Audit Highlights

Highlights of Legislative Auditor report on the Office of the Director of the Department of Business and Industry, issued on February 28, 2006.
Report # LA06-10.

Background

The purpose of the Department of Business and Industry is to encourage and promote the growth, development, and operation of business and industry for the benefit of citizens and workers of Nevada. The Director's Office provides leadership, direction, and administrative support to the Department for improving services to business and the public. During fiscal year 2005, the Office had 10 authorized positions and recorded $1,187,000 in expenditures.

The Director's Office also administers the Industrial Development Revenue Bond (IDRB) program. This program provides financing opportunities to promote industry, employment, and develop trade. Although bonds are issued by the Director's Office, state law requires no state dollars or the pledge of state dollars be used to finance projects. Because the bond process is complex, it involves the use of outside experts specializing in government financing and evaluating the financial structure of the project. In addition, the project is reviewed at public meetings and closely examined by the Director, local governments, and the State Board of Finance before the bond offering can proceed.

From calendar years 1982 through 2004, the program issued 62 bonds totaling over $1 billion. Starting in 2000, the program experienced a shift in the dollar amount of bonds issued and the number and types of projects. For example, prior to 2000 bond issues seldom exceeded $5 million, but in 2004 the issues averaged over $25 million.

Purpose of Audit

The purpose of this audit was to evaluate the adequacy of controls over the IDRB program administered by the Director's Office. This audit focused on bonds issued through the IDRB program from calendar years 2000 through 2004.

Audit Recommendations

This audit contains two recommendations to improve the oversight of the Industrial Development Revenue Bond program. These recommendations include modifying policies and procedures to improve controls over the deposit process and to ensure written contracts are in place when Bond Counsel and Financial Advisor services are provided.

The Agency accepted the two recommendations.

Status of Recommendations

The Agency's 60-day plan for corrective action is due on May 23, 2006. In addition, the six-month report on the status of the audit recommendations is due November 27, 2006.

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Office of the Director

Department of Business and Industry

Results in Brief

The Director's Office has implemented controls over the Industrial Development Revenue Bond program to provide reasonable assurance that bonds are issued in compliance with laws, regulations, and policies. Although controls are in place for key areas of the IDRB program, improvements can be made to the process for collecting and refunding applicant deposits. In addition, improvements can be made to the program's contracting process by ensuring services are provided under a written contract. During our audit, management took steps toward better oversight of these areas.

Principal Findings

The Director's Office did not always collect deposits from bond applicants sufficient to pay for direct costs incurred by the Office. This happened in three of eight projects tested. As a result, the IDRB program did not recover about $12,340 in costs for two projects, and the direct costs for one project exceeded the deposit amount for several months. These problems occurred because program procedures did not clearly identify deposit monitoring and oversight responsibilities.

The Office needs to improve its monitoring of internal accounting records to ensure project deposit refunds are processed timely. Refund payments for four of six projects were made from 172 to 609 days after the last direct cost was incurred. These refunds ranged from approximately $400 to $14,900. As a result, the project companies did not have these dollars available for use. Delays in refunding deposits occurred because policies and procedures did not identify time requirements for deposit refunds.

The Office did not always have written contracts with firms providing Bond Counsel and Financial Advisor services. Written contracts are important to reduce the risk of disputes related to deliverables, compensation, and other significant program requirements. During calendar years 2000 through 2004, the Office used two firms for Bond Counsel and four firms for Financial Advisor services. However, there were eight instances involving six projects where written contracts were not in place. Although Nevada law exempts the IDRB program from following state contracting processes, using written contracts for legal and financial services is a good business practice.