

# 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.

Since 1993, 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)