

# Audit Highlights



Highlights of Legislative Auditor report on the Division of State Lands issued on September 19, 2012. Report # LA12-18.

## Background

The Division of State Lands was created within the Department of Conservation and Natural Resources in 1957. The Division provides land and land use planning services to the State, its agencies, and its people. Its mission is to uphold the conservation and land resource values of Nevadans through responsible land use planning, resource programs that protect and enhance the natural environment, and land stewardship worthy of the lands entrusted to them.

As of December 2011, the Division had 18 employees located in Carson City. The Division's revenues and expenditures are recorded in one main budget account and nine other budget accounts. Agency expenditures for calendar year 2011 were about \$7.1 million. In addition to personnel and operating expenditures, many of the Division's expenditures are for grants to state and local government agencies and non-profit organizations.

During calendar year 2011, the Division's total revenue amounted to \$2.69 million, including \$1.04 million in General Fund appropriations and fees of about \$954,000. Fees are collected for various reasons, including land leases, authorizations, easements, licenses, permits, and special license plates.

## Purpose of Audit

The purpose of this audit was to: (1) evaluate the reliability of the Division's performance measures used in the state's budget process, and (2) determine whether fees were collected and deposited in accordance with state laws and regulations. Our audit focused on the Division's activities for calendar year 2011.

## Audit Recommendations

This audit report contains three recommendations to improve the reliability of the Division's performance measures used in the state's budget process.

The Division accepted the three recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on December 18, 2012. In addition, the six-month report on the status of audit recommendations is due on June 18, 2013.

# Division of State Lands

## Department of Conservation and Natural Resources

### Summary

The Division can take steps to strengthen the reliability of its performance measures used in the state's budget process. Some measures used in the budget process for fiscal years 2012 and 2013 were not adequately supported by underlying records and the description of one measure did not reflect what was reported. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. Reliability can be improved by enhancing written procedures on how to collect and calculate performance measurement data and providing for review of the results.

The Division has an effective process for the collection of fees. We found the Division collected and deposited fees in accordance with state laws and regulations. The Division's current process for collecting and depositing fees is much improved since the last audit. During calendar year 2011, the Division collected about \$954,000 in fee revenue.

### Key Findings

The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013, specifically, the Executive Budget and the Priorities and Performance Budget. The measures are also included in the Division's strategic plan and are linked to its goals and objectives. Of the seven performance measures, we found three measures were not adequately supported. The supporting records were not retained or could not be provided. Performance measures cannot be considered reliable unless they are supported by sufficient underlying records. In addition, the Division's description for one measure did not accurately reflect the reported information. The Division lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures and insufficient review of the data collection for measures. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. (page 5)

Our testing of the Division's receipts, totaling about \$380,000 of the \$954,000 collected during calendar year 2011, found the Division's controls provide reasonable assurance that fees are collected and processed accordingly. Our selection included receipts from assessments, land sales, and fees from license plates, easements, licenses, and permits. We also tested a sample of fee agreements and found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes. The Division's current process for collecting and depositing fees is much improved, as the prior audit in 2003 noted several problems with the process in place at that time. Problems noted in the prior audit included fees not always being collected and inadequate controls over the receipt of fees. (page 9)

STATE OF NEVADA  
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING  
401 S. CARSON STREET  
CARSON CITY, NEVADA 89701-4747  
~~Tax No.: (775) 684-6000~~



LEGISLATIVE COMMISSION (775) 684-6800  
STEVEN A. HORSFORD, *Senator, Chairman*  
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821  
DEBBIE SMITH, *Assemblywoman, Chair*  
Mike Chapman, *Acting Fiscal Analyst*  
Mark Krmpotic, *Fiscal Analyst*

RICK COMBS, *Director*  
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830  
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815  
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

Legislative Commission  
Legislative Building  
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our completed audit of the Department of Conservation and Natural Resources, Division of State Lands. 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 three recommendations to improve the reliability of the Division's performance measures used in the state's budget process. 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 15, 2012  
Carson City, Nevada

# Division of State Lands

## Table of Contents

Introduction .....	1
Background.....	1
Scope and Objectives .....	3
Reliability of Performance Measures Can Be Improved .....	5
Results Were Not Supported by Underlying Records .....	6
Description of Performance Measure Did Not Reflect Reported Information .....	7
Controls Over Measures Need Improvement .....	7
Effective Collection of Fees.....	9
Appendices	
A. Division Expenditures by Budget Account – Calendar Year 2011 .....	11
B. Audit Methodology.....	12
C. Response From the Division of State Lands.....	14

---

# Introduction

## Background

The Division of State Lands was created within the Department of Conservation and Natural Resources in 1957. The Division provides land and land use planning services to the State, its agencies, and its people. Its mission is to uphold the conservation and land resource values of Nevadans through responsible land use planning, resource programs that protect and enhance the natural environment, and land stewardship worthy of the lands entrusted to them.

### **Division Program Areas/Responsibilities**

The Division's four main program areas and responsibilities include:

State Land Office – The Office serves as the real estate agency of the State for all agencies except the Legislature, the Nevada System of Higher Education, and the Department of Transportation. The Office holds title to state lands and interests in land, buys land needed by the state, and sells excess land. The Office also keeps records of all lands that have ever been owned by the State, and provides land records information upon request.

Nevada Tahoe Resource Team (NTRT) – The NTRT is an interagency team coordinated by the Division and dedicated to preserving and enhancing the natural environment in the Lake Tahoe basin. The team consists of eight members: five from the Division of State Lands, one from the Division of Forestry, one from the Division of State Parks, and one from the Department of Wildlife. The NTRT is responsible for implementing Nevada's share of the Environmental Improvement Program, an ongoing plan that identifies projects designed to improve water quality, control erosion, restore natural watercourses, improve forest health and wildlife habitat, and provide recreational opportunities.

State Land Use Planning Agency – The Agency provides technical land use planning assistance to local governments upon request. The assistance is wide-ranging and includes help with community planning, land use and natural resources issues, and development of Public Land Policy Plans. The Agency also represents the State’s interests on a wide variety of public land management issues. In cooperation with other state agencies and local governments throughout the State, staff help develop plans and policies for the use of public lands managed by the federal government.

Question 1 Program – This is a conservation bond program authorizing the State to issue general obligation bonds to preserve water quality; protect open space, lakes, rivers, wetlands, and wildlife habitat; and restore and improve parks, recreational areas, and historic and cultural resources. Of the \$200 million authorized bond issuance, \$65.5 million was allocated to the Division to provide grants to state agencies, local governments, or qualifying private nonprofit organizations.

In addition, the Division administers other special programs, as well as provides staff assistance to the Nevada Tahoe Regional Planning Agency and the State Land Use Planning Advisory Council.

### **Staffing and Budget**

As of December 2011, the Division had 18 employees located in Carson City. The Division’s revenues and expenditures are recorded in one main budget account and nine other budget accounts. Agency expenditures for calendar year 2011 were about \$7.1 million. In addition to personnel and operating expenditures, many of the Division’s expenditures are for grants to state and local government agencies and non-profit organizations. For example, grants are awarded to various organizations for projects that preserve or restore the natural environment of Lake Tahoe. A breakdown of expenditures, by budget account, is included in Appendix A.

During calendar year 2011, the Division's total revenue amounted to \$2.69 million, including \$1.04 million in General Fund appropriations and fees of about \$954,000. Fees are collected for various reasons, including land leases, authorizations, easements, licenses, permits, and special license plates for Lake Tahoe and Mt. Charleston<sup>1</sup>. Exhibit 1 shows the Division's revenue sources, exclusive of transfers between Division accounts, in calendar year 2011.

**Division of State Lands** **Exhibit 1**  
**Revenue Sources**  
**Calendar Year 2011**

<b>Source</b>	<b>Amount</b>	<b>Percent of Total</b>
State Appropriations	\$1,035,371	39%
Fees	953,965	35%
Federal Funds	267,077	10%
Transfers from Department <sup>(1)</sup>	235,836	9%
Treasurer's Interest	116,792	4%
Transfers from Other Agencies	83,669	3%
<b>Total</b>	<b>\$2,692,710</b>	<b>100%</b>

Source: State accounting system.

<sup>(1)</sup> Voter-approved funding from the Question 1 Bond Program authorized by AB 9 of the 17<sup>th</sup> Special Legislative Session is received by the Department of Conservation and Natural Resources and transferred to the Division's operating account.

## 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 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.

This audit focused on the Division's activities for calendar year 2011. Our audit objectives were to:

<sup>1</sup> Effective July 1, 2011, pursuant to Senate Bill 396, the administration of the license plate fees paid for the support of the natural environment of the Mt. Charleston area was transferred from the Division of State Lands to the Board of County Commissioners of Clark County.

- Evaluate the reliability of performance measures used in the state's budget process.
- Determine whether fees were collected and deposited in accordance with state laws and regulations.

# Reliability of Performance Measures Can Be Improved

The Division can take steps to strengthen the reliability of its performance measures used in the state's budget process. Some measures used in the budget process for fiscal years 2012 and 2013 were not adequately supported by underlying records and the description of one measure did not reflect what was reported. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations. Reliability can be improved by enhancing written procedures on how to collect and calculate performance measurement data and providing for review of the results.

The Division included seven performance measures in its budget documents for fiscal years 2012 and 2013, specifically, the Executive Budget and the Priorities and Performance Budget. The measures are also included in the Division's strategic plan and are linked to its goals and objectives. Exhibit 2 lists these measures.

## Division of State Lands Performance Measures Used in State's Budget Process

## Exhibit 2

No.	Performance Measure
1.	Ratio of new projects: to projects completed: and projects pending.
2.	Number of land use processes participated in by the State Land Use Planning Agency.
3.	Ratio of planning assistance projects requested, projects completed, and projects pending.
4.	Percent of Question 1 bond funds that have been awarded in grants.
5.	Ratio of Tahoe Environmental Improvement projects completed to projects in progress.
6.	Number of plans for casino building changes reviewed for compliance.
7.	Number of new authorizations to use state lands.

Source: Fiscal years 2012-2013, Executive Budget and Priorities and Performance Budget.



## **Results Were Not Supported by Underlying Records**

Performance measures cannot be considered reliable unless they are supported by sufficient underlying records. Of the Division's seven performance measures, used in the state's budget process, we found three measures were not adequately supported. The supporting records were not retained or could not be provided for the following measures:

- Performance measure 2 tracks various planning activities such as review of major projects routed through the State Clearinghouse, development of land use plans and policy plans, and participation on resource advisory committees. State Clearinghouse reviews make up a majority of the number of processes reported in this measure. Staff determine the number of reviews by scanning through electronic and hard copy requests and counting those that took a significant amount of time to process. However, a listing of these requests is not prepared or retained to support the results reported as part of the budget process and internally to management quarterly.
- Performance measure 5 tracks the status of environmental improvement projects. This data is maintained on electronic spreadsheets, which staff actively update. The Division often did not retain a copy of these spreadsheets, which are used to calculate the measure. Therefore, since the data is constantly changing, we were unable to verify the reported amount. Although agency management indicated that the supporting spreadsheets could be recreated, this would take a considerable amount of time to review hardcopy files to determine each project's status as of a specific date.
- Performance measure 7 tracks the number of new authorizations to use state lands reviewed and granted by the Division. Agency personnel indicated the measure was specifically calculated for inclusion in the Priorities and Performance Budget only and was derived from a database. Nevertheless, the Division did not have any documentation supporting the amount reported.

The State Administrative Manual and Division policy require records used in computing performance measures be retained for 3 fiscal years. The lack of underlying records prevents

measurement results from being verified, and therefore the reported results are unreliable.

### **Description of Performance Measure Did Not Reflect Reported Information**

The Division's description for one measure did not accurately reflect the reported information. Performance measure 6 is defined as the number of plans for casino building changes reviewed for compliance. The measure refers to the Division's responsibility for reviewing changes to gaming structures in the Lake Tahoe basin for compliance with the provisions of the Tahoe Regional Planning Compact. However, this measure tracks more than just the number of plans reviewed. It includes all actions (such as correspondence) and meetings attended regarding proposed changes to gaming structures.

The State Administrative Manual indicates agencies should verify the data used to compile the performance measurement results accurately quantify the description in its budget. Developing a more descriptive title would make it easier for management and other decision makers to understand what activity is being measured to assist in evaluating the program's performance.

### **Controls Over Measures Need Improvement**

The Division lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate written procedures and insufficient review of the data collection for measures. It is important for performance measures to be reliable because it can affect budget and policy decisions made by agency managers and oversight bodies, and judgments made by stakeholders and the public about the Division's operations.

Written procedures did not exist for six of the seven measures describing the calculation methodology. The Division's policies and procedures manual includes a section on performance measures; however, the information is outdated, broad, and does not provide enough guidance for staff on developing and providing adequate support for reported amounts.

The State Administrative Manual requires agencies to develop written procedures on how performance measures are computed. Procedures should include the source of the data, retention of

underlying records, calculations performed, and controls to ensure the data is reliable.

Written procedures demonstrate a commitment to reliable performance measures by providing agency personnel clear instructions for collecting applicable information. Written procedures also help ensure the process for collecting performance measurement data is reasonable and consistent over time.

Another control weakness we noted was that measurement calculations were not adequately reviewed for four of the seven measures. The State Administrative Manual requires agencies to assign staff the responsibility of reviewing the performance measurement procedures and ensuring they are followed.

### **Recommendations**

1. Develop written procedures on how performance measures are computed, including the methodology and source documents used and retained.
2. Ensure all performance measures include a descriptive title that clearly indicates what is being measured.
3. Provide for review of calculations and methodology used to compute performance measures to ensure reported results are reliable and to confirm written procedures are followed.

# Effective Collection of Fees

The Division has an effective process for the collection of fees. We found the Division collected and deposited fees in accordance with state laws and regulations. The Division's current process for collecting and depositing fees is much improved since the last audit. During calendar year 2011, the Division collected about \$954,000 in fee revenue. Exhibit 3 shows each type of fee and amount collected in calendar year 2011.

<b>Division of State Lands Fee Revenue Calendar Year 2011</b>		<b>Exhibit 3</b>
<b>Fee Type</b>		<b>Amount</b>
License plates		\$403,948
Authorizations, easements, licenses, leases, and permits		240,418
Land coverage assessments		204,237
Land coverage sales		93,432
Miscellaneous fees		11,930
<b>Total</b>		<b>\$953,965</b>

Source: State accounting system.

Our testing of receipts, totaling about \$380,000, found the Division's controls provide reasonable assurance that fees are collected and processed appropriately. Our selection included receipts from assessments, land sales, and fees from license plates, easements, licenses, and permits.

We also tested a sample of fee agreements and found the Division's controls provide reasonable assurance that those individuals required to pay a fee did pay the correct amount in accordance with applicable statutes.

The Division's current process for collecting and depositing fees is much improved, as the prior audit in 2003 noted several problems with the process in place at that time. Problems noted in the prior

audit included fees not always being collected and inadequate controls over the receipt of fees.

# Appendix A

## Division of State Lands Expenditures by Budget Account Calendar Year 2011

<b>Budget Account</b>	<b>Account Description</b>	<b>Amount</b>
4206	Protect Lake Tahoe	\$3,402,950
4173	State Lands Main Operating Account	1,778,108
4200	Tahoe Mitigation	860,750
4153	Mt. Charleston License Plates	417,074
4152	Tahoe License Plates	389,917
4191	Erosion Control Bond	206,768
4197	Tahoe Bond Sale	74,923
4174	State Lands Revolving Account	10,433
4166	Nevada Tahoe Regional Planning Agency	745
9707	State Lands Fees <sup>(1)</sup>	-
<b>Total</b>		<b>\$7,141,668</b>

Source: State accounting system.

<sup>(1)</sup> No expenditures are authorized in this account.

## Appendix B

### Audit Methodology

To gain an understanding of the Division of State Lands, we interviewed staff and reviewed statutes, regulations, policies, and procedures. We also reviewed financial information, the prior audit report, budgets, legislative committee minutes, and other information describing the activities of the Division. Furthermore, we documented and assessed the Division's internal controls over fee collections and performance measures.

To determine whether fees were collected and deposited in accordance with state laws and regulations, we calculated the amount of fees collected in 2011. We then selected 50 receipts, 10 of the largest and the other 40 randomly, to verify the proper amount was collected, properly processed, and deposited timely. Next, we obtained a listing of all agreements and verified the listing was complete by tracing 10 hard copy agreements located in the Division's files to the listing. From the listing, we then randomly selected 25 agreements with no stated fee and 25 agreements with a fee to ensure the fee agreed with the written agreement and applicable statute. Further, we randomly selected 10 transactions to determine if the amounts were recorded in the correct fiscal year, and the 9 debit transactions to determine their propriety.

To evaluate the reliability of performance measures, we identified the Division's performance data stated in the Executive Budget and other budget documents. For the Division's seven measures, we identified the amount reported to management in each quarter of 2011. We requested supporting documentation for each measure and reviewed for accuracy and reasonableness of methodology. We then determined the Division's compliance with the State Administrative Manual requiring written procedures, review, and retention of calculation documentation for agency performance measures.

Our audit work was conducted from January to June 2012. We conducted the 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division of State Lands. On July 26, 2012, 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, with begins on page 14.

Contributors to this report included:

Tammy A. Goetze, CPA  
Deputy Legislative Auditor

Richard A. Neil, CPA  
Audit Supervisor



# Appendix C

## Response From the Division of State Lands

LEO DROZDOFF  
*Director*

Department of Conservation  
and Natural Resources

JAMES R. LAWRENCE  
*Administrator*

BRIAN SANDOVAL  
*Governor*



State Land Office  
State Land Use Planning Agency  
Nevada Tahoe Resource Team  
Conservation Bond Program -Q1

*Address Reply to*

Division of State Lands  
901 S. Stewart St. Suite 5003  
Carson City, Nevada 89701-5246  
Phone (775) 684-2720  
Fax (775) 684-2721  
Web [www.lands.nv.gov](http://www.lands.nv.gov)

STATE OF NEVADA  
DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES

### Division of State Lands

August 6, 2012

Paul Townsend, CPA, Legislative Auditor  
Legislative Counsel Bureau  
401 S. Carson Street  
Carson City, Nevada 89701-4747

Dear Mr. Townsend:

On July 17, 2012 we received the preliminary audit report summarizing the findings of the audit conducted by your staff. Subsequently, we met with you and your staff on July 25, 2012 to review the audit findings. This letter is our response to the preliminary audit report pursuant to NRS 218G.230. The Division of State Lands accepts the three recommendations included in the audit report. The following are more specific comments related to the report.

#### Reliability of Performance Measures Can Be Improved

All three of the recommendations in the preliminary audit fell in the category of performance measures and, as stated above, we accept the recommendations. As part of the State's new performance based budgeting, we are currently in the process of revising some of our measures to more accurately reflect the activities and goals of our agency. As we update our measures, we will incorporate the recommendations of the audit report. This will include ensuring that adequate documentation is retained for each reporting period, measures have appropriate descriptions and the development of more specific written procedures.

#### Effective Collection of Fees

We greatly appreciate the recognition that the current process for collecting and depositing fees is much improved since the last audit. Since our last audit in 2003, a primary goal of the agency has been to establish better methods in fee collection and accounts receivable. The audit finding that the Division has an effective process for the collection of fees is evidence to us that the procedures and methods we incorporated were successful.

Lastly, I wish to thank you and your staff for the professionalism and courtesy carried out during the course of the audit. We would also like to thank you and your staff for conducting such a thorough review and for the suggested improvements. We look forward to working together with you and your staff in implementing the recommendations.

Sincerely,



James R. Lawrence  
Administrator  
Division of State Lands

cc: Leo Drozdoff, Director, Department of Conservation and Natural Resources  
Kay Scherer, Deputy Director,

## Division of State Lands' Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop written procedures on how performance measures are computed, including the methodology and source documents used and retained .....	<u>    X    </u>	<u>          </u>
2. Ensure all performance measures include a descriptive title that clearly indicates what is being measured.....	<u>    X    </u>	<u>          </u>
3. Provide for review of calculations and methodology used to compute performance measures to ensure reported results are reliable and to confirm written procedures are followed .....	<u>    X    </u>	<u>          </u>
 TOTALS	 <u>    3    </u>	 <u>    0    </u>