Audit Highlights

Highlights of performance audit report on the Division of Tourism issued on April 28, 2014. Legislative Auditor report # LA14-15.

Background

The Nevada Commission on Tourism was created in 1983 to develop and implement a national and international marketing campaign. During the 2011 Legislative Session, the Legislature created the Department of Tourism and Cultural Affairs and placed the Division of Tourism (formerly part of the Nevada Commission on Tourism) within the Department. In addition, the Division includes the Nevada Magazine. There is also a Commission on Tourism that establishes policies and approves programs and budgets for the Division of Tourism.

The Division's day-to-day operations are supervised by the Director of the Department of Tourism and Cultural Affairs. The Governor appoints the Director. The 2013 legislatively approved budget included 26 authorized full-time positions for the Division, and an additional 7.75 for Nevada Magazine.

The Division is funded by a 3/8 share of the one percent lodging tax established by the Legislature in 1983. In fiscal year 2013, the Division's lodging tax revenue totaled $17.6 million. The Nevada Magazine accounts for its financial activities through an enterprise fund and exists on monies generated from magazine, calendar, and advertising sales. The Magazine's fiscal year 2013 revenue totaled just over $1 million.

Purpose of Audit

The purpose of this audit was to determine whether: (1) the Division effectively procured, awarded, and managed contracts for services; and (2) Nevada Magazine properly controlled its cash receipts.

The primary focus of our work was fiscal year 2013. However, we performed follow-up work in certain areas through November 2013, and we included information from prior years in several areas.

Audit Recommendations

This audit report contains nine recommendations to improve the Division's activities related to the procurement of contractor services and contract management. In addition, one recommendation was made to help ensure Nevada Magazine's cash receipts are properly safeguarded.

The Division of Tourism accepted nine recommendations and rejected one recommendation.

Recommendation Status

The Division's 60-day plan for corrective action is due on July 23, 2014. In addition, the six-month report on the status of audit recommendations is due on January 23, 2015.

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Division of Tourism

Department of Tourism and Cultural Affairs

Summary

When procuring contracts for services, the Division did not always follow state procurement requirements. For 2 of 10 contractors tested, the Division did not have formal, state contracts. In addition, we found the Division did not select these contractors through a formal, competitive process as required by law. Furthermore, the Division's selection of another contractor did not comply with the selection process described in the Request for Proposal. Failure to follow state procurement requirements could expose the State to unnecessary liabilities and costs, and does not ensure millions of dollars for professional services are awarded fairly.

The Division's management of contracts was inadequate. Payments to contractors were made without adequate supporting documentation, payments to some contractors exceeded contract maximums, and some contractor invoices were not properly reviewed. Adequate oversight of contracts is critical to help ensure the Division receives those services it desires and that state tax dollars are spent effectively.

Nevada Magazine does not have adequate controls to safeguard its cash receipts. We tested Nevada Magazine's receipt process for advertising revenue and found key activities were not properly segregated. In fiscal year 2013, the Magazine received over $598,000 in advertising receipts, or 57% of its revenues for the year. Although we did not identify missing funds, proper segregation of duties is important to help ensure agency assets are safeguarded.

Key Findings

For 2 of 10 contractors tested, the Division did not have state contracts. These contractors acted as brokers for purchasing traditional and digital advertising. Fiscal year 2012 and 2013 payments to one contractor were over $4.7 million, and payments to the other contractor were $2.3 million in fiscal year 2013. The Division used insertion orders to procure the services of these contractors. Insertion orders are written agreements to publish advertisements for established prices. However, insertion orders are not state contracts and do not ensure the State is adequately protected. (page 6)

The Division did not comply with state law for selecting these two contractors. Division management indicated a solicitation waiver and an emergency procurement authorization allowed them to award the services without competitive bids. However, the Division did not follow the requirements of the solicitation waiver or the state's emergency procurement procedures. (page 7)

For 21 of 57 (37%) payments tested, contractors' invoices lacked adequate supporting documentation. For example, the Division paid $2.3 million to purchase advertising space from media providers through a digital media advertising contractor, but did not have evidence from the publishers that the advertisements were placed, or the costs charged by the publishers. Proper supporting documentation is important to ensure only appropriate costs are paid. (page 11)

For 5 of 10 contractors tested, payments exceeded the contract maximums. Payments for the five contractors exceeded the maximums by over $660,000, and could be more because payments related to one contract were made to other contractors. Paying more than the contract maximum could force the Division to limit or eliminate expenditures in other program areas if adequate funding is not available. (page 14)

For the 57 contractor payments tested, we found several instances where contractor invoices were not properly reviewed, and some contractors were overpaid. For example, the Division paid $2,200 for travel expenses not allowed by the contract. Failure to properly review contractors' invoices may result in payments for services and products that do not comply with contract terms. (page 17)

Some payments and obligations to the Division's public relations and marketing contractor have, or will, result in itemized costs for some contract deliverables being exceeded. For example, Division payments and future obligations for production of television commercials could exceed $1.2 million, compared to the $537,000 specified in the contract. The terms for this contract included vague language regarding deliverables. When contracts do not clearly define deliverables, the State may not receive the services or products desired, and other contract services may not be realized. (page 18)

The Division has not fully realized deliverables contained in one contract. The contract terms indicated that, at the end of fiscal year 2013, the Division would have redesigned websites and a mobile application to help promote Nevada. However, neither of these deliverables were fully realized as of December 2013. At the end of fiscal year 2013, payments for website redesign and mobile application development totaled $125,500 and $69,200 respectively. (page 20)

Audit Division
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