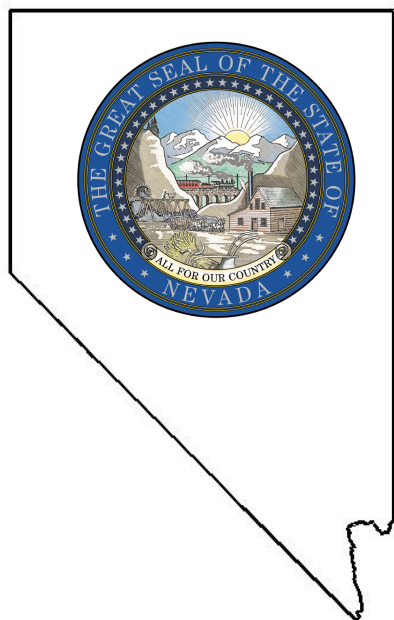


STATE OF NEVADA

Performance Audit

Department of Tourism and Cultural Affairs
Division of Museums and History

2015



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Division of Museums and History issued on November 19, 2015. Legislative Auditor report # LA16-03.

Background

The Division of Museums and History is a division of the Department of Tourism and Cultural Affairs. Its mission is to engage people in the cultural and natural history of Nevada so they may celebrate the past, learn from it, and develop perspective for present and future generations. The Division is responsible for the collection, preservation, education, community development (cultural tourism), interpretation of objects and documents representing Nevada's history and pre-history, and the development and preservation of these collections for the public, now and in the future.

The Division consists of the Office of the Administrator, six museums, and a historical society. Funding for the Division is provided from several different sources. State money includes general fund appropriations, room tax transfers from the Commission on Tourism, museum admissions, and train ride fees. The Division also receives funding from a dedicated trust fund, which generates revenues from museum store sales and memberships, gifts and donations, curatorial and archival services, photography and publication sales, investment income, and other sources.

For the 18 months ending December 31, 2014, the Division's revenues amounted to over \$11.7 million, with \$9.8 million in state money and \$1.9 million in private money. As of December 31, 2014, the Division had 78 filled positions.

Purpose of Audit

The purpose of this audit was to evaluate controls over the Division's museum store merchandise and museum revenues. Our audit focused on the state museums in Carson City and Las Vegas and the railroad museum in Carson City for the 18 months ending December 31, 2014.

Audit Recommendations

This audit report contains seven recommendations to improve controls over museum store merchandise and museum revenues.

The Division accepted the seven recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Division of Museums and History

Department of Tourism and Cultural Affairs

Summary

Improvements can be made to strengthen the Division's controls over its store merchandise. We reviewed store merchandise controls at the Carson City State Museum, Carson City State Railroad Museum, and Las Vegas State Museum and found a lack of policies and procedures over store inventory processes and adjustments to merchandise inventory records were not adequately reviewed. Additionally, control weaknesses found at the Las Vegas State Museum led to inaccurate merchandise inventory records. Stronger controls are also needed over the accounting for commemorative medallions at the Carson City State Museum. Strengthening store merchandise inventory controls would help ensure merchandise is accurately accounted for and safeguarded against loss or theft. The total cost of inventory at the three museum stores tested was about \$115,000 on June 30, 2014.

Although we found all money collected was deposited at the three museums tested, we did find some control weaknesses. Improvements can be made regarding the timeliness of deposits, reconciling receipts to deposits, and updating written policies and procedures. Good revenue controls minimize the risk of revenues being lost or stolen. For the 18 months ended December 31, 2014, the Division's museums collected over \$1.5 million.

Key Findings

For the three museums tested, we found a lack of written policies and procedures over each museum store's inventory processes. Although limited procedures were developed for processing merchandise sales in the store's point-of-sale (POS) system, procedures for purchasing and maintaining accurate merchandise inventory records did not exist. (page 6)

Adjustments made to merchandise inventory records were not adequately documented and reviewed. We found 30 of 214 adjustments (14%) to the amount of store merchandise on hand could not be adequately explained. Of the remaining 184 adjustments, almost all were explained by museum staff, but not documented for review and approval. Documenting these changes and having an independent person review them, helps ensure adjustments are reasonable. Reviewing adjustments also identifies merchandise consistently being adjusted and thereby potentially needing enhanced security to prevent loss. (page 8)

For the Las Vegas State Museum, we found additional store merchandise inventory problems. The fiscal year 2014 physical inventory was not conducted properly, and inventory adjustments were not made to reflect the physical count. Staff identified 295 of 817 items (36%) that required a quantity adjustment in the system. Without written guidance and supervisory oversight, staff were unsure of how to make these adjustments and did not make them. We also identified merchandise purchases not properly recorded in the POS system. For the 18 months ending December 31, 2014, we identified 6 of 10 purchases, of a total of 65 purchases, that were not properly recorded in the POS system when received. The 6 purchases improperly recorded involved 28 items totaling \$1,800. These control weaknesses increase the risk of undetected theft and loss, unexpected shortages of merchandise, and unnecessary purchases of items already on hand. (page 9)

Control weaknesses were identified in the accounting for commemorative medallions. Staff duties in the minting process were not segregated and no physical inventories were performed of stored blanks and medallions. A lack of policies and procedures contributed to these weaknesses and are needed to help ensure these assets are properly accounted for. (page 11)

At the three museums tested, we found deposits were not always made timely. We reviewed 100 days of cash receipts from admissions, train rides, and store sales and found 44 of 140 deposits (31%) totaling over \$8,200 were not made timely in accordance with state law. The deposits ranged from 1 to 14 days late, with an average of 4 days late. (page 15)

Receipts collected at museums are not reconciled to deposits by an individual independent of the cash receipting functions. The individual preparing the deposit is the last person to have access to the daily cash register tapes and reports, and no one else reviews this information to ensure all money received has been deposited. Without this control in place, management lacks assurance that all receipts have been deposited. (page 15)

The Division's revenue policies and procedures have not been updated in more than 7 years. Several differences were identified between written procedures and actual processes we observed. Since the same individuals have been performing the key revenue functions for several years, updating policies and procedures has not been a priority. Management indicated they have begun updating some policies and procedures. (page 16)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Tourism and Cultural Affairs, Division of Museums and History. This audit was conducted pursuant to 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.

This report includes seven recommendations to improve controls over museum store merchandise and museum revenues. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

August 10, 2015
Carson City, Nevada

Division of Museums and History

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Introduction

Background

The Division of Museums and History is a division of the Department of Tourism and Cultural Affairs. Its mission is to engage people in the cultural and natural history of Nevada so they may celebrate the past, learn from it, and develop perspective for present and future generations.

The Division is responsible for the collection, preservation, education, community development (cultural tourism), interpretation of objects and documents representing Nevada's history and pre-history, and the development and preservation of these collections for the public, now and in the future.

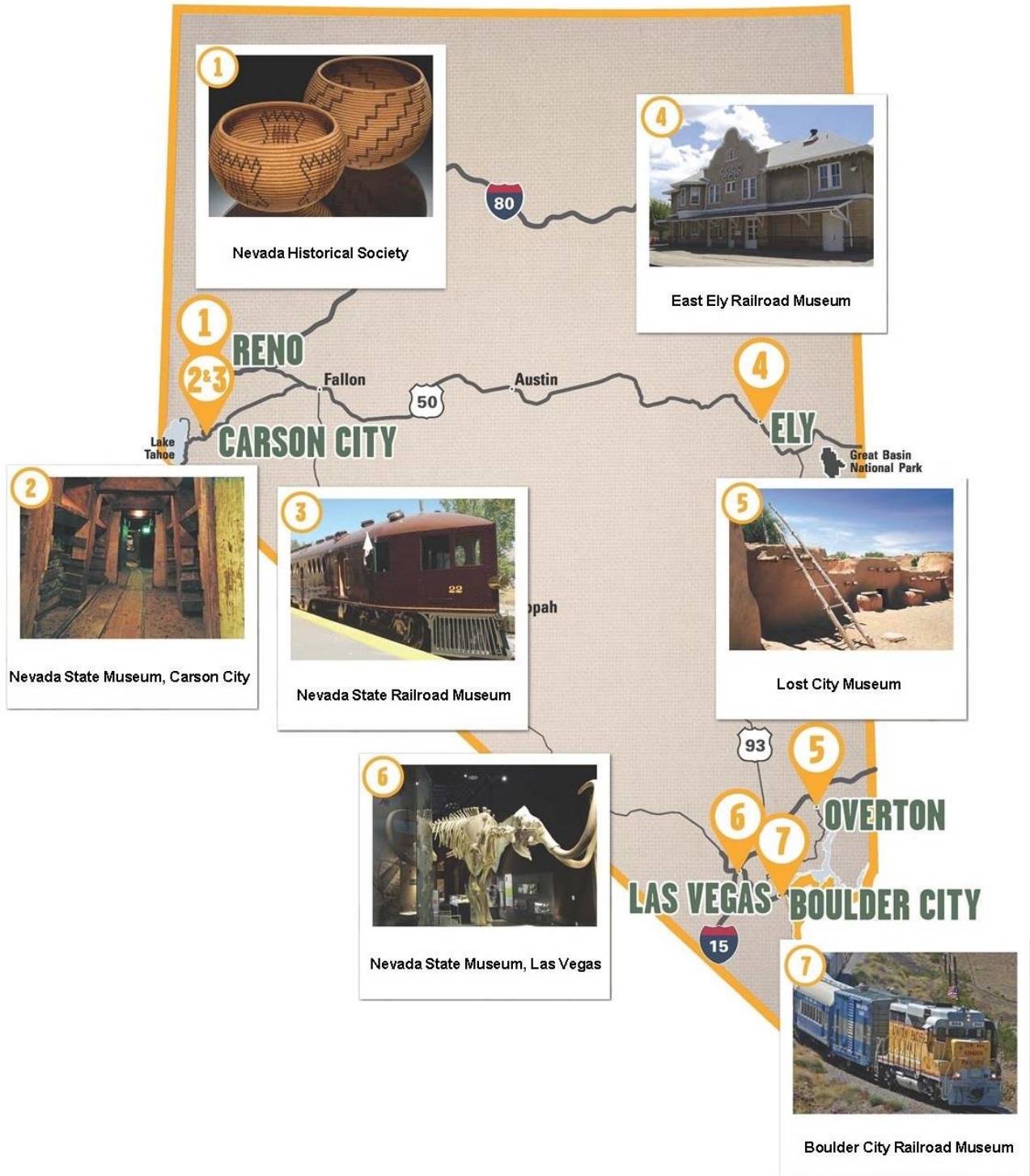
The Division consists of the Office of the Administrator and the following six museums and a historical society:

- Boulder City Railroad Museum;
- East Ely Railroad Museum;
- Lost City Museum;
- Nevada Historical Society;
- Nevada State Museum, Carson City;
- Nevada State Museum, Las Vegas; and
- Nevada State Railroad Museum.

Exhibit 1 shows the location of each museum and historical society.

Map of Nevada State Museums

Exhibit 1



Source: Division of Museums and History.

The Board of Museums and History consists of 11 members appointed by the Governor. With respect to the functions of the Division, the Board develops, reviews, and makes policy for investments, budgets, expenditures, and general control of the dedicated trust fund. In all other matters pertaining to the Division, the Board serves in an advisory capacity.

Budget and Staffing

Funding for the Division is provided from several different sources. State money includes general fund appropriations, room tax transfers from the Commission on Tourism, museum admissions, and train ride fees. The Division also receives funding from a dedicated trust fund, which generates revenues from museum store sales and memberships, gifts and donations, curatorial and archival services, photography and publication sales, investment income, and other sources. Revenues flowing into the dedicated trust fund are not state funds and are designated by statute as private money.

For the 18 months ending December 31, 2014, the Division's revenues amounted to over \$11.7 million, with \$9.8 million in state money and \$1.9 million in private money. Exhibit 2 shows Division revenues by funding source.

Revenues by Funding Source For the 18 Months Ending December 31, 2014

Exhibit 2

	State Money	Private Money	Total
Nevada State Museum, Carson City	\$2,682,871	\$ 762,866	\$ 3,445,737
Nevada State Museum, Las Vegas	2,869,629	181,274	3,050,903
Nevada State Railroad Museums (Boulder City, Carson City, East Ely)	2,058,005	410,107	2,468,112
Nevada Historical Society	862,810	297,457	1,160,267
Lost City Museum	704,625	161,446	866,071
Office of Administrator	630,544	49,372	679,916
Board of Museums and History	-	47,442	47,442
Total Revenues	\$9,808,484	\$1,909,964	\$11,718,448

Source: State accounting system.

Each state museum, with the exception of the East Ely Railroad Museum, operates a museum store. The stores contain a large selection of Nevada books and posters, handmade jewelry, children's toys and crafts, and other Nevada apparel and gifts. The Carson City State Museum store also sells medallions minted on Coin Press No.1, the original press from the Carson City Mint. For the 18 months ending December 31, 2014, the museum stores collected over \$643,000 in sales revenue. Exhibit 3 shows store revenues by museum.

Store Revenues by Museum **Exhibit 3**
For the 18 Months Ending December 31, 2014

Museum	Revenues
Nevada State Museum, Carson City	\$215,846
Nevada State Railroad Museum	148,288
Lost City Museum	122,320
Boulder City Railroad Museum	68,736
Nevada State Museum, Las Vegas	57,284
Nevada Historical Society	31,213
Total Revenues	\$643,687

Source: State accounting system.

As of December 31, 2014, the Division had 78 filled positions. Private money is used to support positions that have a direct benefit to the dedicated trust fund, such as museum store staff. Five of the 78 positions are museum store staff funded with private money.

Scope and Objective

The scope of our audit included the state museums in Carson City and Las Vegas and the railroad museum in Carson City for the 18 months ending December 31, 2014. Our audit objective was to:

- Evaluate controls over the Division's museum store merchandise and museum revenues.

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 218G.010 to 218G.350. 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.

Controls Over Store Merchandise Can Be Strengthened

Improvements can be made to strengthen the Division's controls over its store merchandise. We reviewed store merchandise controls at the Carson City State Museum, Carson City State Railroad Museum, and Las Vegas State Museum and found a lack of policies and procedures over store inventory processes and adjustments to merchandise inventory records were not adequately reviewed. Additionally, control weaknesses found at the Las Vegas State Museum led to inaccurate merchandise inventory records. Stronger controls are also needed over the accounting for commemorative medallions at the Carson City State Museum. Strengthening store merchandise inventory controls would help ensure merchandise is accurately accounted for and safeguarded against loss or theft. The total cost of inventory at the three museum stores tested was about \$115,000 on June 30, 2014.

Policies and Procedures Are Lacking

For the three museums tested, we found a lack of written policies and procedures over each museum store's inventory processes. Although limited procedures were developed for processing merchandise sales in the store's point-of-sale (POS) system, procedures for purchasing and maintaining accurate merchandise inventory records did not exist.

Each museum store uses the Division's POS system to record merchandise purchases, sales, and update merchandise inventory records. Establishing and documenting policies and procedures over this system is essential for an effective and reliable store inventory system. Exhibit 4 shows the flow of transactions processed through the store's point-of-sale system.

Museum Store Point-of-Sale System

Exhibit 4



Source: Auditor prepared from observations and inquiries.

NRS 353A.020 requires each agency to develop written procedures to carry out a system of internal accounting and administrative control. These procedures are intended to help agencies safeguard assets, check the accuracy and reliability of their accounting information, promote efficient operations, and encourage adherence to managerial policies. Written procedures are particularly valuable when turnover occurs in key positions and new employees need training on assigned duties.

Inventory Adjustments Were Not Adequately Reviewed

Adjustments made to merchandise inventory records in the POS system were not adequately documented and reviewed. Inventory records are periodically adjusted for price and quantity changes. Documenting these changes and having an independent person review them, helps ensure adjustments are reasonable and justified. Reviewing adjustments also identifies merchandise consistently being adjusted and thereby potentially needing enhanced security to prevent loss.

For the three museums selected, we tested adjustments made to the amount of merchandise inventory in the POS system. We found 30 of 214 adjustments (14%) could not be adequately explained. Of the remaining 184 adjustments, museum records provided an adequate explanation for 24 (13%) of the adjustments. The other 160 (87%) were verbally explained by museum staff, but not documented for subsequent review and approval. Examples of the types of merchandise adjusted included stuffed animals, toys, apparel, jewelry, and medallions. Reasons provided by staff for adjusting merchandise inventory included:

- adjusting for donated, damaged, or missing items;
- adjusting to physical inventory counts;
- removing discontinued items returned to vendors; and
- correcting and reclassifying merchandise item numbers.

A majority of the adjustments made to merchandise inventory in the POS system are due to item quantity differences found during the year-end count of merchandise in stores and comparison to inventory records. Based on the fiscal year 2014 year-end counts for the Carson City State Railroad Museum and the Las Vegas State Museum, 216 items amounting to about \$3,900 needed adjustments to reduce the quantity stated in the POS system. We were unable to determine the number of items needing adjustments for the Carson City State Museum as year-end counts were unavailable.

Proper inventory accountability requires detailed inventory records be maintained to help provide for the physical accountability of

inventory and the efficiency and effectiveness of store operations. When the same individual records the purchase, receipt, and adjustments to merchandise in the POS system, inventory adjustments should be independently reviewed to ensure they are appropriate.

Merchandise Inventory Problems Were Found at the Las Vegas State Museum

For the Las Vegas State Museum, we found additional store merchandise inventory problems. The fiscal year 2014 physical inventory was not conducted properly, and inventory adjustments were not made to reflect the physical count. We also identified merchandise purchases not accurately recorded in the POS system. These control weaknesses increase the risk of undetected theft and loss, unexpected shortages of merchandise, and unnecessary purchases of items already on hand.

Physical Inventory Was Not Properly Conducted

The fiscal year 2014 physical inventory was performed using a POS system report which included item quantities, instead of a report that showed the merchandise in the store without the quantity on hand. Performing a physical inventory count without the knowledge of item quantities in the system offers the greatest degree of assurance of accurate and reliable counts. If the quantity is provided to staff, there is a risk that staff will not actually perform the count. They may visually look at the inventory, conclude that it agrees with the system, and record the item quantity in the system as the physical count.

The lack of written policies and procedures contributed to this improper way of performing a physical count. After the layoff of the store manager in January 2014, remaining staff were not aware of how to perform the duties previously performed by the manager, which included the year-end physical inventory count and reconciliation to inventory records.

Inventory Adjustments Were Not Made

Adjustments were also not made in the POS system to reflect the year-end physical inventory count. During the fiscal year 2014 physical inventory, staff identified 295 of 817 items (36%) that required a quantity adjustment in the system. Without written

guidance and supervisory oversight, staff were unsure of how to make these adjustments and did not make them.

Since inventory adjustments were not made in the system to reflect the on-hand physical inventory count, the system cannot be relied on to provide an accurate and complete record of the store's merchandise. Staff prepared an Excel spreadsheet documenting their physical count, instead of updating the POS system to reflect the physical count and providing management an updated system inventory report. Although the spreadsheet reflected the on-hand physical inventory count, it did not reflect the actual inventory records maintained in the POS system.

The primary benefit of a POS system is its ability to efficiently track and monitor inventory. An additional benefit is the capability to detect items consistently being adjusted and identify low or out-of-stock merchandise needing to be reordered. If inventory adjustments are not made, then the system is not being utilized as intended and cannot be relied upon by management for making operational decisions concerning the store.

Merchandise Purchases Were Often Not Recorded Properly

Store merchandise purchases were also not always recorded in the POS system. For the 18 months ending December 31, 2014, we identified 6 of 10 purchases, of a total of 65 purchases, that were not properly recorded in the POS system when received. The six purchases improperly recorded involved 28 items totaling \$2,800. These items consisted of children's toys, books, and handmade musical instruments.

To order store merchandise, staff prepare purchase orders in the POS system. When the items are received, the purchase order is compared to the actual number of items received. Any adjustments for discontinued or out-of-stock merchandise are then made before recording the items as received in the POS system. Our testing found that these steps were often not done. In 4 of 28 instances, more items were recorded in the system than were actually received. In 24 of 28 instances, items were not recorded in the system as received even though the store received the items.

Furthermore, our physical observation and count identified 7 of 10 store items with an incorrect quantity stated in the POS system. Managing store merchandise inventory is critical for controlling costs and operating efficiently. Accurate inventory records are also important for management to make informed decisions about merchandise needed in the store and to determine if merchandise is being adequately safeguarded.

Weaknesses Exist Over the Control of Commemorative Medallions

Control weaknesses were identified in the Division's accounting for commemorative medallions. We found staff duties in the minting process were not adequately segregated and no physical inventories were performed of stored blanks and minted medallions. A lack of policies and procedures contributed to these control weaknesses and are needed to help ensure these assets are properly accounted for.

Segregation of Duties Is Inadequate

The Division has not adequately segregated the duties related to minting medallions. Duties include ordering medallion blanks, assisting with the minting process, selling the minted medallions, delivering excess minted medallions to the museum store, overseeing the storage of the remaining medallion blanks in the museum's vault, and preparing records pertaining to each medallion project and sales revenue generated.

The Carson City State Museum mints commemorative medallions on Coin Press No.1 once a month or during special events. Minted medallions support the museum's educational mission by commemorating historical subjects, promoting museum services, and raising funds for services. Medallions are minted in silver and other non-precious metals, and sold to the public at the press during the minting process and in the museum store. For the 18 months ending December 31, 2014, the museum minted over 10,700 medallions amounting to about \$156,000 in medallion sales revenue. Appendix A, on page 17, shows a listing of the medallion projects during this time.

Management indicated that the program continues to mint increasing quantities of medallions, thereby reinforcing the need for proper segregation of duties. They agreed that duties can be

segregated further to provide greater accountability over medallions.

Physical Inventories Were Not Performed

For each medallion minting project, a physical inventory is not performed of the number of medallion blanks purchased, used, and remaining; and the number of medallions minted, sold, and remaining. As a result, we noted minor discrepancies in Division records from our testing of the three largest medallion minting projects for the 18 months ending December 31, 2014. Physical inventories involve counting the amount of goods on hand and reconciling the count to records showing what should be on hand. Periodic inventories are needed to help account for and safeguard medallions.

The three medallion minting projects we selected for testing produced 3,272 medallions. Division records indicate 3,217 of these medallions were sold for over \$48,000. For our testing, we traced the number of blanks purchased and used to the number of medallions minted and sold for each project to ensure all blanks and minted medallions could be accounted for.

During our testing, we found that the Division did not maintain adequate records of the number of medallion blanks used for each project. Medallion blanks are often purchased in large quantities and used on several different projects. Without records documenting which projects the purchased blanks were used on, we were unable to account for a minor number of blanks used during the minting for two of three projects. For the other project, we were able to account for all blanks purchased, as this project was a special request from an outside organization and all blanks purchased were used on this one project.

Our testing for two of the three projects also revealed some other discrepancies in Division records. For one project, Division records indicated more medallions were sold than minted. For another project, museum records could not account for a small number of minted medallions. These discrepancies could have been detected if physical inventories were performed and records

were reconciled by an individual independent of the medallion minting process.

The lack of written policies and procedures regarding the medallion minting process contributed to the discrepancies in this area. Policies and procedures demonstrate management's commitment to safeguarding these assets and provide clear communication and instructions to staff.

Recommendations

1. Develop policies and procedures to improve controls over museum store merchandise, including segregating key duties and adequately documenting and reviewing adjustments to inventory records.
2. Provide supervisory oversight and training of Las Vegas State Museum staff to ensure store merchandise is properly recorded and accurately accounted for in the point-of-sale system.
3. Segregate duties over the medallion minting process, including purchasing of medallion blanks, selling of minted medallions, and reconciling records by an individual independent of the minting process.
4. Develop policies and procedures over the control of commemorative medallions, including performing physical inventories of stored blanks and minted medallions.

Some Control Weaknesses Exist Over Museum Cash Receipts

Although we found all money collected was deposited at the three museums tested, we did find some control weaknesses.

Improvements can be made regarding the timeliness of deposits, reconciling receipts to deposits, and updating written policies and procedures. Good revenue controls minimize the risk of revenues being lost or stolen.

For the 18 months ending December 31, 2014, the Division's museums collected \$862,000 in admission and train ride fees and \$644,000 in store sales, for total collections of over \$1.5 million.

Exhibit 5 shows revenues collected at each museum.

Revenues Collected at Each Museum Fiscal Years 2014 to 2015 (as of 12/31/14)

Exhibit 5

Museum	Admission and Train Ride Revenues	Store Revenues	Total
Nevada State Museum, Carson City	\$255,636	\$215,846	\$ 471,482
Boulder City Railroad Museum	297,408	68,736	366,144
Nevada State Railroad Museum	168,504	148,288	316,792
Lost City Museum	74,889	122,320	197,209
Nevada State Museum, Las Vegas	53,172	57,284	110,456
Nevada Historical Society	8,974	31,213	40,187
East Ely Railroad Museum	3,500	-	3,500
Total Revenues	\$862,083	\$643,687	\$1,505,770

Source: State accounting system.

Deposits Not Always Made Timely

We reviewed 100 days of cash receipts from admissions, train rides, and store sales and found 44 of 140 deposits (31%) totaling over \$8,200 were not made timely in accordance with state law. The deposits ranged from 1 to 14 days late, with an average of 4 days late.

NRS 353.250 requires agencies to make deposits by Thursday of each week for all money received during the previous week. In addition, Division policies and procedures indicate money shall not be held for more than 5 days before depositing. When deposits are untimely, the risk of loss or theft increases.

Division staff indicated deposits were not made timely due to limited staff or holding back funds to provide extra change when needed during the weekends and special events, although cash register drawers already maintain \$100 to \$200 in cash. Management indicated that there should be no reason for late deposits and appropriate changes will be made to ensure all future deposits comply with state law.

Reconciliations Needed Over Cash Receipts

Receipts collected at the museums are not reconciled to deposits by an individual independent of the cash receipting functions. The individual preparing the deposit is the last person to have access to the daily cash register tapes and reports, and no one else reviews this information to ensure all money received has been deposited. Without this control in place, management lacks assurance that all receipts have been deposited.

The Division's written policies and procedures do not address the reconciliation of cash receipts to deposits. NRS 353A.020 requires agencies to develop revenue procedures which include segregating receipt, deposit, and reconciling duties; and reconciling receipts to amounts deposited. Although there was no indication from our testing that funds were missing from deposits, there is a risk that money could be lost or stolen and go undetected without proper reconciliations.

Policies and Procedures Need Updating

The Division's revenue policies and procedures have not been updated in more than 7 years. Several differences were identified between written procedures and actual processes we observed. For example, current procedures include duties no longer performed and positions that no longer exist. Since the same individuals have been performing the key revenue functions for several years, updating policies and procedures has not been a priority. Management indicated they have begun updating some policies and procedures; however, time constraints and other priorities have led to a delay in completing these updates.

Section 2418 of the State Administrative Manual requires agencies to review policies and procedures annually and update them as needed. Up-to-date policies and procedures are important to ensure duties and functions are carried out properly and provide a resource for current employees and a training tool for new employees. The absence of accurate policies and procedures increases the risk that procedures will not be performed correctly.

Recommendations

5. Deposit museum cash receipts in a timely manner in accordance with state law.
6. Enhance policies and procedures to include reconciling cash receipts per cash register reports to amounts deposited.
7. Revise policies and procedures to reflect current museum operations concerning the collection of money.

Appendix A

Medallion Projects for the 18 Months Ending December 31, 2014

Medallion Project	Number of Medallions Minted	Number of Medallions Sold	Total Medallion Sales Revenue
Nevada 150 (Design 1-4)	5,290	5,266	\$ 56,536
New York Mint (Design 1886-1888)	2,194	2,185	22,176
Fremont	501	400	12,378
Nevada Day 2013	301	249	11,260
Nevada Day 2014	346	198	8,285
State Capitol	104	81	6,054
Carson City Fire Department	366	250	5,240
Carson Mint	152	126	4,739
Virginia and Truckee Railroad	159	112	4,585
Oldsmobile Club	102	100	4,365
Lincoln	97	12	4,006
United States Ship Nevada BB-36	101	89	3,840
Mint Museum	50	50	3,129
Nevada Territory	50	51	2,860
Tahoe Rim Trail	287	285	2,245
City of Las Vegas	127	125	1,744
Pony Express	81	51	1,370
Reno Coin Club	367	160	790
State Seals	66	21	504
Totals	10,741	9,811	\$156,105

Source: Auditor compilation from data obtained from the Division and state accounting system.

Note: The number of medallions sold may be more than the number minted, because some medallions could have been minted prior to July 1, 2013.

Appendix B

Audit Methodology

To gain an understanding of the Division of Museums and History, we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the Division's activities. Furthermore, we documented and assessed the adequacy of the Division's internal controls over merchandise and revenues at museum stores.

To evaluate controls over museum store merchandise, we reviewed inventory controls at three museum locations. Our selection was based on the two museums (Carson City State Museum and Carson City Railroad Museum) with the largest revenue collected from admission, train rides, and store sales for the 18 months ending December 31, 2014, and the newest museum location (Las Vegas State Museum). To obtain an understanding of each store's inventory processes, we held discussions with staff and reviewed store inventory policies and procedures. We then ensured store merchandise purchases were accurately recorded in each location's point-of-sale (POS) system by selecting 30 purchases (10 from each location). Our selection from each location included five high dollar purchases and five randomly selected purchases recorded in the state accounting system for the 18 months ending December 31, 2014. We then obtained supporting documentation for each purchase and traced the purchase to the location's POS system. Additionally, we judgmentally selected 30 items (10 from each location) from the purchases previously selected and compared the item's quantity in the POS system to the actual quantity on hand at the time. Judgment was based on an item's value and ability to convert to personal use.

For each museum location, we also obtained and reviewed fiscal year 2014 physical inventory documentation of store merchandise. Inventory adjustments were discussed with staff and 30 items (10 from each location) were judgmentally selected to ensure adjustments were reasonable and justified. We also reviewed an additional 1,662 items from the vendors selected in our original sample of 30 items to provide additional audit evidence for our conclusion. Judgment was based on value and ability to convert to personal use.

Additionally, we evaluated controls over the safeguarding of medallions by reviewing the three largest medallion minting projects. For each project, we obtained documentation for the number of blanks purchased, used, and remaining and the number of medallions minted, sold, and remaining. We analyzed this information and determined if all medallion blanks and minted medallions were properly accounted for. Next, we determined if royalty fees were paid to the Division of Minerals in accordance with state law and Division policies and procedures. To do so, we obtained a listing of projects using the Great Seal of the State of Nevada for the 18 months ending December 31, 2014, recalculated the amount of fees due, and compared our calculation to the amount paid by the Division.

To evaluate controls over museum revenues, we randomly selected 100 days of cash receipts from admissions, train rides, and store sales for the Carson City State Museum (20 days), Carson City Railroad Museum (20 days), and the Las Vegas State Museum (60 days). We obtained the supporting documentation for each selected day's collections and traced cash receipts from original cash register tapes to deposit documentation to verify all amounts received were properly deposited. We also reviewed admission fee payments received from the Las Vegas Valley Water District in fiscal year 2014 to determine if amounts complied with contract terms.

For our testing involving samples, we used nonstatistical audit sampling, which was the most appropriate and cost effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance,

and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our audit report. We have not projected the errors noted in our samples to the population because our samples included randomly and judgmentally selected items. Judgmental selections were made based on an analytical review of data and known risk factors such as high dollar value items. Since a portion of our samples were based on these risk factors, we do not think a projection of the errors would be appropriate.

Our audit work was conducted from September 2014 to April 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division of Museums and History. On July 27, 2015, 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 C which begins on page 21.

Contributors to this report included:

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Appendix C

Response From the Division of Museums and History



Brian Sandoval
Governor

Claudia Vecchio
Director

Nevada Department of Tourism and Cultural Affairs
DIVISION OF MUSEUMS & HISTORY

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Peter Barton
Administrator

August 4, 2015

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

Dear Mr. Townsend:

The Division of Museums and History takes this opportunity to respond to the seven (7) findings that came out of the recently concluded Legislative Audit of Division operations, practices and controls. While the very mention of an audit can strike fear in some, this Division sees the audit as an opportunity to validate compliance, establish and promote best public practices, and assure appropriate use of resources. Where resources are lacking to accomplish our mission, we would hope the audit can be a tool to seek and assist in realizing those needed resources.

I would also take this as an opportunity to commend your field audit team for their thorough and sensitive approach to the audit and our staff limitations. Overall we found the process to be minimally disruptive of the normal flow of work through the Division.

The audit findings and our responses follow:

1. Develop policies and procedures to improve controls over museum store merchandise, including segregating key duties and adequately documenting and reviewing adjustments to inventory records.

The Division accepts this finding. The Division operates museum stores as a function of the Museum Dedicated Trust Fund (MDTF) per NRS 381.003 in six of the seven museums under its control. Sales volumes vary considerably from store to store, based on subject focus of the museum, location, and visitor traffic. In 2008, the Board of Museums and History undertook a significant effort to identify, procure, and deploy a computer-based "Point of Sale" (POS) system in its larger stores. The goal was to streamline processes and improve control over ordering, receiving, pricing, sales and inventory.

What we found at the time was that few companies offered a POS product that truly met the needs of the sales volume (relatively low) that our stores historically see. CAM Data was selected as the preferred vendor and their Retail Star system was installed in four of the six store locations. Over time we have found that despite regular software updates, the Retail Star product has many shortcomings primarily associated with inventory control and issues associated with receiving, posting, and adjusting inventory amounts. That, together with limited staff dedicated to museum store operations, is fundamentally how this weakness developed.

Also, the 2014 independent audit (released on November 1, 2014) of the MDTF operations discovered many of these same issues, causing the Board of Museums and History to take action at their April 2015 meeting (reference item #32, minutes, April 8, 2015 meeting of Board of Museums and History) to authorize Division staff and a Board subcommittee to seek proposals from qualified vendors with Point of Sale systems suitable for our stores. The goal is to replace *all* current POS systems with new hardware and software that has the enhanced capability of having the Division able to see and review, in real-time, what inventory levels are, what merchandise is on order, pricing, and any adjustments to inventory. More detailed and integrated physical inventory procedures must be incorporated in the system to be procured.

As part of the process of selecting a new vendor for POS equipment and software, Division staff and Board subcommittee members will speak with other state entities that have retail operations, notably the Legislative Counsel Bureau Gift Store and on-line store, to gain from their experience.

The foregoing, together with new written internal control procedures to insure appropriate segregation of duties and multi-level approval for all inventory adjustments, is under development. Target for full-implementation of the new equipment and the integrated procedures for store operations is the end of the current fiscal year, June 30, 2016.

One considerable challenge we face is in segregating duties; this is on account of the very few positions that are assigned to store operations. Due to relatively low sales volumes, it is difficult for the museum stores to adequately fund positions. (Personnel assigned to museum stores are funded as “enterprise” positions. Net proceeds of store sales fund store positions.) All stores operate with 1.0 FTE or less. While volunteers are frequently trained and function as store clerks, most are unfamiliar and have no interest in taking on additional responsibilities for inventory control or management. Lack of adequate staffing is a chronic problem for state museums, contributes to the difficulty encountered in separating duties, and will be cited elsewhere in response to weaknesses observed in the audit.

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2. Provide supervisory oversight and training of Las Vegas State Museum staff to ensure store merchandise is properly recorded and accurately accounted for in the point-of-sale system.

The Division accepts this finding. The museum store at the Nevada State Museum, Las Vegas, has underperformed; chronically so, since the new museum opened at the Las Vegas Springs Preserve in November 2011. While most museum stores see an average per capita sale in the range of \$3.00 to \$5.00, this location hovers around \$1.00 per capita in sales. Despite having consulted with museum retail specialists, no solution has been found. As a result of mounting and significant losses, the Board of Museums and History took action to vacate the position of Retail Storekeeper at this museum effective January 31, 2014. That action left a void in personnel familiar with the Retail Star POS system and the required processes to order, receive, price, and update inventory. This was noted in the 2014 independent auditor's report and additional training and support, from other museum store personnel is being provided. Administrative staff at this museum will actively participate in the delivery, installation, and operation of the POS system presently being explored for procurement. Again, the lack of adequate staff plays a contributing role in this finding.

3. Segregate duties over the medallion minting process, including purchasing medallion blanks, selling of minted medallions, and reconciling records by an individual independent of the minting process.

The Division accepts this finding. Coin Press No. 1 at the Nevada State Museum is first and foremost an educational program of the museum and the press itself is an icon of the Mint. Producing product for sale started as a secondary function, born out of the educational programming provided during Coin Press demonstrations. Over time the popularity of the Coin Press and its minted products has increased significantly. For the Nevada Sesquicentennial alone, nearly 6,000 silver medallions, of four designs, were produced in little over 12 months. The Division accepts that as the program evolved insufficient controls were in place in terms of managing precious metal inventory, minted product inventory, and accurate sales reporting.

The Division has initiated steps to segregate duties and improve reporting and controls. Silver stock ("blanks") is now housed in a separate vault in the administrative area, under control of the Administrative Assistant IV, who tracks inventory and distribution. Sales will be more closely aligned with the museum store and inventory controlled through the Point of Sale system.

Additionally, the Nevada State Museum has authority to hire a part time (0.51FTE) Sales and Promotion Representative II position. This position is funded 100% by the Museum Dedicated Trust Fund and has been held vacant by the Board of Museums and History until this fiscal year (2016). A "Request to Fill" this position has been generated and submitted to Agency HR Services and presuming the recruitment goes as expected, this position should be filled by October 1, 2015. Duties of this

position will include taking over administrative management of portions of the medallion/Coin Press program, providing additional separation of responsibilities.

4. Develop policies and procedures over the control of commemorative medallions, including performing physical inventories of stored blanks and minted medallions.

The Division accepts this finding. As noted in the previous finding, the Coin Press program started as an educational program of the museum, where through demonstrations visitors were provided an understanding of why Carson City had a United States Mint and how it all worked. Over time the working demonstrations provided an opportunity to sell uniquely minted medallions, with proceeds going into the Dedicated Trust Fund to further support programs and exhibits at the Nevada State Museum. Over the last two years the medallion program has seen considerable growth and new demand for products. Updates to Internal Controls for the Division and this museum to reflect this dramatic increase in the program and its fiscal impacts are needed and will be accomplished no later than the end of the current fiscal year, June 30, 2016.

5. Deposit museum cash receipts in a timely manner in accordance with state law.

The Division accepts the finding but would note that during the economic downturn museums suffered, cumulatively perhaps more so than any other entity of Nevada State government. From July 2009 through June 2013, museum personnel were reduced from full-time to .80 part-time status (32 hours per week). This forced a reduction in public service from 6 or 7 days a week to a maximum of four days per week. In trying to respect the days when visitation was highest, museums had different open and closed schedules. Additionally, staffing was reduced outright by almost 15% through a forced reduction in the workforce. Many administrative positions were lost and focus was placed on delivering what services we could with reduced personnel. Confusion reigned with the public and staff morale was low.

In July 2013, existing staff were returned to full-time but no staff lost during the workforce reduction was restored. While public service levels were increased, schedules of open and closed days remain inconsistent with many museums focusing on being open Thursday through Monday, to take advantage of peak visitation opportunities.

While all of the foregoing are contributory to deposits not being made weekly as required by state law, museum directors have been reminded of the requirement to make deposits each week, by end of day on Thursday, or more frequently if volume warrants. Steps have been taken to insure that weekend staff have access to cash and change as may be required to support business functions.

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6. Enhance policies and procedures to include reconciling cash receipts per cash register reports to amounts deposited.

The Division accepts this finding. Division and individual agency (museum) Internal Controls are presently being revised to insure that at least two individuals are involved in reconciling cash collected and sales recorded to the amount being deposited. This had been standard practice at all museums until workforce retractions and schedule changes made this increasingly difficult in some locations. Revised Internal Controls will strengthen the requirement for multiple individuals certifying cash to register reports to deposit amounts.

7. Revise policies and procedures to reflect current museum operations concerning the collection of money.

The Division accepts this finding. As noted previously, the economic downturn had harsh impacts that resulted in new realities and reduced operations for museums. Major revisions to Internal Controls were last undertaken during the downturn and are being revised to reflect contemporary operations.

In closing, the Division of Museums and History looks forward to continuing to work with the Legislative Counsel Bureau audit staff as we implement important changes to improve our operations and controls. Please do not hesitate to contact me directly for elaboration on any of the responses offered here.

Sincerely,



Peter Barton
Administrator
Nevada Division of Museums and History

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Division of Museums and History's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop policies and procedures to improve controls over museum store merchandise, including segregating key duties and adequately documenting and reviewing adjustments to inventory records.....	<u>X</u>	<u> </u>
2. Provide supervisory oversight and training of Las Vegas State Museum staff to ensure store merchandise is properly recorded and accurately accounted for in the point-of-sale system.....	<u>X</u>	<u> </u>
3. Segregate duties over the medallion minting process, including purchasing of medallion blanks, selling of minted medallions, and reconciling records by an individual independent of the minting process.....	<u>X</u>	<u> </u>
4. Develop policies and procedures over the control of commemorative medallions, including performing physical inventories of stored blanks and minted medallions.....	<u>X</u>	<u> </u>
5. Deposit museum cash receipts in a timely manner in accordance with state law	<u>X</u>	<u> </u>
6. Enhance policies and procedures to include reconciling cash receipts per cash register reports to amounts deposited.....	<u>X</u>	<u> </u>
7. Revise policies and procedures to reflect current museum operations concerning the collection of money	<u>X</u>	<u> </u>
TOTALS	<u>7</u>	<u> </u>