

# STATE OF NEVADA

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## Audit Report

Department of Conservation  
and Natural Resources  
Division of State Parks

2013



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of Legislative Auditor report on the Division of State Parks issued on May 15, 2013. Report # LA14-06.

## Background

The Nevada Division of State Parks was established in 1963, within the Department of Conservation and Natural Resources. The Division's mission is to acquire, plan, develop, interpret, operate, and maintain a system of parks and recreational areas and to preserve areas of scenic, historic, and scientific significance for the use and enjoyment of residents and visitors.

The Division is organized into five sections: park operations; administration; construction and major maintenance; fiscal, personnel and payroll; and grants and planning. There are 22 parks in the State Parks system that serve over 3.3 million visitors per year.

The Division's main office is located in Carson City with regional offices in Las Vegas and Fallon. In fiscal year 2012, about 60% of the Division's 229 employees were seasonal. Of the 93 permanent positions, 29 were commissioned Nevada peace officers. The Division has eight budget accounts with total expenditures of \$12.5 million in fiscal year 2012.

## Purpose of Audit

The purpose of this audit was to: (1) determine if retail outlets at state parks had sufficient controls and processes in place to ensure efficient and effective operations, (2) evaluate the Division's financial and administrative controls over concession contracts, and (3) determine if the Division had adequate inventory controls over firearms to ensure compliance with applicable state laws, regulations, and policies and procedures.

This audit focused on the Division's activities for the period from July 1, 2011, through November 30, 2012. In some instances our audit period included earlier dates back to 2007.

## Audit Recommendations

This report includes 14 recommendations to strengthen controls over retail operations, improve monitoring of concession contracts at state parks, and enhance inventory controls over firearms.

The Division accepted the 14 recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on August 9, 2013. In addition, the six-month report on the status of audit recommendations is due on February 10, 2014.

# Division of State Parks

## Department of Conservation and Natural Resources

### Summary

Stronger controls are needed over the Division's retail outlets to help ensure successful operations. For example, problems with the point-of-sale (POS) system hindered the Division's ability to monitor sales at retail outlets. In addition, the POS system did not maintain records needed to track merchandise inventory. The Division can take steps to ensure the POS system provides accurate management information for proper monitoring of the retail operations. Furthermore, better oversight of the cashier function will reduce the Division's risk that theft could occur and go undetected.

The Division can improve its monitoring of concession contracts to ensure revenues from concessionaires are accurate and timely. For example, the Division did not properly adjust concession fees for annual Consumer Price Index (CPI) increases required by two contracts. In addition, the Division did not perform periodic audits of revenues reported by entities that pay fees based upon a percentage of revenues.

The Division needs to strengthen inventory controls over surplus firearms to ensure compliance with state requirements. For example, the Division conducted unauthorized sales of surplus firearms to state employees. Furthermore, controls were circumvented when the Division failed to ship surplus firearms removed from state accounting records that were designated for trade-in. The guns were found improperly secured at the Division 3 years after they were presumed traded-in.

### Key Findings

Problems with the POS system hindered the Division's ability to monitor sales at retail outlets in state parks. Specifically, sales reports we examined for the two largest outlets for the quarter ended September 30, 2012, contained significant errors. For example, the report for the Valley of Fire outlet incorrectly showed total deposits were short by over \$3,000 for the quarter ended September 30, 2012. By changing some report parameters in the system, the difference between sales and total deposits was reduced to \$89 for the quarter. In addition, most of the sales reports for fiscal year 2012 were not submitted to management timely. As a result, management did not receive accurate or timely sales information important for evaluating results of operations and making operating decisions. (page 7)

The Division did not have adequate controls in place to properly monitor merchandise inventory at retail outlets. Significant problems with the quarterly inventory reports used by management were noted. In particular, the POS system did not maintain accurate inventory records that the Division needed to prepare the quarterly inventory reports. These errors affected the inventory variance calculations. When inventory variance information is not correct, management cannot determine the amount of inventory lost to damage, theft, or other irregularities. (page 9)

The Division did not have sufficient oversight of the cashier function to help prevent potential fraud. Areas with weak oversight included cash variances and certain non-revenue transactions conducted at the cash registers. Best business practices in fraud prevention include monitoring cash variances, looking for patterns, and investigating large or unusual discrepancies. (page 11)

The Division can improve its monitoring of concession contracts to help ensure revenues from concessionaires are accurate and timely. For both contracts with inflation adjustments, the Division did not properly adjust concession fees for CPI increases according to the terms of the agreements. First, the Division lost nearly \$7,700 in unbilled concession fees that the Lake Tahoe Shakespeare Festival at Sand Harbor should have paid from 2008 through 2010. Second, the Division did not adjust performance fees for a cultural arts concession at Spring Mountain Ranch State Park for CPI increases from 2007 through 2010. Additionally, the Division did not perform periodic audits of revenues reported by the three concessionaires that pay fees based upon a percentage of revenues. (page 15)

Controls over surplus firearms were not adequate to prevent unauthorized sales to state employees. In 2009, 61 surplus firearms, designated for trade-in to a firearms manufacturer, were instead offered for sale to state employees without involving the Purchasing Division. Of these, the Division sold 22 surplus firearms to state employees and failed to trade in the other 39 surplus firearms to the firearms manufacturer. Documentation submitted to Purchasing indicated the firearms would be shipped to the manufacturer to complete the trade-in for new pistols. However, in August 2012 we found instead of shipping the additional 39 surplus firearms, staff stored them improperly in cardboard boxes in an office. We reported this circumvention of controls over the 39 surplus firearms to management and verified none were missing. (page 18)

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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 Parks. 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 14 recommendations to strengthen controls over retail operations, improve monitoring of concession contracts at state parks, and enhance inventory controls over firearms. 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

May 3, 2013  
Carson City, Nevada

# Division of State Parks

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# Introduction

## **Background**

The Nevada Division of State Parks (Division) was established in 1963, within the Department of Conservation and Natural Resources. The Division's mission is to acquire, plan, develop, interpret, operate, and maintain a system of parks and recreational areas and to preserve areas of scenic, historic, and scientific significance for the use and enjoyment of residents and visitors. These areas are held in trust as irreplaceable portions of Nevada's natural and historical heritage.

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

The Division is charged with administering two federal parks and recreation grant programs: the Land and Water Conservation Fund Program (L&WCF) and the National Recreation Trails Program. The L&WCF program provides matching grants to states and local governments for the acquisition and development of outdoor recreation areas and facilities. The National Recreation Trails Program is a federal-aid assistance program to help states provide and maintain recreational trails for both motorized and non-motorized use. For fiscal year 2012, the total federal funding for these grants exceeded \$1.4 million.

The Division is organized into five sections: park operations; administration; construction and major maintenance; fiscal, personnel, and payroll; and grants and planning. The State Parks system is divided into a northern and a southern region. There are 22 parks in the State Parks system that serve over 3.3 million visitors per year. Exhibit 1 lists the parks and shows their locations.



# Map of Nevada State Parks

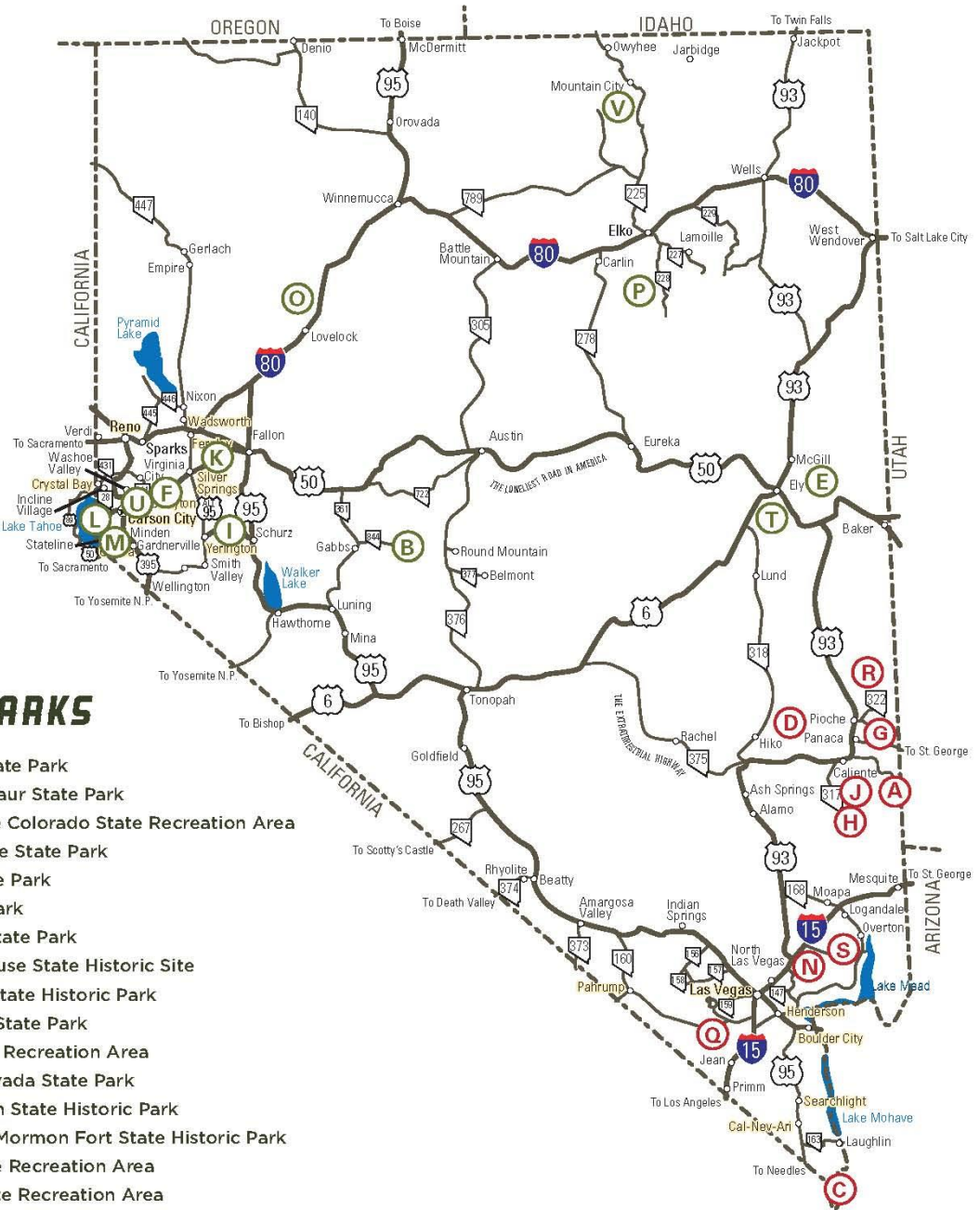
# Exhibit 1

## NEVADA STATE PARKS

- A Beaver Dam State Park
- B Berlin-Ichthyosaur State Park
- C Big Bend of the Colorado State Recreation Area
- D Cathedral Gorge State Park
- E Cave Lake State Park
- F Dayton State Park
- G Echo Canyon State Park
- H Elgin Schoolhouse State Historic Site
- I Fort Churchill State Historic Park
- J Kershaw-Ryan State Park
- K Lahontan State Recreation Area
- L Lake Tahoe Nevada State Park
- M Mormon Station State Historic Park
- N Old Las Vegas Mormon Fort State Historic Park
- O Rye Patch State Recreation Area
- P South Fork State Recreation Area
- Q Spring Mountain Ranch State Park
- R Spring Valley State Park
- S Valley of Fire State Park
- T Ward Charcoal Ovens State Historic Park
- U Washoe Lake State Park
- V Wild Horse State Recreation Area

Source: Division of State Parks.

Note: Green—Northern Region, Red—Southern Region.



**Staffing and Budget**

The Division's main office is located in Carson City with regional offices in Las Vegas and Fallon. Regional managers oversee operations of the parks in each region. In fiscal year 2012 about 60% of the Division's 229 employees were seasonal. Of the 93 permanent positions, 29 were commissioned Nevada peace officers. There were 36 vacant positions as of June 2012.

The Division has eight budget accounts with total expenditures of \$12.5 million in fiscal year 2012. The State Parks operating account is the primary budget account for Park operations. Exhibit 2 shows the Division's revenues and expenditures for the operating account in fiscal year 2012.

**State Parks Operating Account  
Revenues and Expenditures  
Fiscal Year 2012**

**Exhibit 2**

<b>Revenues</b>	<b>Amount</b>	<b>Percent of Total</b>
Park User Fees	\$3,794,085	40.2%
Appropriations	3,000,642	31.8%
Carry Forward From Prior Year	1,565,270	16.6%
Marina Development Gas Taxes	1,394,041	14.8%
Transfer From Commission on Tourism	509,131	5.4%
Bond Proceeds	277,629	3.0%
Federal Funds	264,540	2.8%
Transfers	191,217	2.0%
Miscellaneous Revenue	136,563	1.5%
Carry Forward to Subsequent Year	(1,705,103)	-18.1%
<b>Total Revenues</b>	<b>\$9,428,015</b>	<b>100.0%</b>
<b>Expenditures</b>		
Personnel	\$7,736,426	82.0%
Operating	749,658	7.9%
Utilities	426,959	4.5%
Maintenance of Buildings & Grounds	169,594	1.8%
Miscellaneous Expenses	89,670	1.0%
Intrafund Transfer	89,629	1.0%
Information Services	51,090	0.5%
Uniforms	36,771	0.4%
Travel	27,379	0.3%
Brochures	20,501	0.2%
Training	16,125	0.2%
Dangberg Ranch Park Support	9,231	0.1%
State Trails	4,982	0.1%
<b>Total Expenditures</b>	<b>\$9,428,015</b>	<b>100.0%</b>

Source: State accounting system.

**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 the period from July 1, 2011, through November 30, 2012. In some instances our audit period included earlier dates back to 2007.

Our audit objectives were to:

- Determine if retail outlets at state parks had sufficient controls and processes in place to ensure efficient and effective operations.
- Evaluate the Division's financial and administrative controls over concession contracts.
- Determine if the Division had adequate inventory controls over firearms to ensure compliance with applicable state laws, regulations, and policies and procedures.

## Stronger Controls Over Retail Operations Are Needed

Stronger controls are needed over the Division's retail outlets to help ensure successful operations. For example, problems with the point-of-sale (POS) system hindered the Division's ability to monitor sales at retail outlets. In addition, the POS system did not maintain records needed to track merchandise inventory. The Division can take steps to ensure the POS system provides accurate management information for proper monitoring of the retail operations. Furthermore, better oversight of the cashier function will reduce the Division's risk that theft could occur and go undetected.

With passage of Senate Bill 442 during the 2011 Legislative Session, the Division took over the retail operations at five state parks previously run by a non-profit group. For fiscal years 2012 and 2013, the Division budgeted to replace \$47,150 per year of general funds with net profits from retail sales and vending. Testimony given during the Session indicated the new enterprise fund for retail and vending operations would be self-sustaining.

Submissions to the Legislature projected the outlets would achieve gross sales of \$487,000 in the first year, and vending would generate \$142,000 in gross sales. However, fiscal year 2012 outlet sales and vending proceeds combined were \$228,000. In addition, the Division's plans to operate vending machines in state parks were abandoned due, in part, to problems with faulty equipment. Exhibit 3 compares fiscal year 2012 retail and vending sales to projected sales for the five retail outlets.

**Comparison of Actual to Projected Sales  
Fiscal Year 2012**

**Exhibit 3**

<b>Location</b>	<b>Actual Sales</b>	<b>Projected Sales</b>	<b>Difference</b>
Valley of Fire State Park	\$202,128	\$382,000	\$(179,872)
Lake Tahoe Nevada State Park at Sand Harbor	14,509	41,000	(26,491)
Spring Mountain Ranch State Park	7,752	42,921	(35,169)
Cathedral Gorge State Park	2,789	14,500	(11,711)
Old Las Vegas Mormon Fort State Historic Park	885	6,400	(5,515)
<b>Total</b>	<b>\$228,063</b>	<b>\$486,821</b>	<b>\$(258,758)</b>

Source: State accounting records and submissions to the 76<sup>th</sup> (2011) Legislative Session.

Note: Actual sales included vending revenue of \$4,252.

The retail outlets opened at various times during fiscal year 2012. The opening dates ranged from October 2011 for the outlet at Valley of Fire State Park (Valley of Fire) to April 2012 for the outlet at Lake Tahoe Nevada State Park (Sand Harbor). Exhibit 4 shows the average sales per day for the retail outlets during fiscal year 2012.

**Average Sales Per Day  
Fiscal Year 2012**

**Exhibit 4**

<b>Location</b>	<b>Days Outlets Were Open</b>	<b>Average Sales Per Day</b>
Valley of Fire State Park	246	\$ 822
Lake Tahoe Nevada State Park at Sand Harbor	71	204
Spring Mountain Ranch State Park	141	55
Cathedral Gorge State Park	92	30
Old Las Vegas Mormon Fort State Historic Park	75	12
<b>Total</b>		<b>\$1,123</b>

Source: State accounting and Division records.

**Problems With  
Point-of-Sale  
System Led to  
Inaccurate Sales  
Reports**

Problems with the POS system hindered the Division's ability to monitor sales at retail outlets in state parks. Specifically, sales reports we examined for the two largest outlets for the quarter ended September 30, 2012, contained significant errors. In addition, most of the sales reports for fiscal year 2012 were not submitted to management timely. As a result, management did not receive accurate or timely sales information important for evaluating results of operations and making operating decisions.

The quarterly sales report compares sales to cash receipts that were deposited in the bank. The difference between sales and total deposits for the quarter is reported as a cash variance, either over or short. The report requires an explanation for the cash variance (e.g., change errors or theft loss) along with the preparer's signature and the date. Staff obtains sales for the quarter from a POS system report that lists the quantity and dollar amount of each inventory item that was sold. Examples of errors we noted in the quarterly sales reports follow.

- The report for the Valley of Fire outlet incorrectly showed total deposits were short by over \$3,000 for the quarter ended September 30, 2012. Staff indicated the sales listed on the POS report were overstated but could not identify the nature of the errors. We worked with staff to obtain more accurate information from the POS system. By changing some report parameters in the system, the difference between sales and total deposits was reduced to \$89 for the quarter.
- The report for the Sand Harbor outlet incorrectly showed total deposits were short by over \$1,200 for the quarter ended September 30, 2012. Staff's attempts to obtain an accurate sales report from the POS system were not successful. However, according to the Division's accounting records, which are based upon daily POS system cash register reports, there were no cash variances in the quarter.

The Division indicated the problems with unreliable sales data in the POS system began after the software was upgraded in 2012. When the Division acquired the system from the non-profit entity that previously operated the retail outlets, management decided to upgrade the software. The Division indicated it has not been successful in its efforts to have the software vendor correct these problems.

In addition to inaccurate reports, 7 of 10 (70%) quarterly reports for fiscal year 2012 were submitted untimely to the Division. Also, the Division did not receive the report for the Valley of Fire outlet for the quarter ended June 30, 2012. Written procedures for the retail outlets specify the retail storekeeper will submit quarterly sales and inventory reports to the Division.

Further, the Division established a sales outlet oversight committee, comprised of management and fiscal staff, with responsibilities that include reviewing the quarterly reports. As of November 2012, the committee had not reviewed the quarterly reports. Fiscal personnel explained other workload, such as deadlines for preparation of the next biennium’s budget, had priority.

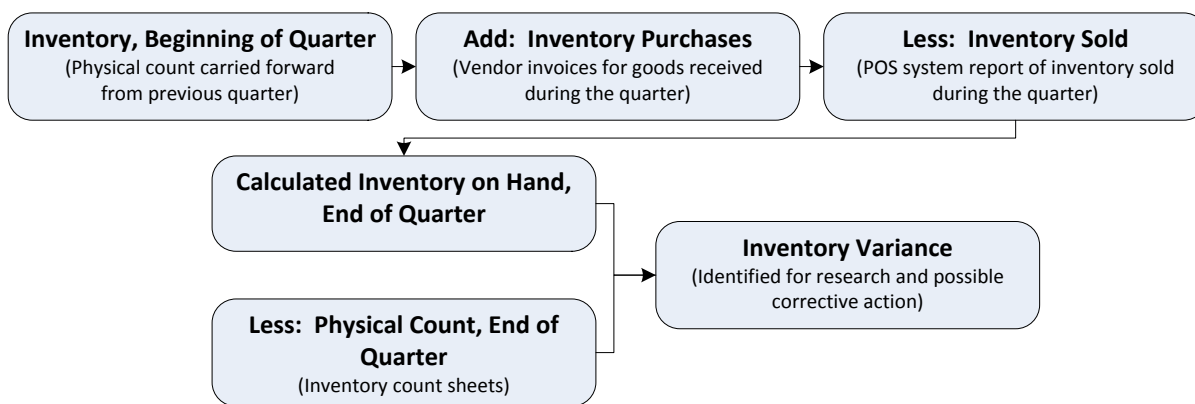
### Merchandise Inventory System Lacks Key Controls

The Division did not have adequate controls in place to properly monitor merchandise inventory at retail outlets. Significant problems with the quarterly inventory reports used by management were noted. In particular, the POS system did not maintain accurate inventory records that the Division needed to prepare the quarterly inventory reports. As a result, management could not determine inventory losses.

The quarterly inventory report is a spreadsheet designed, in part, to identify variances between the physical inventory counts and the Division’s calculations of what should be on hand. Exhibit 5 shows the components of the quarterly inventory report as well as the various sources of information for the report.

#### Division of State Parks Quarterly Inventory Report Process

Exhibit 5



Source: Division Operations Manual.

Fiscal personnel indicated the Division has not received an accurate inventory report since the outlets opened. This stems from using incorrect data from the POS system to calculate the

end-of-quarter inventory on hand. Staff explained the POS report that lists the quantity and dollar amount sold for each inventory item had errors. These errors affected the inventory variance calculations. When inventory variance information is not correct, management cannot determine the amount of inventory lost to damage, theft, or other irregularities.

Another consequence of the errors in inventory data is the Division is unable to determine the cost of goods sold and the gross profit of the retail operations. Without this information, the Division cannot evaluate whether the retail operations achieved the minimum net profit level of 10% that management established.

According to staff, the Division lost the ability to keep accurate inventory records in the POS system when it upgraded the software. The retail storekeeper who is responsible for the inventory reports of all outlets was previously employed by the non-profit entity that operated the retail outlets until 2011. The employee explained that before the software upgrade, the POS system had a functional inventory database that allowed data to be exported to inventory spreadsheets. However, after the Division upgraded the system, staff had to manually input data from inaccurate POS reports into the inventory spreadsheets. This manual input is time-consuming, prone to errors, and detracts from staff's primary responsibilities to oversee the retail operations.

Management stated the Division intends to replace the POS system. As of January 2013, management indicated the vendor selection process had begun but the time frame and estimated replacement costs were not yet known. Fiscal personnel explained the Division has funds available to pay for a new system. When the Division terminated its agreement with the non-profit entity that operated the retail outlets, it took possession of cash and inventory. As of June 30, 2012, the Division carried forward to fiscal year 2013 nearly \$271,000 of unspent cash reserves that had been designated for retail outlet start-up costs.

### **Physical Inventory Procedures Not Always Followed**

The two physical counts we tested of merchandise inventory at the Sand Harbor outlet were conducted unsupervised by a seasonal employee. Specifically, the physical count on September 30, 2012, and the end of the season count on October 15, 2012, were both performed by one employee with help from an unpaid family member. These counts were not conducted by the designated two-person count team. As a result, there was increased risk that the accuracy and integrity of the count was adversely affected.

The Division's physical inventory procedures specify a minimum of two staff conduct the quarterly physical inventory counts. The written procedures further specify the two employees that count inventory are the clerk and either the retail storekeeper, the park supervisor, or a designee. Best business practices over inventory counts include using two-member count teams and providing supervision over the count. Supervision generally includes selecting the count team members and assigning count team responsibilities.

### **Oversight of Cashier Function Not Adequate**

The Division did not have sufficient oversight of the cashier function to help prevent potential fraud. Areas with weak oversight included cash variances and certain non-revenue transactions conducted at the cash registers. Best business practices in fraud prevention include monitoring cash variances, looking for patterns, and investigating large or unusual discrepancies.

The Division's review of the retail outlets' daily deposit reports focused on cash receipts but disregarded cash variances. Staff at the retail outlets have daily closing procedures to verify cash receipts (i.e., cash, checks, credit cards) agree to total sales in the POS system. When these amounts do not agree, the difference is noted as cash overages or shortages. Then, seasonal outlet employees used this information to complete the daily deposit report and forward it to the Division. The Division used the daily deposit report to account for sales at retail outlets but not for tracking cash variances. We also noted employees at retail outlets tracked cash overages or shortages with spreadsheets but



this was not forwarded to the Division. After we discussed this with the Division, fiscal personnel began tracking cash overages or shortages for each of the five retail outlets, effective July 1, 2012.

Minutes from the sales outlet oversight committee meeting of March 2012 discussed the need for outlet employees to have written procedures over cash variances. The committee also noted this should be addressed in outlet employees' work performance standards. However, neither the employees' written procedures nor work performance standards cover this or specify the consequences for cash variances.

No significant cash variances were found for the two largest outlets for the quarter ended September 30, 2012. However, daily amounts can fluctuate and should be monitored for potential red flags. For example, further investigation of a cash overage of \$49 we noted in November 2012 at the Valley of Fire outlet revealed 23 of 156 transactions (15%) were "no sales". For these transactions, an employee opened the cash drawer without conducting a sale. After we questioned this unusual pattern of "no sale" transactions, the employee provided a written explanation and admitted, when the store was busy, to receiving cash from customers for merchandise without ringing up sales in the cash register. There was no indication that funds were stolen from the cash drawer, but theft of this nature could have gone undetected. The Division informed us the employee was verbally reprimanded and warned that future incidents would result in additional disciplinary action.

We followed up by reviewing all transactions for the 5 busiest days in the quarter ended September 30, 2012, for the 2 largest outlets. We found employees used the "no sale" key at various times throughout the day to open the cash drawer when not making a sale. Exhibit 6 shows sales information and the average frequency of "no sale" transactions for the days we tested.

**Sales Information and “No Sale” Transactions  
For the Five Highest Volume Days  
Quarter Ended September 30, 2012**

**Exhibit 6**

<b>Location</b>	<b>Average Daily Sales</b>	<b>Average Transactions Per Day</b>	<b>% Cash Sales</b>	<b>% Credit Card Sales</b>	<b>Average “No Sales” Per Day</b>	<b>% “No Sales”</b>
Valley of Fire State Park	\$1,393	187	62%	38%	17	9%
Sand Harbor	\$1,052	63	45%	55%	4	6%

Source: Auditor prepared from Division end-of-day reports.

In addition to employees’ frequent unexplained access to the cash drawer, other weaknesses in the control environment over the retail outlets were noted. For example, the outlets did not have signage to inform customers they should request a sales receipt if they do not receive one. In January 2013, the Division installed such signage at the sales counter at Valley of Fire. Management indicated additional signs were forthcoming for the other outlets. We also noted, due to the business needs of the smaller retail outlet, Sand Harbor was staffed by one employee who worked unsupervised.

**Procedures Needed Over Non-Revenue Transactions**

The operating procedures for the retail outlets specify the cash drawer must remain closed at all times except when conducting a sales transaction. However, as noted above, outlet employees frequently used the “no sale” function to open the cash drawer. Furthermore, the Division does not have audit procedures for verifying whether outlet employees use the “no sale” function to access the cash drawer. Consequently, there is increased risk of theft of cash receipts by unauthorized access to the cash drawer when sales are not being conducted.

Further, operating procedures for the retail outlets do not address how outlet employees should document sales voids and refunds. In addition, fiscal personnel do not verify the propriety of void and refund transactions outlet employees conduct. Falsified voids and refunds are common ways that dishonest employees attempt to defraud. The Division can strengthen controls in this area by implementing reviews of non-revenue transactions (e.g., voids, and refunds) and investigating irregularities.

## **Recommendations**

1. Take steps to ensure the POS system provides complete and accurate sales and inventory information for proper oversight of retail operations at state parks.
2. Follow procedures for timely submission of quarterly sales and inventory reports to the Division.
3. Follow procedures for review of quarterly sales and inventory reports by an oversight committee.
4. Follow procedures for taking physical inventory at retail outlets by using two-person count teams.
5. Provide for supervision of the physical inventory count at retail outlets.
6. Monitor cash overages or shortages for retail outlets with appropriate follow-up when variances reach specified thresholds or show unusual patterns or trends.
7. Establish procedures for handling cash variances at retail outlets. Revise work performance standards to address cash handling errors by employees.
8. Establish procedures for outlet employees to follow when conducting non-revenue transactions such as voids and refunds.
9. Review non-revenue transactions conducted at retail outlets and investigate irregularities.

# Monitoring of Concession Contracts Can Be Improved

While the Division has improved its monitoring of concession contracts, additional steps could be taken to ensure revenues from concessionaires are accurate and timely. For example, the Division did not properly adjust concession fees for annual Consumer Price Index (CPI) increases required by two contracts. In addition, the Division did not perform periodic audits of revenues reported by these entities that pay fees based upon a percentage of revenues.

The Division contracts with private entities to operate concessions within the state parks. During the audit the Division had contracts with five concessionaires. Two of the contracts provided for an inflation adjustment to the annual fees. The other three contracts provided for monthly concession fees calculated as a percentage of gross revenues.

The Division's monitoring of concession contracts has improved, as the prior audit in 2003 noted problems with inadequate concession contract management. The most significant problem noted in the prior audit concerned uncollected fees totaling \$105,000 for the maintenance of the performing arts stage at the Sand Harbor unit of Lake Tahoe Nevada State Park. The earlier 1995 audit also cited problems with the adequacy of the Division's management of these contracts.

## **Concession Fees Not Properly Adjusted for CPI Increases**

For both entities with CPI increases, the Division did not properly adjust concession fees according to the terms of the concession agreements. By developing written procedures over this area, the Division can help ensure inflationary increases to concession fees are calculated properly and billed timely.

In the first instance, the Division lost nearly \$7,700 in unbilled concession fees that the Lake Tahoe Shakespeare Festival at

Sand Harbor should have paid over 3 years, from 2008 through 2010. Although the concession contract was amended in 2007 to provide for an annual inflation increase, the Division continued to bill the entity at the same rate for the next 3 years. Staff discovered the omission in 2011 and, thereafter, provided the entity with timely notice of the annual fee increase. Because the agreement requires advance notice of fee increases, the Division was unable to bill for retroactive amounts.

In the second instance, the Division did not adjust performance fees for a cultural arts concession at Spring Mountain Ranch State Park for CPI increases over 4 years, from 2007 through 2010. During our audit, staff discovered this and was able to collect \$2,725 in retroactive fee increases. However, the entity was overcharged about \$1,800 because staff did not follow the method specified in the contract for calculating the annual inflation adjustment. This entity's contractual provision for annual inflationary increases has since been discontinued by contract amendment. Instead of a fee per performance, beginning in 2011 the fee changed to a flat rate of \$12,750 per year.

### **Periodic Audits of Concessionaires' Revenue Reports Needed**

The Division did not perform periodic audits of revenues reported by the three concessionaires that pay fees based upon a percentage of revenues. The concession agreements for these entities give the Division authority to audit their books and records pertaining to concession operations. Reviews of this nature help ensure the accuracy of the entities' reported revenues. During our audit, staff requested supporting documentation from the entities to verify the accuracy of revenues they had reported. As a result, under-reported revenues of nearly \$17,000 were detected for two concessionaires. Consequently, the Division collected an additional \$850 in concession fees.

Although the Division has taken steps to audit concessionaires' revenues, more can be done. For example, staff accepted insufficient documentation from one of the entities for verifying the accuracy of revenues reported. Examples of areas in which fiscal staff need guidance include: 1) the types of documentation that entities should provide for audits, and 2) the frequency of those

audits. Written procedures in this area will help ensure the Division's audit efforts are efficient and effective.

### **Recommendations**

10. Develop procedures to ensure adjustments to concession fees for inflation are properly calculated and billed timely.
11. Refund the overpaid concession fees.
12. Develop written procedures for performing periodic audits of revenues reported by concessionaires that pay fees based upon a percentage of revenues.

## Controls Over Firearms Need Strengthening

The Division needs to strengthen inventory controls over surplus firearms to ensure compliance with state requirements. For example, the Division conducted unauthorized sales of surplus firearms to state employees. Furthermore, controls were circumvented when the Division failed to ship surplus firearms removed from state accounting records that were designated for trade-in. The guns were found improperly secured at the Division 3 years after they were presumed traded-in.

### **Some Firearms Were Sold to State Employees**

Controls over surplus firearms were not adequate to prevent unauthorized sales to state employees. We found surplus firearms, designated for trade-in to a firearms manufacturer, were offered for sale to state employees without involving the Purchasing Division. The following summarizes the sequence of events.

- In June 2009, the Division received approval from the Purchasing Division to trade in 61 used firearms (pistols, revolvers, and shotguns) for 37 new replacement pistols from a firearms manufacturer.
- The Purchasing Division was not informed that instead of a trade-in, the Division sold 22 of the 61 used firearms, valued at \$4,500, to 13 employees in an arrangement the Division termed an employee buy-back program. This involved the Division receiving payment from the employees in the form of checks or money orders payable to the firearms manufacturer. Then, law enforcement staff would remit the employees' payments to the firearms manufacturer in lieu of trading in the used firearms.
- The employees that bought firearms began giving checks to law enforcement staff in August 2009.



- In August 2012, we informed management the employee checks were still in staff's possession, and not submitted to the firearms manufacturer. In some cases, employees had been asked to issue replacement checks when their original checks became stale-dated. However, for several stale-dated checks which totaled \$1,700, we learned staff used personal funds to pay for replacement checks.
- In October 2012, the Division submitted the employee payments to the firearms manufacturer for deposit. Management explained the checks were held for three years because staff's attempts to resolve the matter with the vendor were not persistent.

State requirements prohibit agencies from selling surplus property to state employees. Specifically, NRS 334.040 as well as the State Administrative Manual specify the Purchasing Division will conduct transfers and sales of surplus property. In addition, agencies must have Purchasing's authorization to trade excess weapons for new replacements. The Division's internal control procedures mirror the state requirements in this area. The Division needs to take steps to ensure compliance with requirements over the purchase and disposal of firearms.

### **Firearms Removed From Inventory Were Not Properly Disposed Of**

The Division also failed to trade in the remaining 39 surplus firearms. Effective November 2009, the Purchasing Division removed, at the Division's request, all 61 surplus guns from the state inventory records. Documentation submitted to Purchasing indicated the firearms would be shipped to the firearms manufacturer to complete the trade-in for new pistols. Management indicated this matter did not come to the Division's attention because the firearms manufacturer made no effort to collect payment by way of the agreed-upon trade-in.

In August 2012, we found, instead of shipping the 39 surplus firearms in 2009, staff improperly stored them in cardboard boxes in an office. We reported this circumvention of controls over the 39 surplus firearms to management and verified none were missing. After this, the Division made an arrangement with the firearms manufacturer to complete the trade-in. In December 2012 the 39 remaining surplus firearms were shipped to an approved weapons dealer.

Before they were shipped, the 39 surplus firearms that remained were not secured in the Division's gun safe at the Carson City office. The Division's internal control procedures require weapons not assigned to an individual be safeguarded in locked equipment. Failure to properly secure firearms increases the risk to public safety.

The Division conducts an annual physical count of all property and equipment and reconciles it to the state inventory records, in accordance with state requirements. In November 2011, law enforcement staff conducted, without a second person's involvement, the annual count of weapons located at the Division. The staff-prepared inventory report did not disclose the 39 surplus firearms in staff's custody.

#### **RECOMMENDATIONS**

13. Take steps to ensure compliance with state requirements over the purchase and disposal of firearms inventory.
14. Develop procedures to ensure at least two people participate in the annual physical inventory count and reconciliation of firearms.

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# Appendix A

## Audit Methodology

To gain an understanding of the Division of State Parks, we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to Division activities. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the Division. Furthermore, we documented and assessed the adequacy of the Division's internal controls over the collection of user fees, concession revenues, accounts receivable, retail outlets, and firearms inventory.

To determine if retail outlets had sufficient controls and processes, we tested the accuracy of sales data in the point-of-sale system using a judgmentally selected sample of five cash register receipts for the two largest retail outlets. We also examined the quarterly reports for the most recent quarter for the two largest retail outlets to determine the accuracy of the cash overages or shortages reported to the Division. To determine the adequacy of controls over sales voids and returns, we selected the 2 largest outlets and examined all transactions recorded for the 5 days with the highest sales volume for the most recent quarter.

To determine the adequacy of controls over physical inventory, we obtained the most recent inventory count sheets for the two largest outlets. To test for completeness, we observed a judgmental sample of 15 items and traced them to count sheets. To test for accuracy, we verified the existence of inventory for a judgmental sample of 20 items listed on the count sheets. Judgment was based on testing items with higher dollar value and making selections from a variety of categories.

To evaluate the controls over concession contracts, we recalculated the annual inflationary fee increases for the two contracts with CPI clauses for 6 years and 4 years, respectively.

We also verified the Division collected the amount it billed. To evaluate the Division's audit procedures over concessionaires that pay fees based upon percentages of revenues, we reviewed documentation in concession files.

Some members of the Audit Division staff participated in an employee purchase program of surplus firearms offered by the Division of State Parks. The staff members noticed their checks were not cashed, and replacement checks they provided were also not cashed. The Legislative Auditor was made aware of this situation and included the matter in the scope of the audit. To determine the adequacy of inventory controls over firearms, we reviewed statutes and regulations regarding the transfer of surplus property. In addition, we interviewed Division management and staff, and met with the Purchasing Division. We also reviewed supporting documentation in agency files. Furthermore, we reconciled the payments staff collected from state employees to the listing of firearms sold to these employees. Finally, to determine all firearms were accounted for, we observed the firearms inventory at the Division and traced items to the property disposition report of firearms that were removed from state inventory.

Our audit work was conducted from May 2012 to February 2013. 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 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 Parks. On April 24, 2013, 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 B which begins on page 24.

Contributors to this report included:

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Deputy Legislative Auditor

S. Douglas Peterson, CISA  
IS Audit Supervisor

Yerania Martell-DeLuca, MBA  
Deputy Legislative Auditor

# Appendix B

## Response From the Division of State Parks

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Director

Department of Conservation and  
Natural Resources

DAVID K. MORROW  
Administrator

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BRIAN SANDOVAL  
Governor

STATE OF NEVADA



DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES  
DIVISION OF STATE PARKS

May 3, 2013

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Paul V. Townsend, CPA  
Legislative Auditor  
Legislative Counsel Bureau  
401 South Carson St.  
Carson City, NV 89701-4747

Dear Mr. Townsend:

RE: Response to Division of State Parks Audit Findings

The Division of State Parks has reviewed the recent Legislative Counsel Bureau Audit Report and accepts all fourteen audit recommendations (Attachment 1). We appreciate the thoroughness of the audit and can report that many of the corrective actions have already been implemented and we will make certain the remaining actions are implemented as soon as possible.

While the recommendations are fully accepted, the following is a required explanation to the audit report:

**Page 6 - Stronger Controls Over Retail Operations Are Needed**

During the 2011 Legislative Session Senate Bill 442 was passed which allowed the Division of State Parks to take over the operation of five state park sales outlets previously run by a non-profit group. The division had a number of concerns about the manner in which the sales outlets were being operated, most importantly the unwillingness of the non-profit group to provide information about their sales, inventory and assets. In addition, it was felt that the stores could generate more revenue and with a great deal more transparency. The division began reopening the stores in October 2011. The division reopened the sales outlets with cash, inventory and a Point of Sale (POS) system turned over to the division by the non-profit. Unfortunately, the POS system was inadequate and failed to accurately track inventory and sales. A great deal of time and energy was spent trying to reconcile sales and inventory by hand and in most cases it was not possible due to the limitations of the system. After several attempts to identify the problem and get it resolved, the division was forced to abandon the existing POS system and cancel the maintenance contract. Another software program was purchased, the division felt would provide the information found missing in the recent Legislative Counsel Bureau audit. The new POS system was acquired and installed at Old Las Vegas Mormon Fort and Spring Mountain Ranch and Lake Tahoe. The same POS system will be installed at Cathedral Gorge and Valley of Fire within the next few weeks. The new

POS system has been an enormous improvement. It is capable of managing the sales outlet inventory and tracking purchases, sales and cost of goods sold with less time and fewer mistakes. The new POS system was purchased from sales outlet proceeds and not from other division funds. Despite the problems that were encountered and identified in the audit, the Division of State Parks now has access to critical information that was simply unavailable from the nonprofit or with their POS system transferred to the division.

**Page 6 and 7 - Comparison of Actual to Projected Sales**

Revenue projections submitted to the Legislature estimated the outlets would achieve gross outlet sales of \$487,000 and vending machine sales of \$142,000 in the first year. The difference in anticipated revenue vs. the actual revenue generated from the sales outlets and the vending machines is attributed to: 1) an effort to sell existing and in some cases, outdated inventory before stocking the sales outlets with new inventory; 2) difficulty in getting accurate sales records from the non-profit that previously operated the stores; 3) a significant learning curve in determining what sale items were best aligned with each of the five different sales outlets and the time to determine how many employees the sales outlets needed and could support. There have been a number of adjustments made, including the elimination of paid sales outlet staff at all but Valley of Fire and Lake Tahoe state parks and relying on park and volunteer staff. We also determined the use of vending machines; especially the ones transferred to the division from the non-profit were not the most cost effective way to provide water, pop and snacks. Rather than using vending machines, the same items were sold from the sales outlets which improved sales and eliminated problems with vending machine malfunctions. Sales outlet staff also realized that having those items in the sales area improved the sale of other items as well.

**Page 7 – Problems With Point-of-Sale System Led to Inaccurate Sales Reports**

Due to problems with the POS system, sales outlet staff could not reconcile the POS system reports with the actual inventory. Despite a great deal of time and energy expended trying to adjust the reports, they were often late and there were many inaccuracies. Several attempts were made to resolve the problems through the software provider, but without success. The oversight committee and division administration were made aware of the problem and were notified by sales outlet staff that quarterly reports were going to be late and there were unresolved errors. The problem went on longer than they should have because staff was not completely familiar with the capabilities of the software and attributed the problems to their lack of knowledge rather than problems with the software.

**Page 9 and 10 - Merchandise Inventory System Lacks Key Controls**

As previously stated, due to problems with the POS system, it was not possible to get accurate inventory reports. Division accounting staff and sales outlet staff kept trying to get the POS system to provide the required reports. Several attempts were made to physically count the inventory and then to try and adjust the POS system to reflect the actual inventory counts. Due to the amount of time it took to manually track the inventory and to try and figure out why the POS system was not working, it created significant delays in providing the required quarterly reports.



Although the software vendor provided an inventory component upgrade to the existing system, the problems persisted due to inherent failings in the software and lack of customer support. As stated above, the contract has been cancelled as a result.

**Page 11 – Physical Inventory Procedures Not Always Followed**

On September 30, 2012 and at the end of the season count on October 15, 2012, the division's physical inventory procedures, which specify that at least two people conduct the physical inventory count, were not followed at the Sand Harbor sales outlet. The seasonal sales outlet employee carried out both inventories without having another person help as required in the sales inventory policy. Neither the seasonal employee nor the retail storekeeper understood the need to have at least two people present during an inventory. There is no evidence of wrongdoing, but it was clearly was a breach of inventory procedures.

The need to have at least two employees participate in the quarterly inventory has been reemphasized and will be part of all quarterly inventories in the future.

**Page 11-13 – Oversight of the Cashier Function Not Adequate**

The audit identified the need to implement better oversight of the cashier function at all of the sales outlets. Based on the audit recommendation, the division has made changes to sale procedures, including closer supervision by the retail storekeeper, park staff and division accounting staff. The sales outlets manual is being rewritten to identify when and how to address "no sales" and sales outlet cash handling.

**Page 15 and 16- Concession Fees not Properly Adjusted for CPI Increases**

The CPI adjustments included in two of the concession contracts were very complicated to calculate. The auditors explained the correct method of calculating the CPI adjustment. These concession contracts have been amended to remove the CPI language and add a set amount to be paid each year.

The policy for concession contract management will be revised to include language that requires contracts with CPI adjustments to have the CPI calculated accurately and timely. The overcharged concessionaire, due to inaccurate CPI calculations, has been reimbursed \$1,748.65.

**Page 16- Periodic Audits of Concessionaire Revenue Reports Needed**

Written procedures will be developed for performing annual audits of revenue reported by concessionaires that pay fees based upon a percentage of revenue.

**Page 18-20 – Controls Over Firearms Need Strengthening**

The audit identified a need for better control over the security and disposal of firearms no longer in service. The division maintains procedures for securing un-issued firearms at the region offices. State Park Policy #72-4 is being amended to include the same security procedures for un-issued firearms located at the division office.

**Page 18- 20 – Some Firearms were Sold to State Employees**

The sale of used, agency issue firearms to law enforcement agency officers is a common practice, however; these sales generally take place through a third party. Contrary to direction by the administrator, the sales were conducted by the agency without the

consent of State Purchasing. Guidelines currently exist for the proper disposal of surplus equipment; these guidelines were not followed and resulted in appropriate disciplinary action.

**Page 18- 20 – Firearms Removed from Inventory were Not Properly Disposed**

Firearms scheduled for trade-in and not sold to employees were not shipped to the manufacturer. It is not disputed that a failure on the part of the responsible employee to follow-through on returning firearms was a factor in the delayed return of the firearms. An additional factor was the manufacturer's inability to provide a ship-to address for the firearms. Once the agency was made aware of the unreturned firearms, it required approximately 10 weeks of persistent verbal and electronic requests to obtain the return address to ship the firearms. Once obtained, the firearms were shipped immediately.

Sincerely,



David K. Morrow  
Administrator

je/DM  
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cc: Leo Drozdoff, Director, Department of Conservation and Natural Resources

## Division of State Parks' Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Take steps to ensure the POS system provides complete and accurate sales and inventory information for proper oversight of retail operations at state parks. ....	<u>    X    </u>	<u>          </u>
2. Follow procedures for timely submission of quarterly sales and inventory reports to the Division.....	<u>    X    </u>	<u>          </u>
3. Follow procedures for review of quarterly sales and inventory reports by an oversight committee.....	<u>    X    </u>	<u>          </u>
4. Follow procedures for taking physical inventory at retail outlets by using two-person count teams.....	<u>    X    </u>	<u>          </u>
5. Provide for supervision of the physical inventory count at retail outlets.....	<u>    X    </u>	<u>          </u>
6. Monitor cash overages or shortages for retail outlets with appropriate follow-up when variances reach specified thresholds or show unusual patterns or trends .....	<u>    X    </u>	<u>          </u>
7. Establish procedures for handling cash variances at retail outlets. Revise work performance standards to address cash handling errors by employees .....	<u>    X    </u>	<u>          </u>
8. Establish procedures for outlet employees to follow when conducting non-revenue transactions such as voids and refunds. ....	<u>    X    </u>	<u>          </u>
9. Review non-revenue transactions conducted at retail outlets and investigate irregularities.....	<u>    X    </u>	<u>          </u>
10. Develop procedures to ensure adjustments to concession fees for inflation are properly calculated and billed timely. ....	<u>    X    </u>	<u>          </u>
11. Refund the overpaid concession fees.....	<u>    X    </u>	<u>          </u>
12. Develop written procedures for performing periodic audits of revenues reported by concessionaires that pay fees based upon a percentage of revenues.....	<u>    X    </u>	<u>          </u>
13. Take steps to ensure compliance with state requirements over the purchase and disposal of firearms inventory.....	<u>    X    </u>	<u>          </u>
14. Develop procedures to ensure at least two people participate in the annual physical inventory count and reconciliation of firearms.....	<u>    X    </u>	<u>          </u>
<b>TOTALS</b>	<u>    14    </u>	<u>    0    </u>