LA12-10

STATE OF NEVADA

Audit Report

Department of Administration
Buildings and Grounds Section

2012

Legislative Auditor
Carson City, Nevada

Audit Highlights

Highlights of Legislative Auditor report on the Buildings and Grounds Section issued on February 2, 2012. Report # LA12-10.

Background

The Buildings and Grounds Section (B&G) was established to protect state assets. Its mission is to proactively manage state facilities; provide efficient office space within budget; and reliable water delivery.

Among other duties, B&G provides physical building and grounds maintenance, housekeeping, and security for most state-owned buildings in Carson City, Reno, and Las Vegas. This area also provides, locates, and negotiates leases for office space for state agencies when state-owned buildings are not available.

Senate Bill 427 of the 2011 Legislative Session reclassified Buildings and Grounds from its own division to a section within the State Public Works Division organized under the Department of Administration. The bill also converted mail services to an internal service fund administered by the State Library and Archives Division of the Department of Administration.

Since1993, B&G has been required to establish a comprehensive energy tracking program for buildings occupied by state agencies. In the 2011 Legislative Session, Senate Bill 426 transferred the responsibility of the program to the Office of Energy. However, B&G is still required to participate in carrying out the provisions of the statute.

Purpose of Audit

The purpose of our audit was to determine if adequate controls and processes were in place to ensure the efficient, effective, and proper administration of certain program and administrative activities including performance measures, leasing, purchase card procurements, and energy tracking.

Audit Recommendations

This audit report contains 10 recommendations to improve controls and enhance B&G activities. These recommendations take the necessary steps to improve the reliability of performance measurements, enhance the transparency of lease procurement activities, and strengthen controls over purchase card transactions.

B&G accepted the 10 recommendations.

Recommendation Status

B&G's 60-day plan for corrective action is due on April 26, 2012. In addition, the six-month report on the status of audit recommendations is due on October 29, 2012.

Buildings and Grounds Section

Department of Administration

Summary

Buildings and Grounds can improve its oversight of activities related to the proper administration of performance measures, leasing, and procurement card activities. We found reported results for performance measures were not always reliable because errors were made regarding calculations and classifications. In addition, a weighted average methodology provides a more accurate reflection of B&G's activities. Due to calculation and methodology errors, the measures reported by B&G were significantly different than those determined after corrections were made. Since measures are used by the Legislature and other stakeholders to determine B&G's performance, accuracy and reliability are critical to assessing performance and ensuring public trust.

Administration and documentation over certain leasing activities can be improved. B&G did not always analyze or document certain facets of lease negotiations. As a result, we could not always determine whether leases were advantageous to the State. Additionally, errors and inaccuracies were noted regarding the number and amount of renegotiated leases and related savings published by B&G. Leasing activities are a significant function for B&G and better procedures will help ensure the State receives the best lease rates available.

Purchase card transactions were not always in compliance with B&G or statewide policies and procedures. Our testing revealed transactions exceeded established limits, improper transaction approvals, incomplete agreements, and other minor errors. Furthermore, B&G has a significant number of cardholders and monthly financial exposure from issued purchase cards. While we did not find instances of fraud or abuse, items purchased can be easily converted to personal use making proper and effective controls necessary.

Key Findings

Key performance measures were not reliable due to mathematical and clerical errors, the inclusion of inaccurate and unsupported costs, and the misclassification of certain properties. We examined four measures that evaluated leasing activities and found them to be unreliable. (page 7)

Three of the four performance measures tested had methodological flaws in their calculations. B&G used a simple averaging methodology to calculate performance measures for each urban area and the overall state rate. Using a weighted average provides more accurate results regarding B&G's performance. A simple average gives equal weight to all leases, ignoring the size of the leased premises, while a weighted average takes into account the proportional relevance of each component. (page 9)

When corrected for mathematical, clerical, and methodology errors, higher state and market rates were determined. We found corrected performance measures for state leasing rates went from $1.52 per square foot as calculated by B&G to $1.61. In addition, market rates went from $1.74 as calculated by B&G to $1.85. Finally, a nearly $1 million reduction to the overall savings achieved from leasing activities resulted from changes to per square foot leasing rates. (page 11)

B&G did not document lease negotiation activities for many of the leases we reviewed. As a result, we could not always determine whether negotiated lease rates were advantageous to the State. Better analysis and documentation will ensure rates obtained are appropriate. (page 13)

Renegotiated lease savings were overstated. Savings for 6 of the 20 leases reviewed were not the result of renegotiations, but were renewals of expired leases. Errors resulted in about half of the savings reported being improper. (page 14)

Payment errors were made in 5 of 29 renewed and renegotiated leases tested for about $145,000 in overpayments. While B&G negotiates and executes lease agreements, agencies make quarterly payments. The majority of the overpayment, related to one lease agreement, has been recovered. (page 15)

Purchase card transactions exceeded established limits in 6 of 26 purchases reviewed. Limits were exceeded because transactions were split and limits were electronically adjusted temporarily by B&G personnel. We also found certain purchase card agreements, also required by statewide policies were not always fully executed prior to card issuance. (page 17)

B&G has significant exposure to potential loss because it has issued procurement cards to most employees and monthly limits are high for certain cards. Also, some employees used cards infrequently indicating cards may not be a necessity. (page 20)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
~~Fax No.: (775) 684-6600~~

LEGISLATIVE COMMISSION (775) 684-6800
STEVEN A. HORSFORD, *Senator, Chairman*
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
DEBBIE SMITH, *Assemblywoman, Chair*
Rick Combs, *Fiscal Analyst*
Mark Krmpotic, *Fiscal Analyst*

LORNE J. MALKIEWICH, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our completed audit of the Department of Administration, Buildings and Grounds Section. 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 ten recommendations to improve controls and enhance activities. 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,

Paul V. Townsend, CPA
Legislative Auditor

January 9, 2012
Carson City, Nevada

Buildings and Grounds Section Table of Contents

Introduction

Background

The Buildings and Grounds Section (B&G) was established to protect state assets. Its mission is to proactively manage state facilities; provide efficient office space within budget; and reliable water delivery.

Buildings and Grounds had the following functional areas through fiscal year 2011 as follows:

- Buildings and grounds provides physical building and grounds maintenance, housekeeping, and security for most state-owned buildings in Carson City, Reno, and Las Vegas. This area also provides, locates, and negotiates leases for office space for state agencies when state-owned buildings are not available.

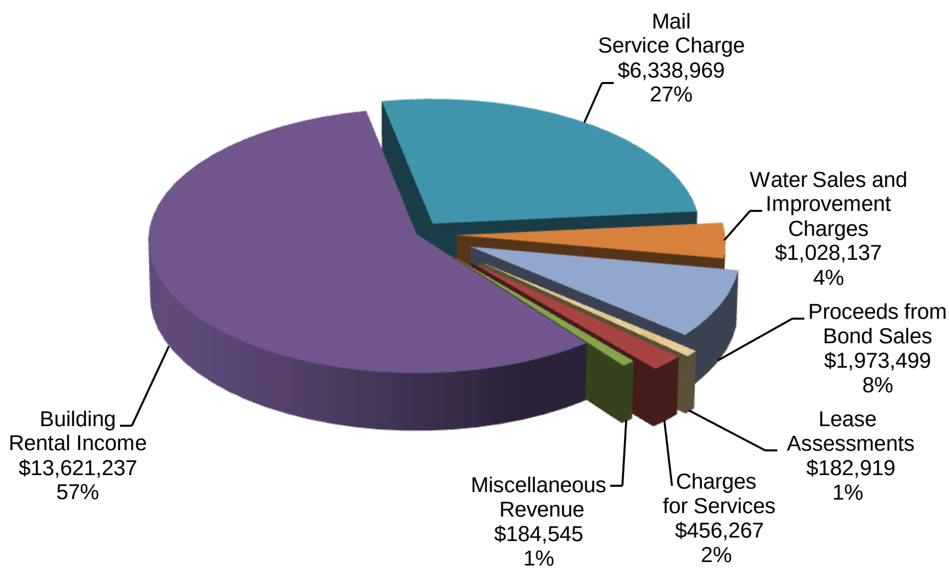
- Mail services support most state agencies in the Carson City, Reno, and Las Vegas areas. Services include the processing and delivery of outgoing mail, overnight, and interoffice mail between Carson City and Las Vegas. Services for Carson City and Reno also include folding, inserting, addressing, and bulk mailing.

- Marlette Lake water system provides raw water to Carson City and Storey County. The system was authorized for purchase by the 1963 session of the Nevada Legislature.

Senate Bill 427 of the 2011 Legislative Session reclassified Buildings and Grounds from its own division to a section within the State Public Works Division organized under the Department of Administration. The bill also converted mail services to an internal service fund (Communication Fund) administered by the State Library and Archives Division of the Department of Administration.

B&G is primarily funded from fees assessed to other state agencies for the services it provides. Fees fund B&G operations and also fund security services provided by the Capital Police Division of the Department of Public Safety. Revenues less transfers amounted to almost $24 million during fiscal year 2011 and include amounts related to mail services even though this activity is no longer a B&G responsibility. Exhibit 1 shows B&G's revenue sources as a portion of the total for fiscal year 2011.

Revenue Sources **Exhibit 1**
Fiscal Year 2011



Source: State accounting system.
Note: Excludes beginning cash, reversions, and transfers.

B&G was authorized for 66 full-time equivalent positions during the 2011 Legislative Session which excludes the mail services positions that were moved to the State Library and Archives Division. B&G continues to operate in three locations: Carson City, Reno, and Las Vegas. Total expenditures by functional area, including mail services, for fiscal year 2011 are shown in Exhibit 2.

Expenditures by Category
Fiscal Year 2011 **Exhibit 2**

	Buildings and Grounds	Mail Services	Marlette Lake	Totals	Percent of Total
Personnel Services	$ 3,665,511	$1,032,751	$163,045	$ 4,861,307	21%
Operating	586,411	379,016	69,266	1,034,693	5%
Postage	-	4,932,351	-	4,932,351	22%
Debt Service	-	-	532,600	532,600	2%
Maintenance of Buildings and Grounds	3,303,857	-	-	3,303,857	14%
Building Renovation	999,649	-	-	999,649	4%
Transfer for Capital Police	2,179,821	-	-	2,179,821	10%
Utilities	4,261,434	-	6,251	4,267,685	19%
Miscellaneous Expenditures	407,287	177,250	158,675	743,212	3%
Totals	**$15,403,970**	**$6,521,368**	**$929,837**	**$22,855,175**	**100%**

Source: State accounting system.
Note: Miscellaneous expenditures include all categories representing less than 1% of total expenditures.

Energy Tracking

B&G was required to establish a comprehensive energy tracking program for buildings occupied by state agencies since 1993. NRS 331.095 required the establishment of a program to: record utility bills for each month, allow for adjustments based on weather conditions and the length of the billing period, facilitate and identify errors in bills, allow for the projection of energy costs, and identify cost savings associated with energy conservation.

Even though energy tracking had been required for many years, B&G had not established a program to track energy for state buildings until recently. During 2010 and 2011, B&G and the Office of Energy collaborated to establish a system to track energy. An interlocal agreement between the agencies executed in early 2010, established that B&G would audit energy bills and coordinate the development and delivery of a centralized tracking database capable of providing various reports, and the Office of Energy would transfer funding for the program to B&G. The database was established using LPB Energy Management whereby utility bills for state owned properties were processed and data captured by the contractor. While some energy data for state owned properties was captured through this process, real property leased and occupied by state agencies was not necessarily obtained and monitored.

Senate Bill 426 of the 2011 Legislative Session, as shown in Appendix A, transferred the responsibility of the energy tracking program to the Office of Energy effective July 1, 2011. This restructuring centralized the responsibility for developing energy plans and tracking usage of energy consumption to the Office of Energy. B&G is still required to coordinate with the Office of Energy in order to carry out the provisions of the statute.

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 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 B&G's activities for the eighteen month period ending December 31, 2010. The objective of our audit was to determine if adequate controls and processes were in place to ensure the efficient, effective, and proper administration of certain program and administrative activities including performance measures, leasing, purchase card procurements, and energy tracking.

Performance Measure Oversight Needed

Buildings and Grounds can improve its oversight of activities related to the proper administration of performance measures, leasing, and procurement cards activities. We found reported results for performance measures were not always reliable because errors were made regarding calculations and classifications. In addition, a weighted average methodology provides a more accurate reflection of B&G's activities. Due to calculation and methodology errors, the measures reported by B&G were significantly different than those determined after corrections were made. Errors occurred because written policies and procedures are inadequate to help ensure that reported results are reliable, accurate, and adequately documented. Since measures are used by the Legislature and other stakeholders to determine B&G's performance, accuracy and reliability are critical to assessing performance and ensuring public trust.

Errors in Calculating Measures Affect Accuracy

Key performance measures were not reliable due to mathematical and clerical errors, the inclusion of inaccurate and unsupported costs, and the misclassification of certain properties. We examined four measures that evaluated leasing activities and found them unreliable. The four measures tested as reported by B&G are shown in Exhibit 3.

Performance Measures Tested **Exhibit 3**

Performance Measure	Actual FY 2010
Leased office space in three major urban areas, in square feet.	1,393,872
Average cost of leased space per square foot.	$ 1.52
Average market cost of leased space per square foot.	$ 1.74
Average annual savings to the state.	$3,679,822

Source: FY 2012/2013 Executive Budget.

How B&G Calculated Performance Measures

B&G used leases located in the three urban areas of Carson City, Las Vegas, and Reno to compute noted measures. Each real property lease for each urban area was specifically identified and categorized on individual spreadsheets. Exhibit 4 shows the lease statistics by urban area for fiscal year 2010, prior to our adjustments.

Buildings and Grounds Lease Statistics (Unmodified) Fiscal Year 2010 **Exhibit 4**

	Number of Leases [1]	Full Service	Non-Full Service	Square Feet	Annual Cost	Per Square Foot Lease Rate
Carson City	84	83	1	591,495	$ 9,821,290	$1.34
Las Vegas	83	62	21	600,478	11,953,670	1.86
Reno	30	25	5	201,899	3,331,769	1.35
Totals	**197**	**170**	**27**	**1,393,872**	**$25,106,729**	**$1.52**

Source: Buildings and Grounds lease spreadsheets for each urban area.

[1] The number of leases may include multiple leases for one agency and/or location if the lease renewed or the agency moved during fiscal year 2010. Totals include non-office space related to playgrounds, warehouses, and storage space.

Most leases negotiated by B&G are full service leases where the lessor covers all costs associated with the property. However, some leases entered into are not all inclusive and add-on costs are paid in addition to the monthly rent. These add-ons, known as ancillary costs, can include such items as utilities, custodial, and common area maintenance fees. When necessary, B&G added ancillary cost rates to obtain a full service lease rate equivalent on urban area lease logs and market rates.

For each lease, B&G calculated the annual cost and monthly per square foot lease rate. Various market rates were obtained from recent lease transactions in each urban area from local real estate brokers. A per square foot rate was determined for each urban area for the market and state leased real property by using a simple averaging methodology of adding all individual rates and dividing by the total number of properties. The average per month lease rate for state leased space was then subtracted from the average market rate. The per square foot lease rate difference was multiplied by the total square footage of office space leased by the state and annualized to determine the dollar savings associated with B&G leasing activities.

Mathematical and Clerical Errors Noted

Our review of the cost per square foot calculations for each urban area identified clerical and mathematical errors. The actual per square foot lease rate was miscalculated for 21 leases because free rent, rent paid for occupancy of the premises after the end of the lease term, and miscalculations regarding changes in monthly rates and rate reductions were not properly accounted for. For example, one lease provided free rent for the first three months of fiscal year 2010 resulting in an average per square foot lease rate of $1.28 for the year. B&G showed a per square foot lease rate of $1.70. Furthermore, simple calculation errors affected the per square foot rate amounts determined by B&G. For instance, the per square foot lease rate for one property was understated by $1.07. B&G omitted seven months of lease payments from calculations which resulted in B&G calculating an average annual rate of $.71 instead of the actual cost of $1.78.

Clerical errors included duplicate leases, leases classified in the incorrect urban area, leases not in effect during fiscal year 2010 being included in averages, and inaccurate square footage. In one instance, the square footage for one lease was listed as 3,151 when the correct amount should have been 38,151. Mathematical and clerical errors went undetected because management did not adequately review lease logs or other supporting documentation. Lease logs are published on B&G's website making accuracy of these spreadsheets essential.

Ancillary Rates Not Supported or Accurate

During our review of performance measure spreadsheets, we found B&G added ancillary costs to actual and market lease rates that were not full service rates; but, amounts added were not supported, verified, or consistent. As a result, amounts added were not always accurate and affected the average per square foot rate calculated for fiscal year 2010.

In an effort to equate all state leases to full service rates, B&G added ancillary costs to certain leases for actual state lease and market rates; however, B&G did not consistently apply the proper ancillary costs to market lease rates. For instance, B&G added $.12 per square foot for custodial services to some properties and $.16 to others on market lease rates obtained for the Carson City area. In addition, B&G did not always apply ancillary cost rates when necessary and sometimes the amount added was not reasonable. For 5 of 31 Las Vegas area market rates we could not determine the total ancillary rate added. For example, one lease noted a rate of $1.06 on market lease rate supporting documentation; yet, B&G used a rate of $1.69 for this property in determining the market rate average. We could not ascertain, and B&G could not provide documentation supporting the additional $.63 per square foot added for this property.

Generally, rates added for custodial and utility costs amounted to $.16 and $.22 per square foot. For instance, one Las Vegas area lease contracted for a monthly lease rate of $1.30 per square foot but was increased to $1.68 per square foot to account for utility and custodial services paid for in addition to the monthly rent. However, the custodial rate added did not necessarily reflect the actual cost of this service. Our review of B&G costs indicated the actual cost to state buildings for contracted custodial services amounted to $.12 per square foot for fiscal year 2010. B&G used an improper rate because they obtained the rate from an outside source and did not confirm its accuracy even though B&G had the information to do so.

Using actual ancillary costs experienced by the State when calculating measures is more accurate than obtaining generalized market figures. Furthermore, determining actual ancillary cost rates is important for B&G because not all leases occupied by state agencies are full service. Knowledge of actual ancillary costs is necessary when negotiating lease terms. Without analysis regarding actual monthly lease expenses and additional costs the state will incur, B&G cannot adequately determine if rates being negotiated are advantageous.

Non-Office Space Included

We identified 13 instances of non-office space such as playgrounds, warehouses, and storage space being included in the average per square foot cost calculations. Non-office space is typically leased at rates much lower than actual office space. For example, a facility in Las Vegas included office space, a playground, and warehouse space. Per square foot monthly leases rates for each property type amounted to $1.71, $.55, and $.65, respectively. Including non-office lease space in the average rate per square foot artificially lowers the overall rate.

B&G removed some non-office type leases from the associated urban area; however, approximately 33,000 square feet remained. A lower per square foot lease rate is advantageous to B&G because actual lease rates look more favorable compared to market rates and the total savings to the state will appear greater.

Weighted Average Methodology More Representative of Actual Results

Three of the four performance measures had methodological flaws in their calculations. B&G used simple averaging methodology to calculate performance measures for each urban area and the overall state rate. A simple average gives equal weight to all leases and ignores the size or square feet of the leased premises. For example, one property of 11,000 square feet leased at a cost of $1.78 per square foot is given the same weight as a property of 800 square feet leased at a cost of $1.00. Exhibit 5 provides an illustrative example regarding the difference between using a simple versus weighted average.

Example of Simple Average Versus Weighted Average Methodology **Exhibit 5**

	Property Square Feet	Monthly Rate Per Square Foot	Monthly Cost	Weighted Average (2)
Lease 1	1,230	$1.36	$ 1,673	
Lease 2	16,500	1.71	28,215	
Lease 3	840	1.00	840	
Lease 4	11,425	1.78	20,337	
Lease 5	630	1.38	869	
Totals/Average	**30,625**	**$1.45 (1)**	**$51,934**	**$1.70**

Source: Auditor prepared from Buildings and Grounds lease logs.

(1) Represents a simple average calculated by summing the rates per square foot for each lease and dividing by 5.

(2) Represents a weighted average calculated by totaling the monthly cost for each lease and dividing by the total of the property square feet.

The goal of determining an average is to understand the data by getting a representative sample. Success of the average depends on how the data interact. By using a weighted average instead of a simple average, the calculations take into account the proportional relevance of each component rather than treating each component equally.

Furthermore, B&G's methodology of calculating the average annual lease savings did not accurately reflect the results of leasing activities by urban area. A more exact methodology uses the savings or loss associated with each urban area instead of using the overall state rate. Calculating by urban area is important because varying results from different regions are largely ignored when rates are combined together. The affects of the two methodologies are illustrated in Exhibit 6 below.

Lease Savings Calculated by Weighted and Non-Weighted Methods **Exhibit 6**

		Monthly Rate Per Square Foot		Cost [1]		
	Total Leased Square Feet	**Market**	**State Actual**	**Market**	**State Actual**	**Annual Savings/(Loss) of Market to State Actual Rates**
Carson City	592,336	$1.59	$1.39	$11,301,771	$ 9,880,164	$1,421,607
Las Vegas	633,753	2.03	1.83	15,438,223	13,917,216	1,521,007
Reno	176,422	1.44	1.56	3,048,572	3,302,620	(254,048)
Weighted Totals/ Overall State Rate	**1,402,511**	**$1.85**	**$1.61**	**$29,788,566**	**$27,100,000**	**$2,688,566**
Savings Calculated Using Overall State Rate [2]	**1,402,511**	**$1.85**	**$1.61**	**$31,135,744**	**$27,096,513**	**$4,039,231**

Source: Auditor prepared.

[1] Calculated by multiplying the square foot for each urban area by the applicable square foot rate for the urban area and multiplying by 12.

[2] Calculated by multiplying total square feet by the overall average rate for the state and multiplying by 12.

Using the results for each urban area not only more accurately portrays the status of leasing activities for the fiscal year, but also identifies geographic regions where leasing activities can be improved. For instance, the results of our analysis showed that leasing rates in the Reno area exceeded market rates obtained by B&G. Reviewing and understanding data are critical components to ensuring performance measures are calculated using the appropriate methodology. It is essential management be involved in the establishment and review of performance measure calculations, because results impact decisions made by management, Legislators, and stakeholders.

Recalculated Results for Performance Measures

Correcting for mathematical and clerical errors and a more accurate methodology resulted in higher average state per square foot lease rates for most areas, and lower or unchanged average market rates. Higher state lease rates compared to market rates will result in a lower dollar savings to the State from B&G leasing activities. Exhibits 7 and 8 show the results of correcting average state and market rates for errors and methodology.

Performance Measure Corrections **Exhibit 7**

State Lease Rates

Area	Buildings and Grounds	Corrected for Errors	Corrected for Methodology
Carson City	$1.34	$1.39	$1.39
Las Vegas	1.86	1.92	1.83
Reno	1.35	1.49	1.56
Totals	**$1.52**	**$1.60**	**$1.61**

Source: Auditor prepared.

Performance Measure Corrections **Exhibit 8**

Market Lease Rates

Area	Buildings and Grounds	Corrected for Errors	Corrected for Methodology
Carson City	$1.59	$1.60	$1.59
Las Vegas	2.18	2.04	2.03
Reno	1.46	1.46	1.44
Totals	**$1.74**	**$1.70**	**$1.85**

Source: Auditor prepared.

While the differences between the actual and corrected rates may not appear significant in all cases, when compared to the total square feet of leased property small variances accumulate. Corrections for errors and methodologies resulted in the savings due to leasing activities being reduced by nearly $1 million for fiscal year 2010. This is a 27% reduction to the $3,679,822 originally reported by B&G.

State Policies Require Reliability

B&G lacked sufficient controls to ensure performance measures were reliable. Control weaknesses included inadequate policies and procedures on how to collect and compute performance measures, an inefficient use of spreadsheets by hard keying numbers, and inadequate management review of supporting documentation and methodologies. Detailed procedures help ensure the process for the collection, manipulation, and reporting of data is consistent over time resulting in a better assessment of performance.

The State Administrative Manual requires performance measurement data to be reliable. Agencies are required to develop written procedures on how performance measures are computed. Procedures should include the formulas and information on where data is obtained and which reports are used, if applicable. Furthermore, records in computing performance measures are required to be retained for three fiscal years.

Without sound performance measures, state officials and B&G management may be making decisions based on unreliable and inaccurate information. Furthermore, management and stakeholders cannot effectively determine if goals and objectives are being met.

Recommendations

1. Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.
2. Periodically determine actual ancillary cost rates to be used in performance measure calculations and lease negotiations.
3. Use information technology solutions to create efficiencies and assist staff in calculating performance measures.

Leasing Activities Can Be Better Administered

Administration and documentation over certain leasing activities can be improved. B&G did not always analyze or document certain facets of lease negotiations. As a result, we could not always determine whether leases were advantageous to the State. Additionally, errors and inaccuracies were noted regarding the number and amount of renegotiated leases and related savings published by B&G. Leasing activities are a significant function for B&G and better procedures will help ensure the State receives the best lease rates available.

Lease Negotiations Not Documented

B&G did not document lease negotiation activities for many of the leases we reviewed. As a result, we could not always determine whether negotiated lease rates were advantageous to the State. Better analysis and documentation will ensure rates obtained are appropriate.

Market analysis of urban area leasing activities showed leasing rates have declined significantly over the past several quarters due to the economic climate in Nevada. Even for the first quarter of 2011, general consensus was that rates would not increase as vacancies in office space continued to be high resulting in a stagnation in rates for the time being.

Our review of lease files for renewed and renegotiated leases showed B&G did not always document an analysis of market lease rates and trends when negotiating leases. As a result, negotiated lease rates did not appear advantageous over time in 3 of 10 lease renewals and 4 of 14 lease renegotiations reviewed. Reasons include initial lease rates that may exceed market asking rates, generous annual rate escalators, and lease terms of excessive length. Based on discussions with staff, lease negotiations are influenced by agency needs, market rates, and other factors outside B&G's control. While this may be true, B&G did not document an analysis of market rates and trends or the specific circumstances affecting negotiated lease rates.

B&G leases included lessor funded tenant improvements in lease rates; yet, we could not determine the cost over time because B&G did not document an estimate of the cost or the rates available without the improvements. Of 10 leases reviewed, 7 included tenant funded lesser improvements; however, we could not find an analysis regarding an estimate of the initial cost of improvements or the total that would be paid during the duration of the lease in B&G files. Since many state leases extend for several years and include annual rate escalators, it is important an analysis is performed regarding how much tenant improvements cost.

Furthermore, when a lease is due for renewal B&G does not document a review and analysis of similar properties to which an agency may be relocated for more favorable lease terms. While the relocation of an agency to a property with lower lease rates may not be advantageous due to moving and other costs, B&G does not routinely analyze whether it is a viable option.

Though management indicated analyses of market rates and trends, tenant improvement costs, and the cost/benefit of moving expenses are performed, management could not provide documentation that these activities were performed. Furthermore, B&G's lease procedures do not address these processes or the methods for performing them.

Lease Savings Overstated

Renegotiated lease savings provided to the Budget Office and subsequently the Legislature were overstated. Savings for 6 of the 20 leases reviewed were not the result of renegotiations, but were renewals of expired leases. Furthermore, mathematical errors contributed to the overstatement.

The Governor ordered all departments in a letter dated February 11, 2010, to analyze real property leases and renegotiate terms determined to not reflect current market conditions. The directive also required savings to be reported to B&G. While the directive required this information from state agencies, B&G actively renegotiated terms, executed new lease agreements, and compiled associated savings. B&G reported renegotiation savings of $847,000 related to 37 leases.

Our review of the reported savings for 20 of the renegotiated leases found $415,000 of savings were reported in error. Reductions to savings resulted from 6 leases pertaining to renewals of expired leases, not leases renegotiated mid-term. Furthermore, we found mathematical and other errors contributed to the reduction by about $76,000. Errors occurred because management did not review the savings spreadsheet to ensure noted leases were actual renegotiations, and calculations and other information was proper.

Payment Errors Made By Other State Agencies

Payment errors were made in 5 of 29 renewed and renegotiated leases tested for about $145,000 in overpayments. While B&G negotiates and executes lease agreements, agencies make quarterly payments. Because the process is bifurcated between agencies, payment errors went undetected.

Many of the payment errors noted were not significant and included an underpayment as well as overpayments; however, in one instance, an agency overpaid about $116,000 over a period of six quarters. Neither the agency or B&G were aware the overpayment had occurred until we brought it to their attention. The agency notified the lessor who acknowledged the overpayment and reduced subsequent quarterly payments.

Errors occurred because lease procurement and lease payment activities are separate whereby one agency executes the lease and another agency makes lease payments. Since neither agency is actively involved in the process performed by the other, and the time to negotiate and process lease contracts can be extensive, communication and monitoring are necessary to ensure lease payments and lease agreements coincide.

Recommendations

4. Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most

beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms.

5. Establish a process and document the analysis of lease negotiation activities including evaluating the cost of lessor funded tenant improvements and the cost/benefit of moving agencies to premises with more advantageous lease rates.
6. Develop procedures to ensure management reviews and approves information published and submitted to the Legislature.
7. Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement.

Purchase Card Monitoring and Controls Can Be Improved

Purchase Card transactions were not always in compliance with B&G or statewide policies and procedures. Our testing revealed transactions exceeded established limits, improper transaction approvals, incomplete agreements, and other minor errors. Furthermore, B&G has a significant number of cardholders and monthly financial exposure from issued purchase cards. While we did not find instances of fraud or abuse, items purchased can be easily converted to personal use making proper and effective controls necessary.

Transactions Circumvent Established Limits

Transactions exceeded established limits in 6 of 26 purchases reviewed. Limits were exceeded because transactions were split and limits were electronically adjusted temporarily by B&G personnel. Even though current policies specifically prohibit transactions from being split, employees were able to do so because purchases were not adequately reviewed.

Cardholder limits are established by B&G management on a single transaction and monthly basis. Transaction limits ranged from a low of $250 to a high of $3,000 and monthly card limits ranged from a low of $1,000 to a high of $20,000 during our test period. B&G staff indicated limits are set based on the needs and position of each employee.

Our review of purchase card transactions found employees purchased items in excess of individual transaction limits frequently. Certain transactions were split into two smaller transactions at amounts just under the employee’s transaction limit. For instance, one invoice for $2,334 was paid for in one increment of $1,900 and another increment of $434 because the per transaction limit for the employee was $2,000. The transaction log, reviewed by the employee's supervisor, showed the total and split purchase amounts; yet, supervisory and administrative approval was provided.

Other purchases exceeded limits because B&G procurement card staff electronically changed limits with the card issuer prior to the execution of the purchase. Our review of purchase card transactions found B&G personnel lifted limits electronically on 43 occasions for over $24,000 in purchases during our test period. Limits were lifted by the purchase card administrator and other staff who have access to card limits through the card issuer's website. Limits were changed instantly by electronically accessing card data. Staff indicated limits were lifted when employees needed to exceed their established limits; however, management approval for this activity was not obtained or documented.

Both state and B&G policies disallow the splitting of transactions in order to evade individual limits. Even though policies specify transaction splitting as an inappropriate activity, B&G administration was not adequately monitoring or reviewing transactions to ensure compliance. Additionally, B&G policies require management to set and approve individual card limits; yet, staff were allowed to lift limits without management knowledge or approval. Single purchase and monthly credit limits should be established based on the expected monthly purchases of the cardholder and the needs of the agency. Determinations require an objective effort by operational supervisors and management to evaluate the existing and continual needs of operations and cardholders.

Some Approvals and Agreements Improper

Purchase card transactions were not always approved by supervisory personnel even though statewide policies require each purchase to be approved by a cardholder's supervisor. Furthermore, we found certain purchase card agreements, also required by statewide policies were not always fully executed prior to card issuance. Since purchase cards are generally considered to be at increased risk for fraud and abuse, supervisory approvals and agreements acknowledging each person's responsibilities are key control processes to preventing improper purchases.

Our review of purchase card transactions found that approvals were not always made by someone other than the cardholder. For 2 of 26 purchases reviewed, we found the employee who made the purchase was also the approving authority on purchase logs. In one instance, an employee stationed in Las Vegas was approving all of his purchases during the 18 month period we reviewed. During this time, the employee purchased nearly $11,000 in goods. While our review of transaction logs did not indicate any fraudulent or abusive purchases, many items procured on B&G's behalf can be easily converted to personal use. Therefore, proper supervisory oversight of employee activities is necessary to ensure items purchased are proper and valid.

Additionally, some cardholder agreements were not properly executed. Four of 47 cardholder agreements were not fully executed prior to the issuance of the card. In one instance, a card was issued prior to June of 2010 but the employee was not presented with the purchase card agreement until March 2011. The remaining three agreements were not signed or reviewed by B&G management. One employee was issued a card in spring of 2009 but the card agreement was not approved by management during our testing in spring 2011. Approvals over procurement card issuance are necessary to ensure duties are adequately segregated and cards are issued only to those employees with a necessity to have one.

Procurement card agreements are important as they specify the responsibilities of each party. Cardholders agree to accept responsibility for the protection and proper use of the card in compliance with agency and statewide policies and procedures. Further, cardholders acknowledge in writing that misuse or abuse of the card will result in disciplinary action.

B&G policies require supervisory review of purchases and cardholder agreements for all employees having procurement cards; yet, a few approvals and agreements were not compliant. Due to the risks associated with procurement cards, sufficient controls including adequate segregation of duties, transaction review, and ongoing monitoring of the program are necessary to ensuring purchases are proper.

Number of Cardholders and Assigned Limits Increase Exposure

B&G has significant monthly and annual exposure to potential loss because it has issued procurement cards to most employees and monthly limits are high for certain cards. Furthermore, some employees with procurement cards used them infrequently indicating cards may not be a necessity in those instances. Purchase cards should be issued in quantities and with limits that curb the extent of potential loss to the organization from fraudulent, improper, and abusive purchases.

B&G had issued 47 procurement cards to its 81 employees. As a result, more than half of B&G's staff were authorized to make purchases on the entity's behalf. This coupled with high monthly limits increased B&G's exposure to improper purchase card activity. Exhibit 9 shows B&G's issued purchase cards and associated transaction and monthly limits.

Number of Active Cardholders by Transaction and Monthly Limits **Exhibit 9**
December 2010

Per Transaction Limit	Monthly Limit											Totals
	$1,000	$1,500	$2,000	$2,500	$3,000	$ 4,000	$ 5,000	$ 6,000	$ 10,000	$15,000	$20,000	
$ 250	3											3
$ 500		1	13	3					1			18
$1,000						3			2			5
$1,500			1		2	1	1	2				7
$2,000								2	1			3
$2,500						1	1		7		1	10
$3,000										1		1
Number of Cardholders	3	1	14	3	2	5	2	4	11	1	1	47
Monthly Exposure	$3,000	$1,500	$28,000	$7,500	$6,000	$20,000	$10,000	$24,000	$110,000	$15,000	$20,000	$245,000

Source: Auditor prepared from B&G procurement card agreements.

Monthly limits for B&G allow for purchases of $245,000 each month and $2.9 million annually; however, the highest monthly purchase amount was $38,000 and purchases during calendar year 2010 amounted to only $280,000. Furthermore, some cardholders used their cards sparingly indicating cards may not be a necessity for certain employees. We found 12 employees used their cards less than 25 times during the 18 month period from

July 2009 to December 2010, and 7 of those employees had less than 10 purchases.

Financial exposure in a government purchase card program can become excessive when management does not exercise judgment and restraint in issuing purchase cards and in determining single purchase and monthly credit limits. Purchase cards should be issued in controlled limited quantities and only to government employees with a legitimate need to have the card. By limiting the number of purchase cards and related credit limits to the levels necessary to meet operational requirements, an agency can better manage and control its purchase card program.

Recommendations

8. Strengthen policies, procedures, and controls over procurement card issuance including limits, approvals, and agreements.
9. Periodically review procurement card activity to ensure compliance with policies and procedures.
10. Develop procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary.

Appendix A

Senate Bill 426, Section 34, of the 2011 Legislative Session

Senate Bill No. 426–Committee on Finance

CHAPTER 363

AN ACT relating to energy; eliminating the Renewable Energy and Energy Efficiency Authority and the position of Nevada Energy Commissioner; requiring the Office of Energy and its Director to assume certain responsibilities of the repealed entities; transferring authority for the program to track the use of energy in buildings occupied by state agencies to the Office of Energy; revising provisions governing certain contracts necessary to carry out the program; revising provisions relating to the partial abatement of certain taxes for qualified energy systems; and providing other matters properly relating thereto.

Legislative Counsel's Digest:

Existing law establishes a Renewable Energy and Energy Efficiency Authority and creates the position of Nevada Energy Commissioner as its head. (NRS 701.330-701.400) This bill repeals the position of Nevada Energy Commissioner and the Renewable Energy and Energy Efficiency Authority and requires the Office of Energy and its Director to assume the duties of those entities. **Sections 15 and 19** of this bill give the Director of the Office of Energy the authority to add not more than three members to the State and Local Government Panel on Renewable and Efficient Energy and the New Energy Industry Task Force, respectively. **Section 34** of this bill transfers responsibility for the program to track the use of energy in buildings occupied by state agencies from the Buildings and Grounds Division of the Department of Administration to the Office of Energy and authorizes the Director of the Office of Energy to enter into certain contracts to carry out the program.

Section 23.5 of this bill revises certain provisions relating to eligibility for the partial abatement of certain taxes for certain energy systems that are used to heat or cool buildings or the water used by such buildings or to provide electricity to certain buildings or irrigation systems.

EXPLANATION – Matter in ***bolded italics*** is new; matter between brackets ~~[omitted material]~~ is material to be omitted.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Sec. 34. NRS 331.095 is hereby amended to read as follows:

331.095 1. The ~~[Chief]~~ ***Director of the Office of Energy*** shall establish a program to track the use of energy in buildings owned by the State and in other buildings which are occupied by a state agency and whose owners comply with the program pursuant to subsection 6.

2. The program established pursuant to this section must:

(a) Record utility bills for each building for each month and preserve those records indefinitely;

(b) Allow for the comparison of utility bills for a building from month to month and year to year;

(c) Allow for the comparison of utility bills between buildings, including comparisons between similar buildings or types of buildings;

(d) Allow for adjustments to the information based upon variations in weather conditions, the length of the billing period and other changes in relevant conditions;

(e) Facilitate identification of errors in utility bills and meter readings;

(f) Allow for the projection of costs for energy for a building; and

(g) Identify energy and cost savings associated with efforts to conserve energy.

3. The **[**~~Chief~~**]** ***Director of the Office of Energy*** may apply for any available grants and accept any gifts, grants or donations to assist in establishing and carrying out the program.

4. In accordance with, and out of any money received pursuant to, the American Recovery and Reinvestment Act of 2009, Public Law 111-5, the Interim Finance Committee may determine an amount of money to be used by the **[**~~Chief~~**]** ***Director of the Office of Energy*** to fulfill the requirements of subsection 1.

5. To the extent that there is not sufficient money available for the support of the program, each state agency that occupies a building in which the use of energy is tracked pursuant to the program shall reimburse the **[**~~Buildings and Grounds Division~~**]** ***Office of Energy*** for the agency's proportionate share of the unfunded portion of the cost of the program. The reimbursement must be based upon the energy consumption of the respective state agencies that occupy buildings in which the use of energy is tracked.

6. Notwithstanding any other provision of law, an owner of a building who enters into a contract with a state agency for occupancy in the building:

(a) If the contract is entered into before May 28, 2009, may comply with the program; and

(b) If the contract is entered into on or after May 28, 2009, shall, to the extent practicable as determined by the **[**~~Chief,~~**]** ***Director of the Office of Energy,*** comply with the program.

➥ If an owner chooses not to comply with the program pursuant to paragraph (a), a state or local agency shall not, after May 28, 2009, enter into a contract for occupancy of a building owned by the owner, except that the Chief may authorize a state or local agency to enter into a contract for the occupancy of a building owned by an owner who does not comply with the program if the **[**~~Chief~~**]** ***Director of the Office of Energy*** determines that it is impracticable for the owner to comply with the program.

7. The Chief shall provide such assistance to the Director of the Office of Energy as is necessary to carry out the provisions of this section.

8. The Director of the Office of Energy may, pursuant to chapter 333 of NRS, enter into contracts for any engineering, procurement and construction services necessary to carry out the provisions of this section. A contract entered into pursuant to this subsection is not subject to the provisions of chapter 333A of NRS. A contractor who enters into a contract with the Director of the Office of Energy pursuant to this subsection shall submit to the State Public Works Board a copy of any building permit required for any work performed under the contract.

Appendix B
Audit Methodology

To gain an understanding of the Buildings and Grounds Section, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to Buildings and Ground's fiscal operations. We also reviewed financial reports, prior audit reports, budgets, minutes of various legislative committees, and other information describing the activities of B&G. Furthermore, we documented and assessed Buildings and Ground's internal controls over performance measures, purchase cards, lease procurements, and energy tracking.

We evaluated the reliability of B&G's performance measures for leased space. This included reviewing the supporting documentation used to calculate the fiscal year 2010 average market cost of leased space for the three urban areas. We determined the validity of the supporting documentation and verified the mathematical accuracy of calculations. We also reviewed lease logs for the three urban areas. We verified logs were accurate and complete comparing information from spreadsheets to the actual lease agreements. We recalculated certain information on lease logs and other supporting documentation. Next, we analyzed B&G's actual utility and custodial costs to verify the reasonableness of the amounts added to non-full service leases. Finally, we adjusted for errors and recalculated measures.

To verify lease procurement activities were efficient and effective and lease payments were properly administered we selected 20 leases with the largest combined reported savings for fiscal years 2010 and 2011. We recalculated the savings for each lease and compared the prior lease rate to the renegotiated rate.

To determine market rates and trends for the three urban areas, we compiled quarterly market rates for the third quarter of 2009 through the second quarter of 2011 for the Reno and Las Vegas urban areas. Market information was obtained from broker market reports published on the internet. Sources used included Colliers International's Las Vegas and Reno Research & Forecast Report; CB Richard Ellis' MarketView Las Vegas and Reno Office; and the Commercial Market Monitor by Applied Analysis. To determine if lease rates were reasonable and advantageous to the state, we selected 20 renegotiated leases, 10 of the largest leases renewed since July 1, 2009, and 10 non-renegotiated leases, and compared lease rates to market rates. Additionally, we reviewed lease files for documentation of analyses of moving expenses, lessor funded capital tenant improvements, and market rate comparisons.

We determined if lease payments were properly administered by selecting 2 lease payments from the 20 renegotiated leases and the 10 renewed leases. We reviewed payment data and compared the actual monthly payment amount to that stated in the lease agreement.

To evaluate compliance with purchase card requirements, we electronically obtained all purchase card transactions from July 2009 to December 2010. We verified data by comparing totals to monthly statements. Next, we sorted and analyzed data and judgmentally selected 20 purchases based on dollar amount, purchases of unusual items, purchases appearing to exceed limits, purchases occurring on weekends or holidays, and split purchases. We tested each item for proper recording, approval, and compliance with laws, regulations, policies, and procedures. For purchases occurring on a weekend or holiday, we reviewed the timesheets and compared hours worked to purchase history.

To determine if the energy tracking program was properly administered, we verified the accuracy of the energy tracking database. We familiarized ourselves with its content and capabilities by reviewing the users guide and content of the database. We selected ten meters with the highest usage for calendar year 2010 from the database and randomly selected two months for each meter. We verified the data to the supporting invoices. We also randomly selected ten electric and ten gas payment vouchers and verified the usage and dollar amounts to the energy tracking database. We selected five leases negotiated since May 28, 2009 to determine if terms included a requirement that owners of the properties submit energy usage data. If terms were not stated in the lease agreement, we determined if the Administrator had documented it was impracticable for the owner to provide the information.

Our audit work was conducted from October 2010 to July 2011. We conducted the 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 objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Administrator of the Public Works Division. On December 20, 2011, 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 C, which begins on page 27.

Contributors to this report included:

Jill Silva, CPA, CIA Deputy Legislative Auditor	Shannon Ryan, CPA Audit Supervisor
David Steele, CPA Deputy Legislative Auditor	

Appendix C

Response From the Buildings and Grounds Section

Brian Sandoval
Governor

Jeff Mohlenkamp
Director

Gustavo "Gus" Nuñez
Administrator

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
Public Works Division

Carson City Offices:
Public Works Section
515 East Musser Street, Ste. 102
Carson City, Nevada 89701-4263
(775) 684-4141 | Fax (775) 684-4142

Buildings & Grounds Section
(775) 684-1800 | Fax (775) 684-1817

Las Vegas Offices:
Public Works Section
1830 East Sahara, Ste. 204
Las Vegas, Nevada 89104-3739
(702) 486-5115 | Fax (702) 486-5094

Buildings & Grounds Section
2621 East Sahara Avenue
Las Vegas, Nevada 89104-4136
(702) 486-4300 | Fax (702) 486-4308

January 6, 2012

Paul V. Townsend, CPA
Legislative Auditor
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Townsend:

Regarding your audit report dated December 21, 2011, please accept this statement of explanation. We accept the ten recommendations included in the audit report. Our comments on the individual recommendations are presented below.

1. **Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The Division is currently reviewing the policies and procedures for performance measures. Based on this review, policies and procedures will be modified as necessary in order to ensure that reported results are reliable and documented, including data gathering procedures, methodology, and calculations. The recent merger between Buildings & Grounds and Public Works allows the Leasing Section access to IT resources to develop reliable database applications for data gathering, analysis, and reporting, rather than the spreadsheet applications currently in use. As recommended, a weighted average methodology will be used to calculate performance measures.

2. **Periodically determine actual ancillary cost rates to be used in performance measure calculations and lease negotiations.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The Division agrees that the use of State-owned properties' actual ancillary costs are more accurate than costs obtained from brokers and will assist in the performance measure calculations and lease negotiations. These ancillary costs, used as a benchmark for performance measures, will be reviewed each fiscal year and adjusted as necessary.

3. **Use information technology solutions to create efficiencies and assist staff in calculating performance measures.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The recent merger between Buildings & Grounds and Public Works allows the Leasing Section access to IT resources to develop reliable database applications for data gathering, analysis, and reporting, rather than the spreadsheet applications currently in use. Database applications can be tailored to track several information sources more efficiently and improve accuracy of the data. We have contacted our primary client users, for both public and State, requesting their input and suggestions to improve our website regarding the space request forms, and property inventories, to create efficiencies and make our site more user friendly.

4. **Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The Division has compiled data that is regularly updated with current market comparables obtained from local real estate professionals for each community that we serve. These statistics are reviewed upon the preparation of each new lease document. The information is reviewed and updated no less than annually, and this information will be maintained in the leasing database that is being developed for analysis and reporting purposes. Additionally, these market comparable rates are reported in the lease summary with the submittal of each lease for execution.

5. **Establish a process and document the analysis of lease negotiation activities including evaluating the cost of lessor funded tenant improvements and the cost/benefit of moving agencies to premises with more advantageous lease rates.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The Division will implement a process that documents in the lease file the reasoning of any move or consolidation, including tenant improvements, which will also be summarized on the Statewide Lease Information form. Any tenant improvements that are agency specific and are amortized over the lease will be analyzed and documented in the lease file.

6. **Develop procedures to ensure management reviews and approves information published and submitted to the Legislature.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   The Division is currently reviewing the policies and procedures of information published and submitted to the Legislature. Based on this review, policies and procedures will be modified as necessary in order to strengthen control over the review process.

7. **Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   We are currently developing a written policy outlining the procedure to follow up with the agency's primary contact person verifying that they have received the revised lease documentation outlining the new rental rates, and that their payments are in accordance with the revised contract.

8. **Strengthen policies, procedures, and controls over procurement card issuance including limits, approvals, and agreement.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   Buildings and Grounds is currently reviewing the policies and procedures governing procurement cards including "Buildings and Grounds Policies and Procedures Manual, Chapter V – Fiscal Management" and the "Department of Administration - Buildings and Grounds Division, Policies and Procedures, Internal Accounting and Administrative Control". Based on this review, policies and procedures will be modified as necessary in order to strengthen control over procurement card issuance and usage.

   Buildings and Grounds management recently delivered a verbal directive to staff stating that a purchase card transaction cannot be split into two purchases to circumvent the established purchase card limit. In regards to the temporary lifting of a purchase card transaction limit, Buildings and Grounds will ensure that supervisor approval is obtained prior to the temporary transaction limit increase. Documentation of these supervisor approved transaction limit increases will be kept in a file maintained by the front office administrative staff.

9. **Periodically review procurement card activity to ensure compliance with policies and procedures.**

   The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

   Buildings and Grounds recently instituted the use of a "daily work report" for maintenance and grounds staff. The daily work report includes a section for procurement card purchases. The daily work report is reviewed and signed by the employee, and then submitted to their supervisor, on a daily basis. The employee's supervisor reviews and signs the daily work report and they are then submitted for weekly review to the Buildings and Grounds front office administrative staff. The logs are reviewed for accuracy and input into the running total spreadsheet credit card log for the month. The monthly bank download is available on the 26th and the download is done on the next available business day. The monthly bank-issued procurement card statements are received via USPS approximately the 3rd of every month, matched to the download, and submitted to the procurement card administrator for final review and signature approval. This whole packet is then submitted to Administrative Services for review and processing for payment.

   Buildings and Grounds administrative staff is also reviewing the procurement card holder agreements to ensure that they are fully executed for all procurement cardholders. The procurement card agreement file is maintained by the front office administrative staff.

10. **Develop procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary.**

    The State Public Works Division, Buildings & Grounds Section accepts the recommendation.

Page 3 of 4

Buildings and Grounds administrative staff will periodically review procurement card usage and the established individual monthly and transaction limits and will raise or lower the limits as necessary with approval. If a procurement card limit is raised or reduced, a new procurement card agreement will be completed.

Also, as requested, attached is the "Buildings and Grounds Section Response to Audit Recommendations" form with the check marks.

Respectfully submitted,

Gustavo Nunez, P.E., Administrator
State Public Works Division

The Buildings and Grounds Section's Response to Audit Recommendations

	Recommendations	Accepted	Rejected
1.	Develop written policies and procedures for performance measures to ensure reported results are reliable, including data gathering and processing, computations, supervisory review of calculations and methodology, and retention of supporting documentation	X	
2.	Periodically determine actual ancillary cost rates to be used in performance measure calculations and lease negotiations	X	
3.	Use information technology solutions to create efficiencies and assist staff in calculating performance measures	X	
4.	Periodically review the appropriate market data analyses to assess and obtain lease rates and terms that are most beneficial to the state. Document the analysis of market rates and trends to negotiated lease rates and terms	X	
5.	Establish a process and document the analysis of lease negotiation activities including evaluating the cost of lessor funded tenant improvements and the cost/benefit of moving agencies to premises with more advantageous lease rates	X	
6.	Develop procedures to ensure management reviews and approves information published and submitted to the Legislature	X	
7.	Develop a procedure to assist state agencies in ensuring lease payments on renegotiated leases are made in conformance with the proper lease agreement	X	
8.	Strengthen policies, procedures, and controls over procurement card issuance including limits, approvals, and agreement	X	
9.	Periodically review procurement card activity to ensure compliance with policies and procedures	X	
10.	Develop procedures to periodically review and analyze cardholders and limits to determine if issued cards and limits are adequate and necessary	X	
	TOTALS	10	0