 transactions during the survey. These transactions were examined for compliance with state requirements. We also judgmentally selected five expenditures and verified these transactions were classified to the proper fiscal year.

To determine compliance with property and equipment requirements, we verified the Division performed an annual physical inventory in fiscal year 2004. We judgmentally selected 16 items on inventory lists and verified their location at the museums. We then judgmentally selected 16 additional items at the museums and verified that these items appeared on inventory lists. In addition, we reviewed documentation to determine if the Division was taking steps to update inventory listings.

Finally, to determine if prior audit recommendations had been implemented, we requested the Division provide us with a status report on each recommendation. We compared the Division's status report with state and agency records, policies and procedures, Board meeting minutes, and statutory requirements to verify the implementation status of each recommendation.

Our audit work was conducted from January to June 2005 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Interim Director of the Department of Cultural Affairs and the Administrator of the Division of Museums and History. On January 18, 2006, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 32.

Contributors to this report included:

Lee Pierson  
Deputy Legislative Auditor

Daniel L. Crossman, CPA  
Deputy Legislative Auditor

George R. Allbritten, CPA  
Audit Supervisor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor

## **Appendix B**

### **Prior Audit Recommendations**

Our prior review of the Division of Museums and History included separate audits of the Nevada State Museum, Lost City Museum, Nevada State Museum and Historical Society, Nevada Historical Society, and Nevada State Railroad Museum. These five audits contained 31 recommendations. Twelve of the 31 were within the scope of the current audit. As part of our audit, we assessed the implementation of the 12 recommendations, and found that 10 were fully implemented and 2 partially implemented. These recommendations relate to Board policies and periodic reports on private money. We have modified and repeated these recommendations in this report.



## **Appendix C**

### **Explanation of Funding Sources**

Pursuant to NRS 381.0031(1) all funding received by the Division from Legislative appropriation, federal grants, and admission and train ride fees is state money. All other money received by the Division including store sales, donations, gifts, memberships, investment income and dividends, and other sources is private money. Pursuant to NRS 381.002(5) the Board of Museums and History is responsible for the budgets, expenditures, investments, and the general control of private money.

For some analyses in this report, we have combined selected state money sources (i.e., federal grants, admission and train ride fees, and certain transfers) with all private money sources and designated this grouping as “self-generated funding.” This represents funding not provided by the Legislature. The remaining state money items (i.e., appropriations, room tax receipts, and other miscellaneous items) were combined and referred to as “legislative funding.”

**Appendix D**  
**Response From the Division of Museums and History**



STATE OF NEVADA  
DEPARTMENT OF CULTURAL AFFAIRS  
DIVISION OF MUSEUMS & HISTORY  
708 North Curry Street  
Carson City, Nevada 89703  
(775) 687-4340 Fax (775) 687-4333

**KENNY C. GUINN**  
Governor

**Wallace A Steffan**  
Administrator

**Scott K. Sisco**  
Interim Director

January 30, 2006

Paul V. Townsend, CPA, Legislative Auditor  
Legislative Counsel Bureau  
401 S. Carson Street  
Carson City, NV 89701

Dear Mr. Townsend:

Pursuant to NRS 218.821(1), please find attached our agency response to your draft audit report dated January 5, 2006.

While we "agreed to disagree" during our exit interview, we regret that this audit process did not end with us reaching a consensus. As you will note, we have accepted two recommendations, partially accepted four additional recommendations, while rejecting two items. You will find our comments included on our attached *Response to Audit Recommendations* form.

The Division of Museums and History has made immense progress over the last seven years, instituting sweeping administrative improvements. The comprehensive changes notably include implementation of an internal accounting system for both state and museum private funds, elimination of the individual checking accounts, establishment of a formalized annual budgeting development and approval process for the private funds, and creation of an extremely comprehensive set of internal controls for the entire division. These are just a few of the extensive improvements that have been fully implemented in this Division since the last audit.

We will develop a corrective action plan to address those areas of agreement within the required timelines. We will continue to monitor all areas related to Division and Board administration and continue to make needed improvements where resources allow.

Sincerely,

A handwritten signature in black ink, appearing to read "Wally Steffan".

Wally Steffan  
Administrator

Enclosure

cc: Scott K. Sisco, Interim Director  
Department of Cultural Affairs

**Division of Museums and History  
Response to Audit Recommendations**

Recommendation Number	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
<p>1 Adopt a comprehensive approach to strategic planning that includes:</p> <ul style="list-style-type: none"> <li>* A division-wide process;</li> <li>* Uniform formats and issues;</li> <li>* Common goals and objectives;</li> <li>* Marketing and fundraising goals, objectives, and strategies; and</li> <li>* Outcome measures.....</li> </ul>	_____	_____ <b>X</b> _____	_____
<p>While the recommendation itself appears sensible, the Division was unable to reconcile its difference of opinion with the audit staff related to the current planning process used by the Division as detailed in the findings section, and the subsequent conclusions drawn as a result of the stated findings.</p> <p>The Division will continue to utilize the current agency-level planning process and requirements as detailed in the Museum Director's WPS. While the Division does conduct strategic planning at both the Division and Department levels, the Division feels that institution-specific planning has considerable benefits for resource-challenged facilities to deal with constant changes in the museum industry.</p> <p>The Division will add a requirement for more outcome measures within the individual plans completed by Museum Directors.</p>			
<p>2 Develop and maintain, in an accessible format, complete Board policies governing the general control, expenditure, and budgeting of private money .....</p>	_____	_____ <b>X</b> _____	_____
<p>The Division and Board have been unable to reconcile differences with audit staff relative to stated findings and conclusions drawn regarding Board policies and budgeting of museum private funds. They are troubled that the audit report did not recognize extensive improvements made in the Board's oversight of the private funds over the last 7 years. The audit report does not recognize the role that the new annual budgeting process plays in dictating the Board's intention, control, and policies for expenditure of the private funds - directives that for all practical purposes are revisited every year. The Division will work towards consolidation and accessibility of Board policies.</p>			
<p>3 Develop a comprehensive investment policy for private money with key components such as:</p> <ul style="list-style-type: none"> <li>* Clearly defined goals and objectives;</li> <li>* A statement identifying acceptable levels of risk;</li> <li>* A targeted rate of return; and</li> <li>* Annual amounts available to the museums .....</li> </ul>	_____	_____ <b>X</b> _____	_____

**Division of Museums and History  
Response to Audit Recommendations**

<u>Recommendation Number</u>	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
----------------------------------	-----------------	-------------------------------	-----------------

This issue was unfortunately the most contentious, as it was first presented to the Division during the audit exit interview and the subsequent delivery of the draft audit report. Contrary to statements made during the draft audit report delivery, the conservative investment strategy of the Board did NOT result in losses of \$500,000 to \$700,000, but in fact resulted in earnings of roughly \$1,011,603, in addition to nearly \$2 million expended for operations and special programming purposes during the same period. In addition, \$299,158 of funds that had been donated for restricted purposes were moved into the State Treasurer's Office during this period.

The Board is not against revisiting and strengthening its investment policy as necessary, as it has done several times since its initial creation. The Division and Board do, however, object to the audit report's lack of recognition of the many positive expenditures made as a result of earnings from their current investment strategy.

The Board does not agree that it is in the best interest to create a permanent policy dictating how much funding is available annually to the museums. The Board visits this issue each year and, based on prior-year earnings, deposits, and Board priorities, a decision is made as part of the budget instructions transmitted to the Museum Director's for that year. The Board has a commitment to conduct annual reviews of its investment policy and successes or failures, making changes as necessary without trying to create a long-term policy that loses its value as circumstances change annually.

- |   |   |                  |                   |                   |
|---|---|------------------|-------------------|-------------------|
| 4 | Prepare and retain copies of posted agendas and written minutes for all Board subcommittee meetings ..... | <u>    X    </u> | <u>          </u> | <u>          </u> |
|---|---|------------------|-------------------|-------------------|

The Division acknowledges that past Board Member enthusiasm in tackling historical and cultural issues in the state has resulted in meetings that constituted a subcommittee and, as a result, proper agendas and minutes for several subcommittee meetings were not maintained. The Division also realizes that many of the deficiencies identified relate to the extensive vacancies of the Division Administrator's position during the audited period. The Division and Board will ensure that future Board Members and staff are made aware of the requirements of the Open Meeting Law as it applies to two (2) or more Board Members meeting together.

- |   |   |                   |                  |                   |
|---|---|-------------------|------------------|-------------------|
| 5 | Provide the Legislature with all statutorily required reports on private money and ensure reports are complete and accurate | <u>          </u> | <u>    X    </u> | <u>          </u> |
|---|---|-------------------|------------------|-------------------|

**Division of Museums and History  
Response to Audit Recommendations**

Recommendation Number	<u>Accepted</u>	<u>Partially Accepted</u>	<u>Rejected</u>
<p>The Division acknowledges that it has missed this important reporting requirement due to extensive Division Administrator vacancies during the audited period. However, the Division is unable to fully implement this recommendation as it is written. This audit pointed out that certain reports are required that do not coincide with the actual annual budgeting process of the Board. The Division and Board feel that the recommendation should have been to update the NRS to match the private funds budgeting cycle.</p>			
6	Develop and implement administrative policies and procedures...	_____	_____ <u>X</u>
<p>The Division disputes that it does not have sufficient policies, procedures, and internal controls to guide its operations. The Division is disturbed that the extensive improvements in management and oversight of operations over the last 7 years were not recognized in the outcome of this audit.</p>			
7	Update existing internal control procedures .....	_____	_____ <u>X</u>
<p>The Division disputes that it does not have sufficient policies, procedures, and internal controls to guide its operations. The Division is disturbed that the extensive improvements in management and oversight of operations over the last 7 years were not recognized in the outcome of this audit.</p>			
8	Comply with state and federal overtime requirements .....	_____ <u>X</u>	_____
<p>The Division acknowledges that a few violations of the Department's policies and procedures occurred related to the appropriate use of flex time. The Division has discussed these violations with the appropriate Museum Directors and has added additional controls to ensure that this mistake will not be repeated.</p>			
<b>TOTALS</b>		<u>2</u>	<u>4</u> <u>2</u>

**Division of Museums and History**  
**Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Adopt a comprehensive approach to strategic planning that includes: <ul style="list-style-type: none"> <li>• A division-wide process;</li> <li>• Uniform formats and issues;</li> <li>• Common goals and objectives;</li> <li>• Marketing and fundraising goals, objectives, and strategies; and</li> <li>• Outcome measures .....</li> </ul>	<u>  X*  </u>	<u>      </u>
2	Develop and maintain, in an accessible format, complete Board policies governing the general control, expenditure, and budgeting of private money.....	<u>  X*  </u>	<u>      </u>
3	Develop a comprehensive investment policy for private money with key components such as: <ul style="list-style-type: none"> <li>• Clearly defined goals and objectives;</li> <li>• A statement identifying acceptable levels of risk;</li> <li>• A targeted rate of return; and</li> <li>• Annual amounts available to the museums.....</li> </ul>	<u>  X*  </u>	<u>      </u>
4	Prepare and retain copies of posted agendas and written minutes for all Board subcommittee meetings.....	<u>  X  </u>	<u>      </u>
5	Provide the Legislature with all statutorily required reports on private money and ensure reports are complete and accurate.....	<u>  X*  </u>	<u>      </u>
6	Develop and implement administrative policies and procedures .....	<u>      </u>	<u>  X  </u>
7	Update existing internal control procedures.....	<u>      </u>	<u>  X  </u>
8	Comply with state and federal overtime requirements.....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    6    </u>	<u>    2    </u>

\*Partially accepted. See "Auditor's Comments on Agency Response" on page 37 for additional discussion.

## Appendix E

### Auditor's Comments on Agency Response

The Division of Museums and History, in its response, does not agree with certain of our findings, conclusions, and recommendations. Additionally, despite our request that the Division respond to our audit report by either accepting or rejecting our recommendations, it has only partially accepted four of our eight recommendations. The following identifies those sections of the report where the Division has taken exception to our position. We have provided our comments on the issues raised in its response to assure the reader that we believe our findings, conclusions, and recommendations, as stated in the report, are appropriate.

1. The Division partially accepted our recommendation to adopt a comprehensive approach to strategic planning. The Division indicates it will continue to utilize the current agency-level (i.e., museum-level) planning process as detailed in the museum Director's work performance standards. The Division further states that institution-specific (i.e., museum-specific) planning has considerable benefits. (See page 33)

#### Legislative Auditor's Comments

As stated on page 17, the Nevada State Museum began preparing a comprehensive strategic plan in 2002 and recommended the Division adopt a similar approach in 2004. This approach would establish common critical issues facing the Division—such as declining attendance—but allow each museum to develop specific museum based strategies to address the issue. This approach would also help articulate a common agenda, coordinate responsibilities, accommodate unique museum needs, standardize formats, connect annual and long-range plans, and provide a means for evaluation. Furthermore, Division management indicated they would adopt this planning approach in 2006. Our recommendation is consistent with this stated intention. We believe this change would benefit the Division by eliminating the planning weaknesses discussed on pages 15 and 16 of the report. It could also help the Division address stagnant revenues and declining attendance. It is unclear why the Division now appears to be rejecting this approach.

2. The Division partially accepted our recommendation to develop and maintain, in an accessible format, complete Board policies governing the general control, expenditure, and budgeting of private money. Additionally, the Division indicates it will work toward the consolidation and accessibility of Board policies. (See page 33)

#### Legislative Auditor's Comments

The Division's response indicates it will take corrective action to consolidate Board policies in an accessible format. We feel this action constitutes a general acceptance of our recommendation. As such, it is unclear why the Division only partially accepted this recommendation.

3. The Division partially accepted our recommendation to develop a comprehensive investment policy for private money. The Division also indicates that its conservative investment strategy did not result in losses of \$500,000 to \$700,000 but generated earnings of over \$1 million. (See page 33)

#### Legislative Auditor's Comments

We disagree with the Division's statement that its investment strategy did not result in portfolio losses or that over \$1 million was actually earned. As illustrated in Exhibit 5 on page 21, the portfolio experienced both gains and losses during fiscal years 1998 to 2004 with overall earnings of about \$532,000. The following amounts—extracted from the Division's audited financial statements—provide additional information regarding this performance:

<u>Year</u>	<u>Gain/(Loss)</u>
1998	\$239,000
1999	\$280,000
2000	\$437,000
2001	(\$370,000)
2002	(\$184,000)
2003	(\$ 10,000)
2004	\$140,000
<b>Total</b>	<b><u>\$532,000</u></b>

As stated on page 21, we were concerned with the significant fluctuation in both gains and losses illustrated by the above numbers. This volatility—on a portfolio value averaging about \$1.6 million—seemed inconsistent with the Board’s stated intention to maintain a conservative investment stance. As such, we recommended developing a comprehensive investment policy to help preserve capital and provide a more consistent rate of return. Considering the fiduciary responsibilities established by statute, we feel our recommendation is prudent. Furthermore, we did not propose developing a policy based rigidly on the criteria presented. These items were provided simply to illustrate components commonly found in public investment policies.

- The Division partially accepted our recommendation to provide the Legislature with required reports on private money and ensure reports are complete and accurate. (See page 34) The Division indicates it is unable to fully implement this recommendation because certain required reports do not coincide with the Board’s budgeting process. (See page 35)

Legislative Auditor’s Comments

As stated on page 23, NRS 381.0033(1)(c) requires a statement concerning the amount and proposed expenditure of private money be submitted to the Legislature with the agency’s proposed state budget. The statement must be for the same fiscal years as the state proposed budget.

The purpose of this statute is to provide the Legislature with an estimate of how much private money the Division expects to spend during the next biennium at the same time the Legislature considers the Division’s state budget request. We dispute the Division’s assertion they cannot comply because the statutory requirements do not coincide with the Board’s budgeting cycle. The Division is able to prepare a comprehensive biennial request for state funding. It should also be able to provide a simple statement of anticipated private money expenditures for the same period.

- The Division of Museums and History has rejected our recommendations to develop and implement administrative policies and procedures; and to update existing internal control procedures. The Division disputes that it does not have sufficient policies and procedures. (See page 35)

Legislative Auditor’s Comments

As stated on page 23, we do not believe the Division has developed a complete policy and procedures manual to address its administrative practices. We did acknowledge the Division has made efforts to develop a manual and recently prepared three draft policies addressing various issues. However, these three draft policies do not constitute a complete manual. For instance, as discussed in our report, the lack of sufficient administrative policies likely contributed to the Division’s noncompliance with state laws regulating public meetings. (See page 24)

Regarding the Division’s internal controls, as stated on page 24, many of these procedures have not been updated and do not reflect current practices. In addition, specific examples of outdated cash receipting procedures were provided. While our report does not dispute that extensive internal controls have been developed, we continue to believe that existing procedures—particularly related to cash handling—should be updated.