

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

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



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

LEGISLATIVE COMMISSION (775) 684-6800
RANDOLPH J. TOWNSEND, *Senator, Chairman*
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
MORSE ARBERRY JR., *Assemblyman, Chairman*
Mark W. Stevens, *Fiscal Analyst*
Gary L. Ghiggeri, *Fiscal Analyst*

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

We have completed an audit of the State Public Works Board (SPWB). 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 findings, conclusions, recommendations, and the SPWB's response, are presented in this report.

We wish to express our appreciation to the management and staff of the State Public Works Board 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

November 25, 2008
Carson City, Nevada

STATE OF NEVADA
STATE PUBLIC WORKS BOARD

AUDIT REPORT

Table of Contents

	<u>Page</u>
Executive Summary	1
Introduction	7
Background	7
Scope and Objective	10
Findings and Recommendations	11
Additional Change Order Controls Needed	11
Change Orders Lacked Supporting Documentation	12
Some Change Orders Included Prohibited and Duplicate Charges.....	13
Project’s Change Orders Exceeded Statutory Limit.....	17
Project Management Oversight Can Be Strengthened	18
Effective Construction Management at Risk Procedures Needed	18
Better Documentation Will Help Ensure NSHE Reimbursements Are Appropriate	21
Professional Services Payments Not in Compliance With Contract	23
Contract Retention Amounts Did Not Comply With State Law	24
Procedures Needed to Ensure Project Management Charges Are Accurate	25
Appendices	
A. Audit Methodology.....	28
B. Additional Costs and Days Added From Change Orders to the “C” Projects Tested.....	32
C. Response From the State Public Works Board	33

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

Background

The mission of the State Public Works Board (SPWB) is to efficiently and effectively plan, manage, and implement capital improvements for the State of Nevada, and to regulate all construction on state lands to safeguard public health, safety and welfare. With the approval of Senate Bill 387, the 2007 Legislature revised the membership of the Board. This legislation abolished the previous Board and created a seven-member Board with five members appointed by the Governor. In addition, the Majority Leader of the Senate and the Speaker of the Assembly each appoint a member.

A primary responsibility of the SPWB is the development and implementation of the state's Capital Improvement Program (CIP). In 2007, the Legislature approved a CIP totaling about \$811 million compared to the \$419 million approved for the 2005 CIP. In addition, the SPWB functions as the building official for projects constructed on state lands.

The SPWB maintains offices in Las Vegas and Carson City. The 2007-2009 Legislatively Approved Budget authorized a total of 80 full-time equivalent positions for each year of the biennium. Administrative expenditures are accounted for in a General Fund budget account and project management and inspection costs are recorded in a Special Revenue Fund account. Fiscal year 2008 expenditures for these accounts were approximately \$1 million and \$6.6 million respectively.

Purpose

The purpose of this audit was to determine whether the SPWB managed the design and construction of CIP projects in accordance with laws, regulations, policies, and industry practices. To accomplish this purpose, we included

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

project management functions for the CIP's construction projects ("C" projects) that had construction activity during the 21 months ended March 31, 2008, and certain "C" projects using the Construction Manager at Risk process that had activity through August 2008.

Results in Brief

Although the SPWB generally complied with laws, regulations, and policies for managing CIP projects, additional controls are needed to help strengthen its construction management processes. For example, change orders did not always have sufficient documentation to determine the propriety of the charges, and some included prohibited charges. Because change orders can result in millions of dollars in additional costs, improved controls will help ensure all charges are appropriate. Furthermore, additional costs may have been added to some projects because industry practices recommended for the efficient completion of Construction Manager at Risk projects were not followed, and documentation was not always sufficient to ensure construction reimbursements to the Nevada System of Higher Education were appropriate. Finally, improved monitoring procedures will help ensure professional service contracts and contractor retention payments are in compliance with state laws, and the hours recorded for project billings are accurate.

Principal Findings

- Change order items totaling approximately \$1.6 million did not have sufficient documentation to verify their propriety. For example, approximately \$344,000 in use tax was approved through a change order without any documentation indicating the contractor paid the tax. After we requested additional information, the contractor provided documents showing about \$318,000 had been paid. However,

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

the tax was paid shortly after our request and no documentation was provided to account for the remaining \$26,000. Detailed supporting documentation for change orders is necessary to help ensure costs are valid. (page 12)

- Fifteen of the 16 change orders tested included charges not allowed by the General Conditions of the contract or state policy. As a result, about \$192,000 in prohibited charges were added to the contracts. For instance, change orders on two of the projects tested included \$20,000 for costs incurred during meetings between key project stakeholders to express their concerns. However, these costs consisted primarily of meals. State policy does not allow the SPWB to provide meals other than for employees' per diem while in travel status. (page 13)
- For one project, the SPWB exceeded the statutory limit for increasing the original contract amount through change orders. The SPWB processed change orders totaling approximately \$261,000, or 21% of the original contract amount. However, the Board was authorized to approve contract changes that did not exceed 10%. Because this was one of the first CMAR projects, SPWB staff did not believe the change order statutory limit applied. (page 17)
- Our review of three projects that used a Construction Manager at Risk (CMAR) showed the SPWB selected the CMAR after the optimum time. Certain public work entities and professional organizations recommend the CMAR and architect be selected at the same time. However, the CMAR on one project was selected almost a year and a half after the architect. The CMAR can provide advice on project costs, schedule, and constructability if selected early in the design phase. Without the CMAR's early involvement, the benefits of increased speed and coordination can be lost. (page 19)

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

- The maximum amount the CMAR would receive to complete a project was obtained before recommended. Once the design of a project nears completion, the CMAR solicits bids from subcontractors and submits a Guaranteed Maximum Price (GMP). However, for two of the projects reviewed, the GMP was provided when the construction documents were only 50% complete. As a result, additional costs may have been incurred on one of these projects. (page 20)
- The SPWB did not obtain sufficient documentation to ensure the appropriateness of several construction reimbursements to the Nevada System of Higher Education (NSHE). As a result, the College of Southern Nevada (CSN) received more than \$500,000 in duplicate payments for expenditures related to the Telecommunication Building project. Furthermore, the SPWB was not able to obtain sufficient evidence CSN contributed the entire \$1 million to this project as required by the 2001 CIP. Improved monitoring of supporting documentation will help ensure reimbursements to NSHE institutions are appropriate. (page 21)
- For one project we examined, three billings totaling about \$28,000 for contracted inspection services had not been authorized by the SPWB. This contract required that services not be performed until written authorization was provided. Furthermore, the system used to monitor the contract's available balance did not include any expenditures for this project. As a result, the remaining balance of this \$500,000 contract was overstated by more than \$119,000. Sound contract monitoring procedures help ensure expenditures do not exceed the amount authorized. (page 23)
- Progress payment retentions for the University of Nevada, Reno Knowledge Center were less than 10% until the project was 50% complete. As a result, the SPWB retained \$297,000 less than required at 50%

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

completion. NRS 338.515 requires 10% of the amount of a progress payment to be retained until at least half the project is complete. The SPWB has a policy to monitor retention amounts; however, it was not followed on this project. (page 24)

- The SPWB had not established procedures to ensure the time project managers and inspectors charged to projects or their timesheets was accurate. Approximately 19% of the employees' timesheets we examined did not agree to the hours recorded in the project billing system. As a result, projects were undercharged a net amount of \$29,400, which had to be absorbed by the Project Management and Inspection Account. In addition, we found overtime and leave were not always recorded correctly on employees' timesheets. Although these errors did not result in a significant loss of revenue or payroll overpayments, the lack of controls increases the risk these errors could become significant. (page 25)

Recommendations

This report contains 10 recommendations to improve the SPWB's project management practices. Three recommendations relate to improving controls over change order costs and one recommendation relates to discontinuing practices not in compliance with state policy. Another recommendation relates to ensuring CMAR activities follow recommended guidelines. In addition, one recommendation relates to obtaining sufficient documentation to verify the propriety of NSHE reimbursements, and two recommendations relate to improving monitoring activities for professional services contracts and contractor retention payments. Finally, two recommendations relate to improving controls over the SPWB's project management database and timesheets. (page 37)

EXECUTIVE SUMMARY

STATE PUBLIC WORKS BOARD

Agency Response

The agency, in response to our audit report, accepted the 10 recommendations. (page 33)

Introduction

Background

The mission of the State Public Works Board (SPWB) is to efficiently and effectively plan, manage, and implement capital improvements for the State of Nevada, and to regulate all construction on state lands to safeguard public health, safety and welfare. The SPWB is responsible for developing and implementing the state's Capital Improvement Program (CIP). In addition, the SPWB qualifies bidders, provides architectural and engineering services to all state agencies, and functions as the building official for projects constructed on state lands. Through the Facilities Condition Analysis program, the SPWB also conducts building inspections and tracks deferred maintenance needs for state buildings.

With the approval of Senate Bill (S.B.) 387, the 2007 Legislature revised the membership of the Board. This legislation abolished the previous Board and created a seven-member Board with five members appointed by the Governor. In addition, the Majority Leader of the Senate and the Speaker of the Assembly each appoint a member. Although the SPWB receives certain administrative services from the Department of Administration (DOA), the SPWB is no longer a part of the DOA, and the DOA Director is no longer required to be a member of the Board. Other changes enacted by S.B. 387 include the establishment of a new Deputy Manager position responsible for enforcement of building code compliance. This new position serves at the pleasure of the Governor and the Board.

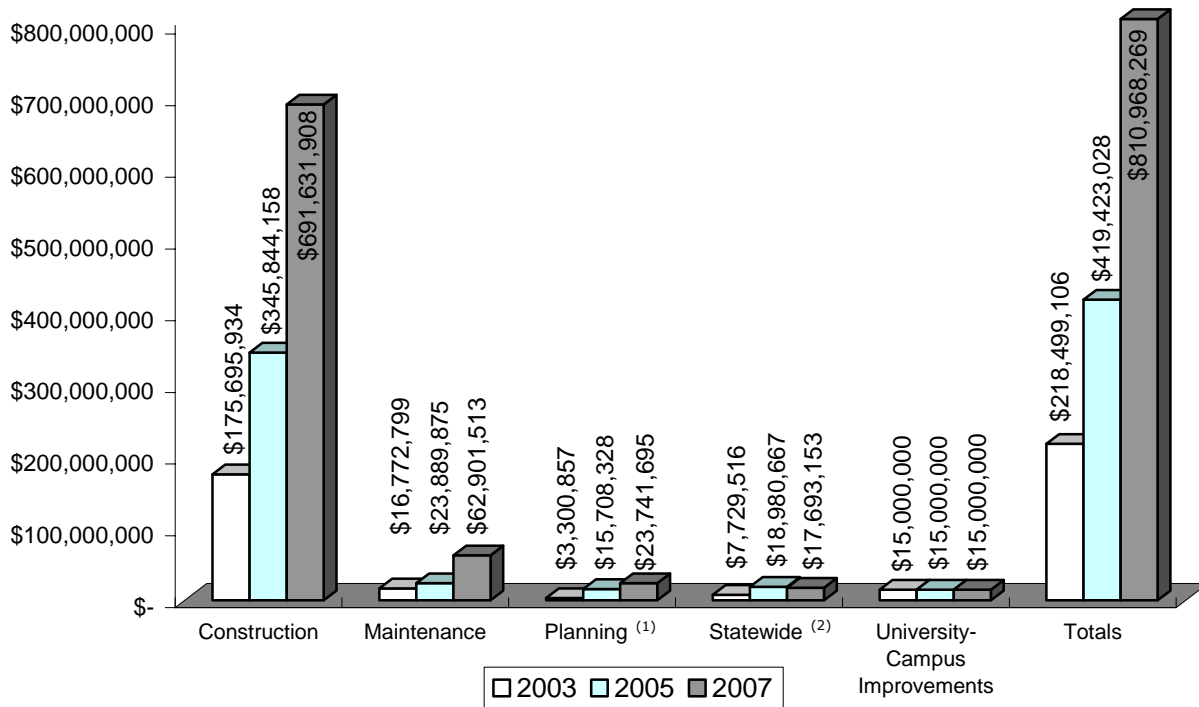
Capital Improvement Program

A primary responsibility of the SPWB is to manage the Capital Improvement Program. The 2007 Legislature approved a CIP totaling about \$811 million compared to the \$419 million approved for the 2005 CIP. Exhibit 1 shows the authorized expenditures by category for the 2003, 2005, and 2007 CIPs. Construction expenditures ("C projects") account for the majority of each CIP. In the 2003 CIP, approved construction expenditures accounted for 80% of the total. This trend

continued with construction expenditures reaching 82% in the 2005 CIP and 85% in the 2007 CIP.

Exhibit 1

**2003, 2005, & 2007 CIPs
Authorized Expenditures
By Category and Total**



Source: Auditor prepared from Nevada Legislative Appropriations Reports.

(1) Includes funding for feasibility studies, land acquisition, programming, and design and construction document completion.

(2) Includes funding for statewide programs like American Disabilities Act compliance, roofing, paving and fire and life safety.

Staff and Budget

The SPWB maintains offices in Las Vegas and Carson City. The 2007-2009 Legislatively Approved Budget authorized 80 full-time equivalent positions for each year of the biennium. This included 13 new positions.

Administrative expenditures are accounted for in a General Fund budget account and project management and inspection expenditures in a Special Revenue Fund account. The Administrative Account receives funding through a General Fund appropriation and supports nine positions. Fiscal year 2008 expenditures for this account were slightly more than \$1 million. The Project Management and Inspection Account is primarily funded by project management and inspection fees assessed to

each project. The remaining 71 authorized positions are supported by this budget account. Expenditures for this account totaled about \$6.6 million.

Exhibit 2 shows the revenues and expenditures for the Administration Account for fiscal year 2008 and Exhibit 3 shows the same for the Project Management and Inspection Account.

Exhibit 2

**Administrative Account
Fiscal Year 2008 Revenues and Expenditures**

Description	Amounts
Revenues	
Appropriations	\$ 1,053,710
Total	\$ 1,053,710
Expenditures	
Personnel Services	\$ 806,803
In State Travel	25,946
Operating ⁽¹⁾	147,259
Total	\$ 980,008
Reversion	\$ 73,702

⁽¹⁾ Includes equipment, information services, Board pay, and purchasing assessment.
Source: State Accounting System.

Exhibit 3

**Project Management and Inspection
Fiscal Year 2008 Revenues and Expenditures**

Description	Amounts
Revenues	
Beginning Cash	\$ 278,216
Plan Review Fees	27,975
Inspection Fees	6,660,969
Miscellaneous	35,128
Total	\$ 7,002,288
Expenditures	
Personnel Services	\$ 4,834,756
In State Travel	218,081
Operating ⁽¹⁾	836,243
Attorney General Counsel	89,975
Information Services	104,164
Assessments	490,951
Total	\$ 6,574,170
Balance Forward to New Year	\$ 428,118

⁽¹⁾ Includes equipment, plan checking, and training.
Source: State Accounting System.

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 the SPWB's project management functions for the Capital Improvement Program's (CIP) construction projects ("C" projects) that had construction activity during the 21 months ended March 31, 2008, and certain "C" projects using the Construction Manager at Risk process that had activity through August 2008. The objective of our audit was to determine whether the SPWB managed the design and construction of CIP projects in accordance with laws, regulations, policies, and industry practices.

Findings and Recommendations

Although the SPWB generally complied with laws, regulations, and policies for managing CIP projects, additional controls are needed to help strengthen its construction management processes. For example, change orders did not always have sufficient documentation to determine the propriety of the charges, and some included prohibited charges. Because change orders can result in millions of dollars in additional costs, improved controls will help ensure all charges are appropriate. Furthermore, additional costs may have been added to some projects because industry practices recommended for the efficient completion of Construction Manager at Risk projects were not followed, and documentation was not always sufficient to ensure construction reimbursements to the Nevada System of Higher Education were appropriate. Finally, improved monitoring procedures will help ensure professional service contracts and contractor retention payments are in compliance with state laws, and the hours recorded for project billings are accurate.

Additional Change Order Controls Needed

Although the SPWB has established controls over change orders, these controls need to be strengthened. Our review found a significant amount of costs added through change orders lacked sufficient supporting documentation. Without adequate documentation, the SPWB has limited assurance these additional costs were reasonable or appropriate. We also found change orders contained about \$192,000 of prohibited costs. These costs included items not allowed per the General Conditions of each construction contract and meals provided to SPWB employees and other stakeholders involved in a project. Finally, the increased contract amount added through change orders exceeded the 10% statutory limit for one project.

Change orders are amendments to the original contract between the SPWB and the general contractor. These amendments must be signed by the contractor, architect, and the SPWB to authorize a change in the work or an adjustment in the contract price or time. A change order can include several items that require revisions to the original

scope of work. For instance, one item might be to relocate a water line and the next could be related to additional concrete work. Exhibit 4 shows the total costs and days added to the original contracts through change orders for the eight “C” projects we examined.¹

Exhibit 4

**Additional Costs and Days Added to
Original Contracts for Projects Tested
As of March 31, 2008**

	Amount	Days
Original Contracts	\$261,701,134	4,175
Change Orders	28,532,837	731
Amended Totals	\$290,233,971	4,906

Source: Auditor prepared from SPWB records.

Change Orders Lacked Supporting Documentation

While most change orders reviewed contained sufficient supporting documentation, the SPWB processed some change order items without obtaining documentation that properly itemized the additional costs. At our request, the SPWB obtained documentation from contractors for some of these costs. However, this documentation was not always sufficient to justify the costs. Detailed supporting documentation for change orders is necessary to help ensure costs are valid.

Items totaling approximately \$1.6 million or 6% of the approved change orders tested did not have sufficient documentation to verify their propriety. For example, the following three projects lacked documentation for significant items added to the projects:

- **High Desert State Prison Phase IV**—Approximately \$344,000 in use tax for the purchase of prefabricated steel cells and showers was included in a change order without any documentation to support this amount. After we requested additional information, the contractor provided documentation that showed approximately \$318,000 was paid to the Department of Taxation. This amount was paid shortly after our request for supporting documentation and almost a year after the change order was processed. In addition, the documentation did not account for about \$26,000 in use tax added to the contract through this change order.
- **Desert Research Institute (DRI) Computer Automated Virtual Environment (CAVE) Facility**—\$952,000 or 20% of the total change order costs tested did not have supporting documentation that properly itemized the

¹ See Appendix B for a change order analysis for each of the eight projects tested.

cost components. These charges included \$547,000 listed by one subcontractor as “quoted” charges for an electrical switchboard and generator. However, the actual quotes detailing the equipments’ costs were not included.

- **College of Southern Nevada (CSN)² Telecommunication Building—** About \$281,000 or 34% of change order costs tested lacked supporting documentation that properly itemized the cost components. Included in these costs were \$122,000 listed by the contractor for one change order. These charges related to additional design, electrical, and plumbing work performed by subcontractors, but the detailed subcontractor costs such as labor, materials, and markup charges were not provided.

The SPWB has developed policies to help control change order costs. For instance, the General Conditions in each project’s contract require that change order costs be provided as a proposal properly itemized to include labor, overhead, profit, materials, and equipment costs; or the actual cost of labor, material, equipment, etc. In addition, the General Conditions state proposed changes should be submitted to the project architect in sufficient detail to allow a complete analysis of all costs. However, the Conditions do not require this detail to be provided to the SPWB for analysis. As a result, some project managers rely on the architect to review the proposed changes.

Change orders can significantly increase project costs. Because change orders are not subject to competitive bidding and include markup costs, detailed supporting documentation should be obtained to help determine the validity of these additional costs.

Some Change Orders Included Prohibited and Duplicate Charges

Fifteen of the 16 change orders tested included charges not allowed by the General Conditions of the contract or state policy. In total, about \$192,000 in prohibited charges were added to the contracts. Prohibited charges included costs for supervision, bonding, safety, small tools and meals. In addition, one change order included costs for an item that was approved in a previous change order. When change orders do not receive adequate review, there is an increased risk of overpayments.

Costs Not Allowed Per Terms of Contract

Although the amount of prohibited costs was not always significant when compared to some change orders’ total costs, they accounted for nearly 9% on one

² Previously known as Community College of Southern Nevada.

change order. The approved change order amount for the project was about \$418,000, of which we identified costs totaling about \$33,000 that should not have been included. Charges for supervision accounted for most of these costs. We also identified almost \$10,000 for bonding fees in another change order on this project.

Incorporated into each project's contract is the General Conditions. Section 2.7.6 of the General Conditions states in part:

The costs for changes in the work may be increased to include a fixed fee for Subcontractor profit and overhead, General Contractor profit and overhead on Subcontractor work, and profit and overhead on work done by the General Contractor's own forces. This fee...shall be full compensation for the cost of supervision, overhead, profit, tools, insurance & bonding, and all other expenses associated with completing the change in the scope of work.

The fixed fee for profit and compensation of expenses like bonding and supervision is 10% or 15% based on the amount of the change order item. For all exceptions noted, the fixed fee was charged in addition to charges for safety, bonding, and other disallowed costs.

Architects are required to prepare, review, and approve change orders before submission to the SPWB for approval. However, for one project we observed the architect was not consistent when reviewing change orders for allowable costs. For example, on one change order, supervision and bonding costs were allowed but on a later change order the architect did not allow these fees. Therefore, the SPWB should develop procedures to help ensure change orders do not contain costs that are not authorized in the General Conditions of the contract.

Change Orders Included Costs for Meals

Change orders on two of the projects tested included a total of \$20,000 identified as partnering costs. According to the SPWB's management, these costs consist primarily of meals provided at meetings between key project stakeholders to express their concerns. The costs are to be split evenly between the SPWB and general contractor. We also identified a project in which \$5,000 for partnering costs was included in the contract. Exhibit 5 shows the three projects tested and the addition to the contract amount for partnering costs.

Projects With Partnering Costs

	Amount
University of Nevada, Las Vegas (UNLV) Science, Engineering and Technology Building	\$ 5,000
University of Nevada, Reno (UNR) Knowledge Center	\$ 10,000
Desert Research Institute (DRI) CAVE Facility	\$ 10,000

Source: SPWB contract records.

Because the change orders did not have documentation supporting what was included in the additional costs, SPWB staff obtained information from two of the projects' contractors. Each contractor provided a list itemizing the expenditures, but no detailed information or invoices to support the \$18,373 reported. In addition, the contractor that received \$5,000 in the contract for partnering costs on UNLV's Science, Engineering and Technology (SET) Building did not provide any supporting documentation. The amounts reported by the contractors represented total partnering costs, of which the SPWB was responsible for 50%. Exhibit 6 shows the amounts of reported partnering expenditures by project and type for the two projects that contractors provided documentation.

**Contractor Reported Partnering Expenditures
By Project and Type**

Project	Expenditures	Amounts
UNR Knowledge Center	Restaurant	\$ 3,093
	Catering	2,896
	Individuals	2,053
	Local Government	23
	Total Knowledge Center	\$ 8,065
DRI CAVE Facility	BBQ's	\$ 4,326
	Restaurant	4,089
	Individuals	875
	Bank	804
	Credit Card Reclassification Charge	214
	Total CAVE Facility	\$ 10,308
Total		\$ 18,373

Source: SPWB records.

After receiving the contractors' partnering expenditures, the SPWB processed two change orders to reduce the state's obligation by a total of \$9,468. This reduction included \$5,968 for the Knowledge Center and \$3,500 for the SET Building. Because the contractor for the SET project did not provide documentation, the SPWB estimated the cost of the meals purchased. According to a SPWB official, the DRI CAVE Facility project is not complete so the total partnering costs have not been calculated.

Although the partnering program may be beneficial to some construction projects, state policy does not allow the SPWB to provide meals other than for employees' per diem while in travel status. Section 2636 of the State Administrative Manual only allows agencies with activities associated with State economic development or tourism marketing, to incur costs such as food and refreshments for client attendees of agency functions. To provide food and refreshments, the agency must have a legislatively approved host fund.

Duplicate Charges

One change order we reviewed included \$15,905 in charges that had been included in a previous change order. It did not appear duplication of these charges was intentional and detection would have been difficult as multiple charges were requested.

When this duplicate charge was brought to the attention of the project manager, a credit for the \$15,905 was processed on a later change order.

Proper review of change orders helps ensure the accuracy and validity of charges. Although a project's architect can assist the SPWB in reviewing change orders, the SPWB is primarily responsible for ensuring charges comply with the contract terms. Therefore, procedures are needed to help the SPWB identify change order items that are not in compliance with the contract and for the detection of duplicate charges.

Project's Change Orders Exceeded Statutory Limit

For one project, the SPWB exceeded the statutory limit for increasing the original contract amount through change orders. Specifically, the Department of Agriculture's Elko Office Building had an original contract amount of \$1,220,203. The SPWB processed change orders totaling \$261,091, or 21% of the original contract amount. However, NRS 341.145 authorized the Board to approve increases to contracts that did not exceed, in the aggregate, 10% of the total awarded contract price.³ Compliance with statutes is important to help ensure project changes are approved by decision makers and oversight bodies.

The SPWB developed a procedure to monitor contract increases for compliance with state law, but did not follow the procedure on this project. A change order summary sheet is to be prepared for each change order. This sheet shows the original contract price, the maximum change order limit, current change order amount, and the amount of previous change orders. The Department of Agriculture's Elko Office Building was one of the first SPWB projects to use a construction process known as Construction Manager at Risk (CMAR). Because this was one of the first CMAR projects, staff did not prepare a change order summary sheet. At that time, staff believed CMAR projects were exempt from the change order statutory limit.

Recommendations

1. Ensure change order documentation includes sufficient detail to support all costs.

³ During the 2007 Legislative Session, the percentage was increased to 15%.

2. Develop procedures that help identify change order items that are not in compliance with the General Conditions of the contract and for the detection of duplicate charges.
3. Discontinue paying for meals associated with partnering meetings.
4. Prepare change order summary sheets for all projects to help ensure change orders do not exceed the statutory limit.

Project Management Oversight Can Be Strengthened

Additional costs may have been added to some projects because practices recommended for the efficient completion of Construction Manager at Risk (CMAR) projects were not followed. Our review indicated the CMAR and the guaranteed construction price were not obtained at the most beneficial time. In addition, the SPWB made duplicate reimbursements to the College of Southern Nevada (CSN) for one project and did not have sufficient evidence CSN had contributed \$1 million as required for this project. Finally, improved monitoring procedures will help ensure professional service contracts and contractor retention payments are in compliance with state laws, project management and inspection hours charged to projects are accurate, and overtime and leave is properly recorded. Strengthening project management controls will help ensure CIP projects are completed efficiently and effectively

Effective Construction Management at Risk Procedures Needed

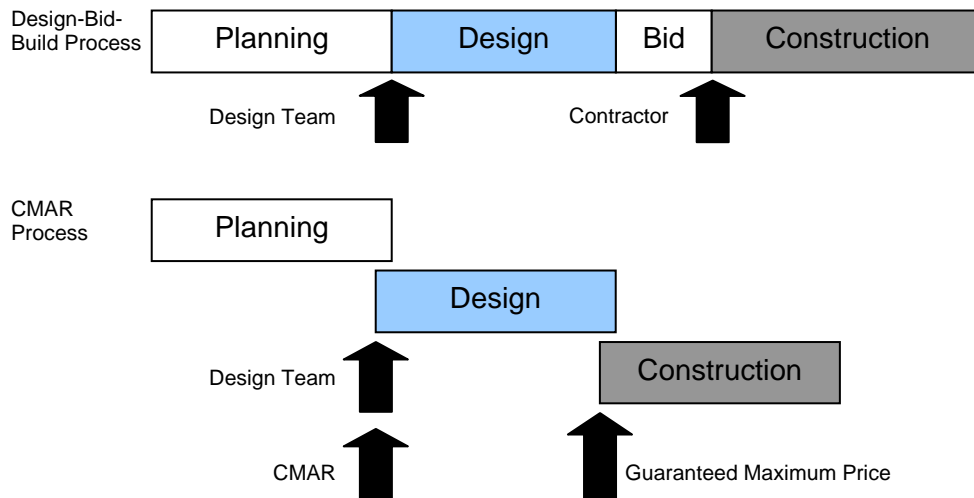
Our review of three projects indicated the SPWB did not select the CMAR or obtain the guaranteed construction price at the optimum time. Specifically, the CMAR was selected later than recommended and the price for two projects was obtained sooner than recommended. The untimely selection of the CMAR and solicitation of the construction price can weaken project coordination and increase costs.

CMAR is an alternative project delivery method that allows the SPWB to choose a contractor based on qualifications instead of a low bid when using a design-bid-build process. The contractor, or CMAR, is included early in the project's design phase and works with the architect to develop the project's design and costs. Once the design of a project nears completion, the CMAR solicits bids from subcontractors and submits a

Guaranteed Maximum Price (GMP). The GMP is the maximum amount the CMAR will receive to complete the project. However, the GMP does not include additional work added through change orders. The CMAR then coordinates all subcontractors' work. By hiring the CMAR during the design phase, early coordination is possible, which can increase the speed of the project and result in cost savings. Exhibit 7 compares the design-bid-build and CMAR project delivery methods.

Exhibit 7

Comparison of Design-Bid-Build and CMAR Delivery Methods



Source: Auditor prepared from industry literature.

CMAR Not Selected Timely

For the three CMAR projects we reviewed (UNLV Greenspun College of Urban Affairs, Department of Agriculture’s Elko Branch Office, and CSN Classroom Building) the architects were selected before the CMARs. The time between contracting with the architect for design services and CMAR for pre-construction services ranged from 89 to 511 days. Certain public work entities and professional organizations recommend the CMAR and architect be selected at the same time. By selecting the CMAR early in the design phase, advice on project costs, schedule, and constructability can be provided. However, without the CMAR’s early involvement, the benefits of increased speed and coordination can be lost. For instance, the CMAR on the Greenspun project was selected almost a year and a half after the architect because UNLV selected the architect before the Legislature approved the project.

SPWB management indicated the CMAR was beneficial on the Greenspun project because the architect and UNLV underestimated the cost of the building. Early in the design phase of the project, the architect estimated the project's cost would be a couple thousand dollars less than the budget. However, 4 months later the project was estimated to be \$9.7 million over the budget. Then, 2 months later the CMAR was selected and subsequently submitted a preliminary estimate that exceeded the construction budget by \$16 million. By the time the SPWB and CMAR had negotiated a final GMP, the estimated cost had risen from \$34 million to \$64.7 million. This significant increase in cost also resulted in additional time delays. Because the CMAR's original GMP was \$69 million, approximately seven weeks were needed to conduct an engineering review to reduce the project's cost.

Guaranteed Maximum Price Solicited Early

The GMPs for the Department of Agriculture Office and CSN Classroom Building projects were provided when the construction documents were about 50% complete. As a result, additional project costs may have been incurred on the CSN Building. Governments and professional organizations that utilize a CMAR recommend the GMP should be solicited when construction documents are between 90 and 100% completed.

A CMAR's construction contract is a cost-plus-fee contract with a guaranteed maximum price. This price is the sum of the CMAR's fee, costs to comply with contract requirements, subcontractor costs, and a contingency. The contingency is a line item cost that accounts for the CMAR's risk related to work that has not been bid. Using the contingency, the CMAR agrees to pay for costs that are not a result of changes in the contract documents. Therefore, a GMP based on completed construction documents minimizes the CMAR's risk and the contingency.

By soliciting the GMP earlier than recommended, the SPWB may have incurred additional costs to the CSN Classroom Building. The CMAR for the CSN project included a 50% construction document contingency in the GMP that totaled \$548,000. The normal construction contingency will be split 65% / 35% between the SPWB and CMAR, respectively. However, the CMAR's contract does not provide the same for the 50% construction document contingency. Therefore, the SPWB may not have been able to share in any cost savings.

Selecting the CMAR and obtaining the GMP at the most beneficial time can result in cost savings and the timely completion of a project. However, the SPWB had not developed formal guidelines addressing when the CMAR should be selected and the GMP solicited. SPWB management has revised the CMAR contracting documents to address these issues. A SPWB official stated these revisions will be presented to the Board for approval in the near future.

Better Documentation Will Help Ensure NSHE Reimbursements Are Appropriate

The SPWB did not obtain sufficient documentation to ensure the appropriateness of several reimbursements to the Nevada System of Higher Education (NSHE). As a result, the College of Southern Nevada (CSN) received more than \$500,000 in duplicate payments for expenditures related to the Telecommunication Building. Furthermore, the SPWB was not able to obtain sufficient evidence CSN contributed the entire \$1 million to this project as required by the 2001 CIP. Finally, the SPWB lacked adequate documentation to ensure funds given to the Nevada State College (NSC) for master planning were spent in accordance with the CIP and written agreement with the SPWB.

CSN Telecommunication Building Expenditures

The Legislature approved \$20 million for the construction of the Telecommunication Building at CSN during the 2001 session. Included in the legislation approving the project was the requirement that CSN contribute \$1 million. In addition, the Legislature approved \$4 million for furnishings and equipment (F&E) during the 2003 session for this project. According to SPWB officials, CSN was delegated the authority for the construction of a parking lot and the procurement of carpeting and F&E.

Based on this authority, CSN submitted four invoices totaling about \$6.2 million. However, these invoices did not always have sufficient documentation to support the amount of the invoice and included items the SPWB had previously paid. In addition, the SPWB did not have certain documentation to ensure the expenditures were appropriate. Specifically, we noted the following:

- In November 2005, the SPWB received an invoice totaling \$3,942,704 for the F&E authorized in the 2003 session. Although the SPWB paid the entire amount, the documentation supporting the payment was about \$58,000 less than the invoice total.

- The SPWB received three invoices in June 2007 totaling \$2.2 million for expenditures incurred primarily in 2003 and 2004. Of the \$2.2 million requested, the SPWB paid approximately \$1.3 million. This payment included:
 - 1) \$444,000 for the Telecommunication Building parking lot,
 - 2) \$580,000 for F&E, and
 - 3) \$271,000 for miscellaneous expenditures.

However, \$534,000 of the \$580,000 F&E payment was for items that had been previously paid in the \$3.9 million F&E payment in November 2005.

- The invoice for miscellaneous expenditures included numerous items totaling about \$1.2 million. Included in the \$1.2 million were invoices totaling \$287,000 for paving. However, the SPWB did not pay the entire invoice since only \$271,000 remained in the budget. Although the Board delegated CSN the authority to oversee the construction of the parking lot, it did not include authority for additional paving. Therefore, we could not determine if the paving expenditures were appropriate.

In addition to inadequate documentation supporting the payments, the SPWB was not able to obtain sufficient evidence CSN had contributed \$1 million towards the project as required by Chapter 585, Statutes of Nevada, 2001. SPWB personnel indicated the approximate \$900,000 variance between what NSC billed for the miscellaneous expenditures and the \$271,000 payment would support in-kind contributions. However, there was not sufficient evidence to determine how much CSN had contributed since the SPWB paid \$534,000 more than it should have on the \$580,000 F&E invoice.

Improved monitoring of supporting documentation will help ensure reimbursements to NSHE institutions are appropriate. In addition, some of these problems such as duplicate payments may have been avoided if CSN's invoices were submitted more timely.

NSC Master Planning Agreement

The SPWB transferred \$400,000 to NSC in January 2007. However, the SPWB did not have any documentation supporting the detailed expenditure of these funds. The funds were transferred in accordance with an agreement delegating the authority to develop a multi-year build-out master plan to the Nevada State College. Without

documentation, the SPWB has no assurance NSC's expenditures were in compliance with the CIP or the agreement.

The CIP approved by the Legislature in 2005 included funds totaling \$1,079,820 for the NSC Liberal Arts Building and master planning. Pursuant to the Delegation of Authority Agreement for the master plan, NSC was to provide quarterly status reports as requested by the SPWB Manager, remit any interest earned on the funds quarterly to the State (these were bond funds), and revert any balance of the funds on or before September 18, 2009. Because the SPWB did not have documentation on the expenditure of these funds, it does not know if any interest was earned or if there are any funds to revert.

Professional Services Payments Not in Compliance With Contract

Payments for certain professional services on the Nevada State College Academic and Student Services Building were not adequately monitored to ensure compliance with contractual requirements. Specifically, inspection services totaling more than \$119,000 were not sufficiently monitored to ensure expenditures did not exceed the contract's authorized amount.

Three of the 17 NSC project's professional services payments we examined were for work that had not been approved in accordance with the terms of the contract. The SPWB entered into a \$500,000 contract with an engineering company to provide inspection services in the Las Vegas area. This contract required that services not be performed until written authorization was provided. However, the contractor submitted three invoices in which services totaling about \$28,000 had not been approved by the SPWB. Although the SPWB authorized additional work for each invoice, these authorizations occurred anywhere from 7 to 28 days after the invoice date. Exhibit 8 shows the variance between the total amount of work authorized and the total work completed for the three invoices.

**Variance Between
Authorized and Billed Amounts By Invoice**

Total Work Authorized	Total Work Billed	Variance
\$ 38,400	\$ 43,812	\$ 5,412
\$ 76,800	\$ 94,788	\$17,988
\$115,200	\$119,970	\$ 4,770
Total Variance		\$28,170

Source: SPWB project files.

We also noted the SPWB’s system used to monitor the available balance of this contract did not have reliable information. The total dollar amount of the contract had been properly recorded as well as the amounts obligated and expended on two other projects. However, the system did not include the obligations and expenditures from this NSC project. As a result, the remaining balance of this \$500,000 contract was overstated by \$119,970.

Sound contract monitoring procedures help ensure expenditures do not exceed the amount authorized. This would include reconciling payments to the contract monitoring system and ensuring contractors do not exceed the amount of authorized services.

Contract Retention Amounts Did Not Comply With State Law

For 1 of 11 projects tested, contractor retention amounts fell below the statutorily required level. Specifically, progress payment retention for the UNR Knowledge Center dropped below 10% with only 5% of the project complete. Further, the amount retained remained below 10% until the project was 50% complete. As a result, the SPWB had retained \$297,000 less than required when the project was 50% complete. NRS 338.515 requires 10% of the amount of a progress payment to be retained. However, once the project is 50% complete, the contractor can request no further retentions.

Although the SPWB has a policy to monitor retention amounts, it was not followed. From our discussions with staff and review of documentation, we determined that the SPWB allowed a reduction of the retention amount at the request of a subcontractor. When we brought this issue to management’s attention, a memo was issued stating reduced retention is not allowed. When retention amounts are not

properly maintained, the State has less assurance that sufficient funds will be available to complete the project should the contractor fail to comply with the contract or the applicable building codes.

Procedures Needed to Ensure Project Management Charges Are Accurate

The SPWB had not established procedures to ensure the time project managers and inspectors charged to projects or their timesheets was accurate. Approximately 19% of the employees' timesheets we examined did not agree with the hours recorded in the project management database. This database is used to bill a project manager's or inspector's time spent working on a project. As a result, some projects were undercharged while others were overcharged. Furthermore, we found timesheets in which overtime was not always recorded correctly, and documentation that indicated leave should have been recorded. Although these errors did not result in a significant loss of revenue or payroll overpayments, the lack of controls increases the risk these errors could become significant.

Project Management Charges

The costs to manage the SPWB's capital improvement projects are recovered from fees based on the hours project managers and inspectors charge to the individual projects. These hours are recorded in a database and periodically retrieved for billing purposes. During fiscal years 2006 and 2007, more than \$5 million of project management and inspection fees were recorded each year.

To determine the accuracy of the database, we compared the timesheets for five project managers and five inspectors to their hours recorded in the database during fiscal years 2006 and 2007. Of the 530 timesheets examined, 99 did not agree with the hours recorded in the database. Although some of these errors were minor, we did identify instances when projects were undercharged because employees:

- did not charge any hours to the database during the week,
- charged leave for several consecutive days when their timesheets indicated they worked (in one instance an employee recorded he worked 65 hours for the week on his timesheet but recorded 40 hours of leave in the database),
- charged 8 hours as holiday for a day that was not a holiday, and
- did not charge overtime recorded on their timesheets.

We also found projects were overcharged because employees:

- charged overtime to the database but not to their timesheet (one employee charged 80 hours for 1 week but his timesheet showed no overtime), and
- charged leave to their timesheet but not to the database.

As a result, we identified a total of 576 hours were undercharged and 260 were overcharged by these 10 employees. The maximum dollar effect was approximately \$50,400 undercharged and \$21,000 overcharged for a net undercharge of \$29,400 which was absorbed by the Project Management and Inspection Account. While this is not a significant amount of dollar error, the actual number of timesheets with errors increases the risk that significant errors could occur. Furthermore, more than 40 employees record their project activity in the database.

Timesheet Recording Errors

In addition to variances between the hours recorded in the database, our review of project managers' and inspectors' timesheets identified instances when overtime was not recorded correctly. For 3 of the 10 employees' timesheets we reviewed, we noted overtime was not always recorded correctly during weeks with a holiday.

Personnel regulations require an employee who works on a holiday to receive overtime pay or compensatory time for the hours he works on the holiday, in addition to 8 hours of regular pay for the holiday. Furthermore, employees that work variable workdays during the week can be compensated for overtime only after working 40 hours. These overtime recording errors are the result of project managers and inspectors working variable workdays and confusion regarding how to properly record hours during weeks with a holiday. We also noted certain documentation recorded in the database and on some employees' timesheets indicated leave may not have been recorded correctly.

When an employee signs his timesheet he is certifying the accuracy of all hours worked and leave used. In addition, NAC 284.5255 states a supervisor who is negligent in reviewing and certifying the accuracy of an employee's timesheet may be subject to disciplinary action. These errors could have been avoided with better supervisory review of the timesheets.

Recommendations

5. Develop policies and procedures to help ensure activities related to the CMAR process follow recommended guidelines.
6. Develop procedures to help ensure sufficient documentation is obtained to verify the propriety of construction reimbursements to NSHE institutions.
7. Develop contract monitoring procedures to ensure professional service contract expenditures do not exceed the authorized amount.
8. Monitor contractor retention amounts to ensure compliance with state law.
9. Implement controls to help ensure the hours recorded in the project management database agree with employees' timesheets.
10. Develop procedures to help ensure overtime and leave are recorded properly on employees' timesheets.

Appendices

Appendix A Audit Methodology

To gain an understanding of the State Public Works Board's (SPWB) operations, we interviewed agency staff and management. We also reviewed state laws, regulations, and internal policies significant to the SPWB's operations. In addition, we reviewed the agency's financial reports, budgetary information, strategic plan, and prior audit reports. Further, we reviewed minutes of Board meetings and various legislative committees. We also documented and assessed the SPWB's control environment related to designing, awarding, and managing the construction process, and generating management information.

To determine whether the SPWB managed the design and construction of CIP projects in accordance with laws, regulations, policies, and industry practices, we identified all construction projects that were active or completed in the 21-month period ended March 31, 2008. From the projects identified, we randomly selected four projects, and judgmentally selected four additional projects. This judgmental selection was based on the project's budget, percentage of budget expended, and using agency. For the eight projects selected, we determined if the architect was selected through a competitive process and if the Board approved the selection or delegated it to the manager. Next, we documented the advertised and bid opening dates, and reviewed project documentation to verify plan and peer reviews were performed before project bidding, as well as the status of construction document completion. Further, we documented the Notice to Proceed was issued after the construction contract was signed. Then we verified that all progress payments were properly approved and that retention amounts complied with law.

To verify change orders were properly approved and accounted for, we confirmed they were within 10% of the contract award, were supported by adequate documentation, did not contain markups beyond allowed amounts, were not duplicates, were supported by clear descriptions, and received all necessary approvals. In

addition, we verified that change order summary sheets were completed for each change order detailing budget impact, justification, and the percent of errors and omissions.

We also examined project documents to determine if the SPWB had received the prevailing wage number from the Labor Commissioner as well as the subcontractor list from the contractor. We also verified that the contract award and project completion were reported to the Labor Commissioner at the appropriate times. Next, we reviewed each contract to verify it contained a prevailing wage rate schedule, that the rates agreed with published Labor Commissioner rates, and that it included a list of penalties for violating prevailing wage laws. Further, we verified the SPWB received monthly contractor payroll reports and that any reported prevailing wage violations were investigated.

To verify the propriety of project expenditures, we randomly selected 20 expenditures for each project tested and verified that they were supported with adequate documentation, consistent with the scope of the project, and properly approved. Finally, we examined project documentation to verify that any life/safety issues were resolved before the issuance of a Certificate of Substantial Completion. For completed projects, we verified that a Certificate of Occupancy was issued and warranty inspections were performed. Also for completed projects, we determined completion time, documented any variances and determined if liquidated damages were assessed.

To determine if the SPWB followed recommended industry practices when using the Construction Manager at Risk (CMAR) delivery method, we identified all CMAR projects from the 2003, 2005, and 2007 Capital Improvement Programs and judgmentally selected three for testing. To judgmentally select the three projects, we considered the project budget, percentage of budget expended, and whether the project was in the planning or construction phase. After selecting the projects, we verified that selection of the CMAR complied with Nevada Administrative Code requirements. We also determined the time the CMAR was selected in relation to the architect selection and the percentage of design completion, reviewed preconstruction and construction contracts for proper approvals, and ensured that the construction contract was

approved before the Notice to Proceed date. In addition, we examined project documentation to verify that constructability reviews were performed and documented when the Guaranteed Maximum Price (GMP) was provided. While reviewing CMAR project change orders, we verified that IFC approval was obtained for applicable changes in scope, confirmed they were within 10% of the contract award, supported by adequate documentation, and received all necessary approvals.

To assess the reasonableness of the SPWB's billing rates for project management and inspection, we reviewed the methodology used to establish the rates for fiscal years 2006 and 2007. To assess the accuracy of the hours recorded in SPWB's project management timekeeping database that is used to bill each project for management and inspection fees, we used the HR Data Warehouse to identify all project managers and inspectors employed during fiscal years 2006 and 2007. From the staff identified, we randomly selected five project managers and five inspectors for testing, and compared HR Data Warehouse payroll and time data with the hours recorded in the timekeeping database for each pay period during fiscal years 2006 and 2007.

Our audit work was conducted from October 2007 to September 2008. We conducted this 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Manager of the State Public Works Board. On November 13, 2008, we met with SPWB 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 33.

Contributors to this report included:

Todd Peterson
Deputy Legislative Auditor

Roger Wilkerson
Deputy Legislative Auditor

Michael O. Spell, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Additional Costs and Days Added From Change Orders
to the “C” Projects Tested

Project Name	Original Contract Amount	Change Order Costs	Construction Cost as of 3/31/08	Original Contract Days	Days Added by Change Order	Contract Days as of 3/31/08
Low Bid/Design Build Delivery Method						
High Desert State Prison, Phase IV	\$ 35,019,739	\$12,940,648 ⁽¹⁾	\$ 47,960,387	510	1	511
NSC Academic & Student Services Building	\$ 13,296,900	\$ 233,331	\$ 13,530,231	400	0	400
UNR Knowledge Center	\$ 72,978,932	\$ 2,831,159	\$ 75,810,091	790	5	795
UNLV Science, Engineering & Technology Building	\$ 70,405,000	\$ 1,860,347	\$ 72,265,347 ⁽²⁾	780	150 ⁽³⁾	930
Rawson-Neal Psychiatric Hospital	\$ 24,262,145	\$ 3,207,280	\$ 27,469,425 ⁽⁵⁾	450	125	575
Las Vegas Readiness Center	\$ 19,370,101	\$ 1,652,997	\$ 21,023,098 ⁽⁵⁾	425	47	472
DRI CAVE Facility	\$ 11,633,600	\$ 4,969,273	\$ 16,602,873	425	109	534
CSN Telecommunications Building	\$ 14,734,717	\$ 837,802	\$ 15,572,519 ⁽⁵⁾	395	294 ⁽⁴⁾	689
Total	\$261,701,134	\$28,532,837	\$290,233,971	4,175	731	4,906

Source: State Public Works Board Project Records.

- ⁽¹⁾ Includes \$11.6 million that was deferred to the 2007 CIP due to the lowest bid exceeding available funds.
- ⁽²⁾ Does not include \$8.8 million in contract work managed by the SPWB to finish the project.
- ⁽³⁾ Time extension due to additional work authorized by the Legislature and settlement for project delays.
- ⁽⁴⁾ 264 days added so work to complete project would not interfere with classes.
- ⁽⁵⁾ Project completed as of March 31, 2008.

Appendix C
Response From the State Public Works Board

Jim Gibbons
Governor

Carson City Office:
515 E. Musser Street, Suite 102
Carson City, Nevada 89701-4263
(775) 684-4141 • Fax (775) 684-4142

STATE OF NEVADA



PUBLIC WORKS BOARD

Gustavo Nunez, P.E.
Manager

Las Vegas Office:
1830 East Sahara, Suite 204
Las Vegas, Nevada 89104
(702) 486-5115 • Fax (702) 486-5094

November 24, 2008

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

Dear Mr. Townsend:

Regarding your audit report dated November 4, 2008, 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. Ensure change order documentation includes sufficient detail to support all costs.

The SPWB accepts the recommendation.

Recently, management delivered a verbal directive to the project management staff to require sufficient detail to support all costs on change orders as required in our general conditions section. In the near future, the project management staff will receive training that reinforces this requirement.

With regard to the findings on page 12 of the audit report, the documentation for the remaining use taxes paid on the High Desert Phase IV project has been provided by the contractor (see attachment 1).

2. Develop procedures that help identify change order items that are not in compliance with the General Conditions of the contract and for the detection of duplicate charges.

The SPWB accepts the recommendation.

Management intends to modify the agenda of pre-construction meetings to reinforce the policies and procedures that exist in section 2 of our general conditions. Pre-construction meetings are attended by the prime contractor, major sub-contractors, Architect, project manager and the inspector.

3. Discontinue paying for meals associated with partnering.

The SPWB accepts the recommendation.

We have discontinued paying for any meals and refreshments with project funds. However, we do intend to approach the Legislature for approval engage in this activity.

4. Prepare change order summary sheets for all projects to help ensure change orders do not exceed the statutory limit.

The SPWB accepts the recommendation.

This is the current policy of the agency and will continue to be implemented. There was only one project where the ten percent limit was exceeded. This was due to a misunderstanding regarding CMAR contract amendments and the application of the change order limit. Since these contracts must be approved by the Board of Examiners, we understood the ten percent change order limit did not apply.

5. Develop policies and procedures to help ensure activities related to the CMAR process follow recommended guidelines.

The SPWB accepts the recommendation.

Since April 2008, management has been working with a CMAR subcommittee of the State Public Works Board to revise our CMAR documents. These revisions will ensure that CMAR activities will follow the recommended guidelines.

With regard to statements on page 20, the audit report indicates that the state may not have been able to share in any cost savings in the 50% construction document contingency. In reality, the entire contingency was used and no savings were available to the contractor or the State.

With regard to the audit findings on page 20, the SPWB would add that the design team was under the control of UNLV, not the SPWB. This team initiated design prior to Legislative approval of the 2005 CIP project. UNLV and its design team continued design of the project without addressing projected budget shortfalls based on the design team's and the CMAR's cost estimates.

6. Develop procedures to help ensure sufficient documentation is obtained to verify the propriety of construction reimbursements to NSHE institutions.

The SPWB accepts the recommendation.

This is primarily a result of clerical error. The current policies and procedures will be revised to strengthen the documentation verification process for NSHE reimbursement requests.

7. Develop contract monitoring procedures to ensure professional service contract expenditures do not exceed the authorized amount.

The SPWB accepts the recommendation.

We have been discussing this issue with the Clerk of the Board of Examiners regarding possible legislation to address this issue.

8. Monitor contract retention amount to ensure compliance with state law.

The SPWB accepts the recommendation.

This issue was related to one project. Management issued corrective action to the project manager involved. We believe current systems and procedures adequately monitor contract retention amounts in compliance with state law.

9. Implement controls to help ensure the hours recorded in the project management database agree with employee timesheets.

The SPWB accepts the recommendation.

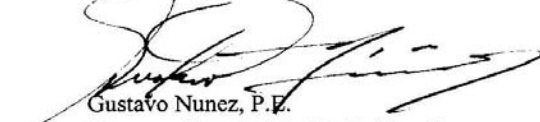
Management has implemented a procedure to ensure that both timecards and timesheets match.

10. Develop procedures to help ensure overtime and leave are recorded properly on employee's timesheets.

The SPWB accepts the recommendation.

Management has implemented a procedure to ensure that both timecards and timesheets match. In addition, management will require payroll staff to attend training regarding proper coding of leave on timesheets.

Respectfully submitted,



Gustavo Nunez, P.E.
Manager, State Public Works Board

**State Public Works Board
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Ensure change order documentation includes sufficient detail to support all costs.....	<u> X </u>	<u> </u>
2	Develop procedures that help identify change order items that are not in compliance with the General Conditions of the contract and for the detection of duplicate charges	<u> X </u>	<u> </u>
3	Discontinue paying for meals associated with partnering meetings.....	<u> X </u>	<u> </u>
4	Prepare change order summary sheets for all projects to help ensure change orders do not exceed the statutory limit	<u> X </u>	<u> </u>
5	Develop policies and procedures to help ensure activities related to the CMAR process follow recommended guidelines	<u> X </u>	<u> </u>
6	Develop procedures to help ensure sufficient documentation is obtained to verify the propriety of construction reimbursements to NSHE institutions.....	<u> X </u>	<u> </u>
7	Develop contract monitoring procedures to ensure professional service contract expenditures do not exceed the authorized amount.....	<u> X </u>	<u> </u>
8	Monitor contract retention amounts to ensure compliance with state law	<u> X </u>	<u> </u>
9	Implement controls to help ensure the hours recorded in the project management database agree with employees' timesheets.....	<u> X </u>	<u> </u>
10	Develop procedures to help ensure overtime and leave are recorded properly on employees' timesheets	<u> X </u>	<u> </u>
	TOTALS	<u> 10 </u>	<u> 0 </u>