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Legislative Commission
Legislative Building
Carson City, Nevada

We have completed an audit of the Director's Office of the Department of Conservation and Natural Resources. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including the finding, conclusion, recommendation, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Director's Office for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA
Legislative Auditor

January 17, 2006
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
DIRECTOR'S OFFICE

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES DIRECTOR'S OFFICE

Background

The Director's Office provides the full scope of administrative, technical, budgetary, and supervisory support to the various divisions, boards, and commissions within the Department. The Director establishes departmental missions, goals, objectives, and priorities. Director's Office expenditures for fiscal year 2005 were approximately \$1.1 million. The Office also processed expenditure transactions totaling \$90,000 for the Heil Wild Horse Bequest and \$100,000 for the Mining Co-Operative Fund.

During the 2001 Special Session of the Legislature, a proposal to issue up to \$200 million of General Obligation bonds was passed and subsequently approved by the voters to protect, preserve, and obtain the benefits of the property and natural resources of the state. This act requires the Director of the Department of Conservation and Natural Resources to administer the funds generated from the proceeds of the bonds. Bond account expenditures for fiscal year 2005 were approximately \$22.4 million.

Purpose

The purpose of the audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures. The audit included a review of the Office's financial and administrative activities, including the Heil Wild Horse Bequest and Mining Co-Operative Fund expenditures for the fiscal year ended June 30, 2005.

EXECUTIVE SUMMARY

DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES DIRECTOR'S OFFICE

Results in Brief

The Director's Office of the Department of Conservation and Natural Resources substantially complied with laws, regulations, and policies significant to its financial and administrative activities. However, the Office can improve its administration of certain bond expenditures. We noted some bond project expenditures were incurred prior to the Director's Office approval of the project budgets. Reimbursing expenditures that were incurred prior to a project's approval reduces the Office's ability to properly administer the Natural Resources Bond Fund.

Principal Finding

- Although the majority of the \$3 million in natural resources bond expenditures we examined were in compliance with state law, policies, and procedures, two reimbursements totaling about \$79,500 were for expenditures incurred prior to an approved Work Plan. Policies and procedures require the Director's approval of the Work Plan to ensure proper budget authority exists. (page 7)
-
-

Recommendation

This report contains one recommendation to improve the controls over bond expenditures. Specifically, the Director's Office should ensure Work Plans are approved prior to execution of Funding Agreements. (page 15)

EXECUTIVE SUMMARY

**DEPARTMENT OF CONSERVATION AND NATURAL RESOURCES
DIRECTOR'S OFFICE**

Agency Response

The Agency, in its response to our report, accepted the one recommendation. (page 14)

Introduction

Background

Chapter 364, Statutes of Nevada, 1957 created the Department of Conservation and Natural Resources. The Director's Office provides the full scope of administrative, technical, budgetary, and supervisory support to the various divisions, boards, and commissions within the Department. The Office directs state policy on natural resource issues to fulfill the departmental mission. The Director establishes departmental missions, goals, objectives, and priorities.

Director's Office expenditures for fiscal year 2005 were approximately \$1.1 million, of which about \$900,000 was funded with General Fund appropriations and the remainder primarily from agency transfers. In addition, Director's Office staff processed expenditure transactions for the Heil Wild Horse Bequest (Commission on the Preservation of Wild Horses) and Mining Co-Operative Fund. Fiscal year 2005 Heil Wild Horse Bequest expenditures were approximately \$90,000, and Mining Co-Operative Fund expenditures totaled \$100,000. As of June 30, 2005, the Director's Office had 13 full-time equivalent positions authorized, of which 11 were filled. The Director's Office is located in Carson City.

During the 2001 Special Session of the Legislature, a proposal to issue up to \$200 million of General Obligation bonds was passed and subsequently approved by the voters to protect, preserve, and obtain the benefits of the property and natural resources of the State. This act requires the Director of the Department of Conservation and Natural Resources to administer the funds generated from the proceeds of the bonds.

The first bond sale occurred in September 2003. Bond account activity for fiscal years 2004 and 2005 is shown in Exhibit 1.

**Fund to Protect Natural Resources
Bond Revenue and Expenditures
Fiscal Years 2004 and 2005**

Revenue	2004	2005	Total
Bond Proceeds	\$95,600,276	\$11,083,337	\$106,683,613
Bond Interest	1,256,141	1,702,178	2,958,319
Miscellaneous	3,500	--	3,500
Total Revenue	\$96,859,917	\$12,785,515	\$109,645,432
Expenditures			
Wildlife	\$ 588,990	\$ 5,407,730	\$ 5,996,720
Las Vegas Springs Preserve	--	10,040,925	10,040,925
Clark County-Las Vegas Wash	--	2,065,884	2,065,884
Cultural Affairs	3,144,392	744,145	3,888,537
Washoe County	4,000,000	--	4,000,000
State Lands	--	1,097,754	1,097,754
State Parks	710,094	2,618,601	3,328,695
Operating and Administrative	413,747	466,262	880,009
Total Expenditures	\$ 8,857,223	\$22,441,301	\$ 31,298,524

Source: State Accounting Records.

Appendix B provides a detailed list of budgeted projects by County.

Scope and Objective

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

This audit included a review of the financial and administrative activities of the Director's Office of the Department of Conservation and Natural Resources, including expenditures charged to the Heil Wild Horse Bequest and the Mining Co-Operative Fund for the fiscal year ended June 30, 2005. The objective of the audit was to evaluate the Office's financial and administrative practices including whether

transactions were carried out in accordance with applicable state laws, regulations, policies, and procedures.

Finding and Recommendation

Approval Process for Bond Project Expenditures Can Be Improved

The Director’s Office of the Department of Conservation and Natural Resources substantially complied with laws, regulations, and policies significant to its financial and administrative activities. However, the Office can improve its administration of certain bond expenditures. We noted some bond project expenditures were incurred prior to the Director’s Office approval of the project budgets. Reimbursing expenditures that were incurred prior to a project’s approval reduces the Office’s ability to properly administer the Natural Resources Bond Fund.

Chapter 6, Statutes of Nevada 2001 Special Session (A.B.9) requires the Director of the Department of Conservation and Natural Resources to administer up to \$200 million in bonds that will be deposited in the Fund to Protect Natural Resources. This act also requires the Director to prescribe the method pursuant to which governmental entities, which administer the programs, may request money from the Fund. Exhibit 2 shows the amounts that can be distributed to each entity from the Fund.

Exhibit 2

Fund to Protect Natural Resources Amounts to Be Distributed by Entity

<u>Entity</u>	<u>Amount</u>
Wildlife	\$27,500,000
Las Vegas Springs Preserve	25,000,000
Clark County-Las Vegas Wash	10,000,000
Cultural Affairs	35,000,000
Washoe County	10,000,000
State Lands	65,500,000
State Parks	27,000,000
Total	\$200,000,000

Source: Chapter 6, Statutes of Nevada 2001 Special Session.

The Director’s Office policies and procedures require these governmental entities to complete and submit a “WORK PLAN/ORIGINAL APPLICATION” (Work Plan) to the Director’s Office for approval. A Work Plan identifies the project, budget, and project

beginning and completion dates. The Office's policies and procedures also state no expenditure or commitments can be incurred prior to Work Plan approval to ensure proper budget authority exists.

The majority of the \$3 million in natural resources bond expenditures examined were in compliance with state law, policies, and procedures. However, two reimbursements were for expenditures incurred prior to an approved Work Plan. These expenditures, totaling \$79,500, were for two grants authorized by State Lands' Funding Agreements. The general requirements contained in the Funding Agreements state, "...reimbursements...will be...for eligible expenses incurred after execution of the funding agreement." However, the Funding Agreements were executed before the Director's Office approved the Work Plans. Office staff informed us they were working with State Lands to help ensure Work Plans are approved prior to the execution of Funding Agreements. This process will allow the Director's Office to ensure proper budget authority exists.

Recommendation

1. Ensure Work Plans are approved prior to execution of Funding Agreements.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Director's Office of the Department of Conservation and Natural Resources operations, we interviewed Office staff and reviewed statutes, regulations, policies, and procedures significant to the Office's operations. We also reviewed financial reports, prior audit reports, budgets, minutes of various legislative committees, and other information describing activities of the Director's Office. Furthermore, we documented and assessed the Office's internal controls.

To accomplish our objective, we verified revenue was properly collected. We also judgmentally selected a total of six revenue transactions recorded in fiscal years 2004 and 2005 to verify they were recorded in the correct fiscal year. To verify the Office's process of assessing departmental administrative costs was reasonable, we reviewed the method used to assess five accounts that were charged more than \$5,000. In addition, we verified if the amounts charged were calculated correctly and in compliance with the Office's policy.

We also randomly selected 25 expenditure transactions and tested each for proper recording, approval, and compliance with laws, regulations, policies, and procedures. In addition, we judgmentally selected a total of 12 expenditure transactions recorded in fiscal years 2004, 2005, and 2006 to verify they were recorded in the correct fiscal year. We also reviewed five credit entries to expenditures to determine their propriety. Finally, we reviewed the Office's control over credit cards.

To verify that the Office complied with applicable personnel and payroll laws, regulations, and policies, we randomly selected two pay periods and verified the payroll transactions were processed correctly. We also verified that work performance standards were established, and that employees received performance evaluations. In addition, we determined if the Office had taken an annual fixed asset inventory, and determined the accuracy of the list.

For the Fund to Protect Natural Resources, we reviewed each bond sale and verified bond proceeds were properly recorded. To determine if expenditures were appropriate, we judgmentally selected nine bond projects for the year ended June 30, 2005. For each project, we verified if it was properly approved. Next, we judgmentally selected one payment from each project to determine if the expenditure was paid in accordance with the approved agreement and state law, and if the expenditure was processed timely, properly approved, and in accordance with bond policies and procedures. Finally, we selected the final reimbursements from the Fund to State Lands, State Parks, and the Director's Office to verify the transfers were in accordance with bond policies and procedures.

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

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Conservation and Natural Resources. On January 5, 2006, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D which begins on page 14.

Contributors to this report include:

Sandra McGuirk, CPA
Deputy Legislative Auditor

Michael O. Spell, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B

Conservation and Recreation Bond Projects by County As of June 30, 2005

County	Project	Approved Budget	Subtotals	Total
Carson City	Fuji Park Urban Pond	\$250,000		
	Tahoe Rim Trail	97,750	\$347,750	
Clark	Las Vegas Springs Museum	33,000,000		
	Las Vegas Springs Preserve	25,000,000		
	Wetlands Park (Las Vegas Wash)	10,000,000		
	Lake Mead Hatchery Refurbishment	5,000,000		
	Old Las Vegas Mormon Fort, Visitor Center	2,050,000		
	Peer Land Acquisition, Overton	513,875		
	Real Property, Big Bend Boy Scout Camp	450,000		
	Big Bend Campground and Paving Project	335,000		
	Project Green Phase I & II	129,505		
	LIP Tier II Virgin River Sensitive Species Habitat	26,500		
	Muddy River Irrigations Shares	75,115		
	Overton Habitat Improvement Project	10,090	76,590,085	
	Douglas	Dangberg Stabilization, Restroom, Day Use	925,000	
Martin Slough Water Quality & Restoration		462,690		
Real Property, Mormon State Park Expansion		325,260		
River Park Land Acquisition		266,250		
Job's Peak Trail & Trailhead		85,000		
Mormon Station Day Use Expansion		75,000		
Dangberg Personal Property Purchase		75,000		
Douglas County Open Space Plan		18,000	2,232,200	
Elko	Dave's Island Tract Acquisition	1,158,700		
	South Fork SW Shore, Family Campground Improvement	120,000	1,278,700	
Humboldt	Winnemucca River Walk	113,085	113,085	
Lander	Reese River Multi Use Pathway	96,000		
	Shoshone Range Trails System, Phase I	94,808	190,808	
Lincoln	Valley of Fire, Visitor Center Additions	200,000		
	Kershaw-Ryan Park Office	100,000		
	Valley of Fire, Campground Expansion	100,000		
	Echo Canyon Pedestrian Bridge	68,500		
	Lincoln County Habitat Conservation Plan	60,000		
	Battle Mountain Habitat Conservation Plan	28,000		
	Spring Valley Campground Cabin Project	22,000		
	Beaver Dam Campground Cabin Project	8,000	586,500	
Lyon	Construction, Silver Springs Office, Information Center	341,000		
	Dayton Valley Conservation District	228,300		
	Buckland Station Interior Renovation	110,000		
	LIP Tier II Oasis Valley Sensitive Species Habitat	20,000		
	Buckland Station Personal Property Acquisition	8,000		
	Mason Valley, Habitat Improvement Project	5,700	713,000	

Appendix B
Conservation and Recreation Bond Projects by County
As of June 30, 2005
(continued)

County	Project	Approved Budget	Subtotals	Total
Nye	Lockes Ranch Acquisition	\$208,921		
	Belmont Courthouse Stabilization	120,000		
	Lockes Ranch Improvement Project	70,000		
	Nye County Short Term Habitat Conservation Plan	50,000		
	Kirch Noxious Weed Control	32,643		
	Kirch Habitat Improvement Project	20,371		
	Berlin Small Fossil Shelter Plan	5,000	\$506,935	
Pershing	Real Property, Rye Boat Parking	100,033		
	Rye Patch Boat Parking	6,000	106,033	
Storey	Comstock Cemetery Foundation	150,000	150,000	
Washoe	Truckee River Corridor Projects	4,000,000		
	Sand Harbor Utility Upgrades Phases I & II	900,000		
	Jesch Property Acquisition	450,000		
	Statewide Comprehensive Habitat Conservation Plan	120,328		
	Lake Tahoe Backcountry Campground Development	20,000		
	LIP Tier II Sage Grouse & Southern Nevada Habitat Projects	8,500		
	Maintenance Storage Shed	2,000	5,500,828	
White Pine	Steptoe Valley Wetlands	100,265		
	Steptoe Valley, Habitat Improvement Project	51,316		
	White Pine County Open Space Plan	15,000	166,581	
Total				\$88,482,505

Source: Director's Office Records.

Appendix C

Prior Audit Recommendations

Our prior audit of the Director's Office in 1995 did not include any recommendations. However, as part of this audit, we requested the Director's Office to comment on the status of recommendations made in our 1998 audit of the Commission for the Preservation of Wild Horses (Heil Wild Horse Bequest). The Office reported that five of the seven recommendations were no longer applicable and the remaining two were fully implemented. We verified these two recommendations were fully implemented.

Appendix D
Response From the Director's Office

ALLEN BIAGGI
Director

KENNY C. GUINN
Governor

KAY SCHERER
Assistant Director

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Division of Conservation Districts
Division of Environmental Protection
Division of Forestry
Division of State Lands
Division of State Parks
Division of Water Resources
Natural Heritage Program
Wild Horse Program

STATE OF NEVADA
Department of Conservation and Natural Resources
OFFICE OF THE DIRECTOR

January 17, 2006

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

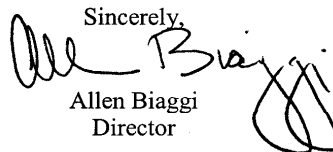
Dear Mr. Townsend:

In 2005, an audit was conducted of the Department of Conservation and Natural Resources, Director's Office. This audit evaluated the Office's operation for fiscal years 2004 and 2005.

From the audit, one finding and recommendation was made. Specifically, two Question 1 bond expenditures were initiated in the absence of final approval by the Director. It was recommended that improved controls be put in place to ensure that this approval is obtained prior to the execution of funding agreements.

The Department concurs with the finding and recommendation and noted and corrected this issue concurrent with the audit. The Department has initiated communication with its Divisions and sister Departments to ensure there is a clear understanding of Question 1 policies and procedures (see Operation/Projects, Section A.1., attached) and that authorization is granted, in writing, on the Work Plan/Original Application Form (also attached).

I would like to thank you and your staff for the professionalism shown throughout the audit.

Sincerely,

Allen Biaggi
Director

**Department of Conservation and Natural Resources, Director's Office
Response to Audit Recommendation**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Ensure Work Plans are approved prior to execution of Funding Agreements.....	<u> X </u>	<u> </u>
	TOTALS	<u> 1 </u>	<u> 0 </u>