

An Audit Report on Catalog Operations
at the Parks and Wildlife Department

April 21, 1999

Members of the Legislative Audit Committee:

In 1997, the executive management of the Parks and Wildlife Department (Department) suspended retail catalog operations as a result of gross fiscal mismanagement by the catalog department. Catalog funds were maintained in a local bank account and were accounted for outside the Department's accounting system. The gross fiscal mismanagement from September 1993 through late 1996 left the catalog vulnerable to fraud and abuse. While we found indications of potential fraud, we were unable to prove or disprove allegations because of the poor condition of the catalog's records and a lack of controls, contracts, and management oversight.

The catalog's lack of controls, contracts, and management oversight may have contributed to the loss of revenues and increased operational costs. At the very least, it caused ineffectiveness and inefficiency in catalog operations. From its inception in September 1993 through January 1999, catalog operations recorded a \$1.4 million loss and spent approximately \$5 million. Some of the more significant examples of mismanagement include:

General Government Code, Chapter 2104, defines "gross fiscal mismanagement" as including:

- Failure to keep adequate fiscal records
- Failure to maintain proper control over assets
- Failure to discharge fiscal obligations in a timely manner
- Misuse of state funds

- Lack of physical security of the checkbook, inventory, and checks and cash received from customers
- No cash receipts for cash sales
- Lack of inventory records
- Insufficient support for some invoices
- Missing checks, non-sufficient funds (NSF) checks, and duplicate check numbers
- No written policy for employee discounts
- Lack of segregation of duties
- No contract with one company providing services (approximately \$676,000 was paid to this company)

After suspending operations in 1997, the Department contracted with a consultant to prepare a five-year business plan for the catalog. The Department proceeded with operations and distributed a catalog in the fall of 1998. In December 1998, executive management privatized catalog operations.

Executive management, by recognizing the issues and privatizing operations, has corrected the weaknesses in catalog operations that we noted during our audit. Therefore, we have no recommendations. The Department's response is attached.

We would like to thank the management and staff members of the Parks and Wildlife Department for their cooperation during the audit. If you have any questions, please contact Charlie Hrcir, Audit Manager, at 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Parks and Wildlife Commission
Mr. Lee M. Bass, Chair
Mr. Richard W. "Dick" Heath,
Vice Chair

Parks and Wildlife Department
Mr. Andrew Sansom, Executive Director
Mr. Gene McCarty, Chief of Staff
Mr. Kemp Long, CPA, CISA, Internal Auditor

Objective, Scope, and Methodology

This audit was conducted in accordance with generally accepted governmental auditing standards. The objective of our audit was to conduct a financial review of the Parks and Wildlife Department's catalog, *Texas Parks and Wildlife Collection*.

The scope of our audit included a review and analysis of the financial and management controls over catalog operations. Fieldwork was conducted from September 1998 to January 1999.

The methodology used on this audit included testing of catalog processes, reviewing of invoice and receiving documents, analyzing of financial statements, and interviewing catalog staff.

Management's Response

Members of the Legislative Audit Committee:

The State Auditors Office has recently completed an audit of Texas Parks and Wildlife's catalog operations, which reports fiscal and management irregularities.

As noted in the audit report, catalog operations were suspended in 1997, as soon as information about potential problems surfaced. At that time a professional catalog consultant was retained to assess the operation. A five-year business plan was developed, and a 1998 catalog was produced, which turned a profit. As a result of these corrective steps, catalog operations were privatized in December of 1998. As a result of this move, TPW no longer bears any of the financial risk of operating a catalog, and instead will be receiving a portion of the gross sales.

The State Auditor notes that as a result of these actions, the weaknesses identified in the audit have been corrected, and the report offers no other recommendations.

From the catalog's inception in September of 1993, through January of 1999, catalog operations recorded operational expenditures of approximately \$5 million, with gross income of approximately \$3.6 million.

In addition to privatizing operations and to insure that all concerns raised by the State Auditor have been addressed, several other steps have been taken to address concerns raised in the audit. The catalog checking account has been closed, all remaining merchandise has been inventoried and transferred to a secure storage unit, the catalog manager has resigned, and a review of options for selling remaining inventory is underway.

Please let me know if you have any additional questions about this issue.

Andrew Sansom

ATTACHMENT