

State of Nevada  
Governor's Finance Office  
Division of Internal Audits

**Audit Report**

**Department of Administration  
State Public Works Division  
Buildings and Grounds Section**

\*\*\*\*\*

**Tenant Improvements &  
Building Maintenance**

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**Improving fiscal management necessary to ensure accurate accounting of expenditures and revenues, reduce delays, and comply with state guidelines.**

DIA Report No. 21-01  
January 28, 2021



**EXECUTIVE SUMMARY**  
**Department of Administration**  
**State Public Works Division, Buildings & Grounds Section**  
**Tenant Improvements and Building Maintenance**

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**Objective: Improve Fiscal Management of  
Tenant Improvements and Building Maintenance**

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**Define Category 13 Projects and Establish Policies and Procedures to Properly Manage and Estimate Expenditures** ..... page 2

An improvement in the fiscal management of Category 13 projects requires a clear definition of these projects that includes criteria to differentiate between building maintenance and tenant improvement expenditures. Additionally, policies and procedures should be established to ensure accurate accounting of revenues and expenditures and reduce delays in approving and completing agency requested projects.

The state Budget Building Manual allows B&G to use Categories 12 and 13, special use budget categories, to track and report expenditures. The manual requires B&G to clearly and concisely define their special use categories. B&G has not clearly defined Category 13 and there are no policies and procedures to clarify which types of costs are eligible to be charged to Category 12 versus Category 13. Over \$200,000 of expenditures associated with Category 13 projects were improperly charged to Category 12 in fiscal years 2018 through 2020.

For fiscal years 2018 through 2020, B&G did not request work programs to increase the budget authority to complete Category 13 projects. B&G can increase budget authority using work programs during the biennium or by increasing Category 13 estimates based on historical costs during the budget building process. Accurately estimating revenues and expenditures using historical data will reduce delays in approving and completing agency requested projects caused by insufficient budget authority. Defining Category 13 projects and establishing policies and procedures to properly manage and estimate these expenditures will ensure accurate accounting of projects and reduce delays in approving and completing agency requested projects. B&G plans to fully implement the recommendation by November 2021.

**Use Activity Codes to Track Category 13 Chargebacks** ..... page 7

Improving the fiscal management of Category 13 requires B&G to track expenditures by the agency that will be charged for a project rather than the building associated with a project. B&G can use activity codes to track these expenditures by agency in the state's accounting system, Advantage. This will ensure the accurate reconciliation and recovery of amounts owed for services provided by B&G.

The process for tracking Category 13 chargebacks is inadequate because expenditures in Advantage cannot be reconciled to B&G's chargeback report. B&G uses a software program to create a chargeback report used to bill agencies for services; however, this report cannot be

reconciled to expenditures in Advantage because activity codes were not used to track these expenditures by agency. In fiscal year 2020, approximately \$84,000 of expenditures were not associated with any building code in Advantage.

The Budget Manual requires expenditures to be accurately coded in Advantage. In fiscal year 2020, approximately \$29,000 of operational costs may have been inaccurately coded to Category 12 and 13. Accurate coding in Advantage is necessary to reconcile project costs to agency chargebacks. B&G can accurately code and track these project costs by agency using activity codes in Advantage. This will ensure the accurate reconciliation of amounts owed by agencies for services provided. B&G plans to fully implement the recommendation by November 2021.

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## INTRODUCTION

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At the request of the State Public Works Division (SPWD), the Division of Internal Audits conducted an audit of tenant improvements and building maintenance facilitated by the Buildings and Grounds Section (B&G). Our audit focused on ways to improve the fiscal management of these projects. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objective was to develop recommendations to:

- ✓ Improve fiscal management of tenant improvements and building maintenance.

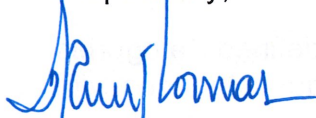
### **State Public Works Division's Response and Implementation Plan**

We provided draft copies of this report to SPWD for review and comment. SPWD's comments have been considered in the preparation of this report and are included in Appendix B. In its response, SPWD accepted our recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps SPWD has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and SPWD officials.

The following report (DIA Report No. 21-01) contains our *findings, conclusions, and recommendations*.

Respectfully,



Warren Lowman  
Administrator

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## **Improve Fiscal Management of Tenant Improvements and Building Maintenance**

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The State Public Works Division (SPWD), Building and Grounds Section (B&G) can improve fiscal management of tenant improvements and building maintenance by:

- Defining Category 13 projects and establishing policies and procedures to properly manage and estimate expenditures; and
- Using activity codes to track Category 13 chargebacks.

Improving fiscal management of tenant improvements and building maintenance will ensure accurate accounting of expenditures and chargebacks, reduce delays in approving and completing projects, and ensure compliance with statutes and state budget requirements.<sup>1</sup>

### ***Define Category 13 Projects and Establish Policies and Procedures to Properly Manage and Estimate Expenditures***

The Buildings and Grounds Section (B&G) should define Category 13 projects and establish policies and procedures to properly manage and estimate expenditures. These improvements will ensure accurate accounting of revenues and expenditures and reduce delays in approving and completing agency requested projects.

### **Budget Building Manual Requires Definitions for Special Use Categories**

The state Budget Building Manual specifies standard categories for revenues and expenditures and allows special use categories where appropriate. Special use categories can be used by agencies to track and report expenditures separately for any program or function authorized in their budget. The Budget Building Manual also requires agencies to clearly and concisely define special use categories.

B&G's budget contains six special use categories. B&G has not defined Categories 12 and 13 in its policies and procedures. See Exhibit I for budget categories with B&G special use categories highlighted.

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<sup>1</sup> Chargebacks are revenues B&G receives from state agencies for performing tenant improvements and building maintenance.

## Exhibit I

### Budget Categories

Category #	Category Title / B&G Special Use Category
00	Revenues
01	Personnel services
02	Out-of-state travel
03	In-state travel
04	Operating
05	Equipment and furnishings
07	Maintenance of buildings and grounds
12	Building Maintenance
13	Tenant Improvements
14	Building Renovations
19	Conservation Camp Crews
26	Information services
28	Transfer to Capitol Police
29	Uniform allowance
30	Training
59	Utilities
82	Dept. of Administration Cost Allocation
85	Reserve for reversion to Highway Fund
86	Reserve
87	Purchasing assessment
88	Statewide cost allocation (SWCAP)
89	Attorney General cost allocation (AGCAP)
93	Reserve for reversion to General Fund
95	Deferred facility maintenance

Source: State Budget Building Manual 2021-2023 Biennium.

### No Formal Definition for Category 13 Projects

There is no formal definition of what constitutes a Category 13 project. Additionally, there are no policies and procedures to clarify which types of costs are eligible to be expensed in Category 13 versus Category 12. B&G labels Category 13 as “Tenant Improvements” and Category 12 as “Building Maintenance.”

B&G, Governor’s Finance Office, Budget Division (Budget), and Department of Administration, Administrative Services Division (ASD) interpret Category 13 projects as services requested by agencies whether or not the building is managed by B&G, including services that impact the building envelope.<sup>2</sup> The interpretation by these agencies refer to Category 13 as tenant improvements or other services that B&G provides to agencies outside of normal or routine building maintenance.

<sup>2</sup> The building envelope is the physical separator between the conditioned and unconditioned environment of a building, and it includes the resistance to air, water, heat, light, and noise transfer.

Category 12 is defined as routine building maintenance projects performed by B&G.

### **Category 13 Projects Charged to Category 12**

Over \$200,000 of expenditures associated with Category 13 projects were charged to Category 12 in fiscal years 2018 through 2020. Approximately \$130,000 was charged in fiscal year 2020 and approximately \$76,000 was charged in fiscal years 2018 and 2019.

#### A Formal Category 13 Definition Ensures Accurate Accounting of Expenditures

A formal Category 13 definition ensures accurate accounting of expenditures. Establishing a formal definition that includes criteria to differentiate between building maintenance and tenant improvement projects will clarify how costs may be classified in these categories and will ensure expenditures are accounted for accurately. For example, projects requested by an agency should be included in Category 13 and paid for through agency chargebacks; and projects not requested by agencies should be included in Category 12 and paid for by B&G through regular rent payments.

### **B&G Did Not Request Budget Authority to Complete Category 13 Projects**

We reviewed fiscal years 2018 through 2020 and noted B&G did not request an increase in budget authority to complete Category 13 projects in these years. B&G can increase budget authority through work programs during the biennium or by increasing estimates of Category 13 projected revenues and expenses during the budget building process. Without sufficient budget authority, B&G cannot properly charge the cost of services to Category 13.

#### Work Programs Not Used to Increase Budget Authority

Work programs were not used to increase Category 13 budget authority. Work programs allow agencies to increase projected revenues or expenses in a budget account after the budget has been approved. Inaccurate estimates or significant, unanticipated costs necessitate submitting a work program to the Budget for approval and may require the Legislature's Interim Finance Committee (IFC) approval if the request exceeds certain thresholds.



NRS 353.220 establishes the following thresholds when determining if a work program modifying a revenue or expenditure category requires IFC review and approval:

- The revision is an increase of more than \$30,000 cumulative; and
- Increase or decrease by 10 percent or \$75,000 whichever is less, the expenditure level approved by the Legislature for any allotments within the work program.

Agency and/or B&G May Need to Submit Work Program for a Category 13 Project

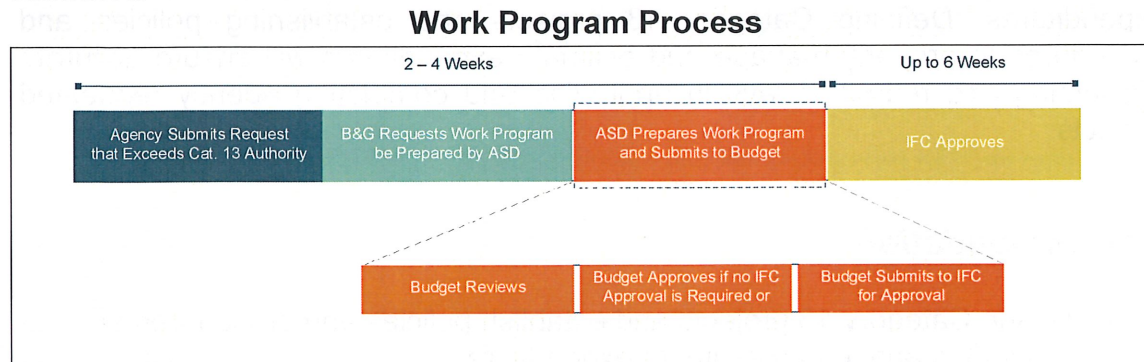
The agency and/or B&G may need to submit a work program for a Category 13 project. A request for a work program to complete a project is dependent on whether there is adequate authority in the responsible agency’s budget. If B&G and the agency have sufficient budget authority remaining when an agency requests a tenant improvement, a work program may not be necessary to complete the project. However, if either lacks sufficient budget authority to complete the requested work, a work program will be required.

B&G’s Work Program Process

ASD performs the accounting functions for B&G and is notified if a work program is required for B&G to receive or spend money on tenant improvements. ASD assembles all required documents and creates and submits a work program to the Budget. Budget reviews the work program for accuracy and may approve it or send it to the IFC based on the requested amount.

Work programs requiring Budget approval take two to four weeks to process. Work programs requiring IFC approval may take up to 10 weeks to process. See Exhibit II for the work program process from agency request to approval.

**Exhibit II**



Source: B&G, ASD, and Budget staff.

## **Category 13 Budget Inaccurately Estimated**

Category 13 projected revenues and expenditures were inaccurately estimated based on over \$200,000 in Category 13 expenditures charged to Category 12 in fiscal years 2018 through 2020.

Additionally, B&G identified approximately \$147,000 of projects requested by five agencies in fiscal year 2020 that were not accepted due to underestimating the Category 13 budget authority and failure to submit work programs.<sup>3</sup> A work program could have been submitted to increase Category 13 budget authority and complete agency requested projects.

### Category 13 Biennial Budget Request Based on Historical Data

Prior to 2020, B&G did not use historical data to estimate Category 13 expenditures even though such data is available in the state's accounting system, Advantage. However, for the upcoming biennial budget, B&G is requesting an increase of \$353,000 in Category 13 expenditures based on available historical data.

Accurately estimating projected revenues and expenditures using historical data will reduce delays in approving and completing agency requested projects caused by insufficient budget authority.

## ***Conclusion***

An improvement in the fiscal management of tenant improvements and building maintenance requires a clear definition of this category and policies and procedures to ensure accurate accounting for revenues and expenditures. B&G has not clearly defined Category 13 projects and has no policies and procedures for this category. As a result, there is not accurate accounting for revenues and expenditures. Defining Category 13 projects and establishing policies and procedures to properly manage and estimate expenditures will ensure accurate accounting and reduce delays in approving and completing agency requested projects.

## ***Recommendation***

1. Define Category 13 projects and establish policies and procedures to properly manage and estimate expenditures.

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<sup>3</sup> In fiscal year 2020, total Category 13 authority was approximately \$27,000.

## ***Use Activity Codes to Track Category 13 Chargebacks***

The Buildings and Grounds Section (B&G) should use activity codes to track Category 13 chargebacks in the state's accounting system, Advantage. Tracking these chargebacks by activity code will ensure the accurate recovery of amounts owed by agencies for services provided by B&G.

Category 13 expenditures are associated with tenant improvements or other services that B&G provides to agencies outside of normal or routine building maintenance.

## **B&G Does Not Use Advantage Correctly to Track Expenditures**

The method for tracking Category 13 chargebacks is inadequate because expenditures are tracked only by building code and not by activity codes that identify the agencies to be charged. Although this allows B&G to track expenditures by building, it does not identify individual agencies located within the same building.

### Advantage Data Does Not Reconcile To Agency Chargebacks

The Category 13 expenditure data in Advantage does not reconcile to B&G's chargeback reports because these expenditures are tracked by building code in Advantage, and not by agency. B&G uses an in-house software program to manage work orders and to create chargeback reports used by ASD to bill agencies for services. Chargeback reports contain the agency's billing information (i.e., agency code, organization code, and budget account number) and a work order number, but do not contain an "Advantage" building code. There is currently no method to reconcile the expenditures in Advantage to the associated agency chargebacks without manually querying Advantage for a specific work order number.

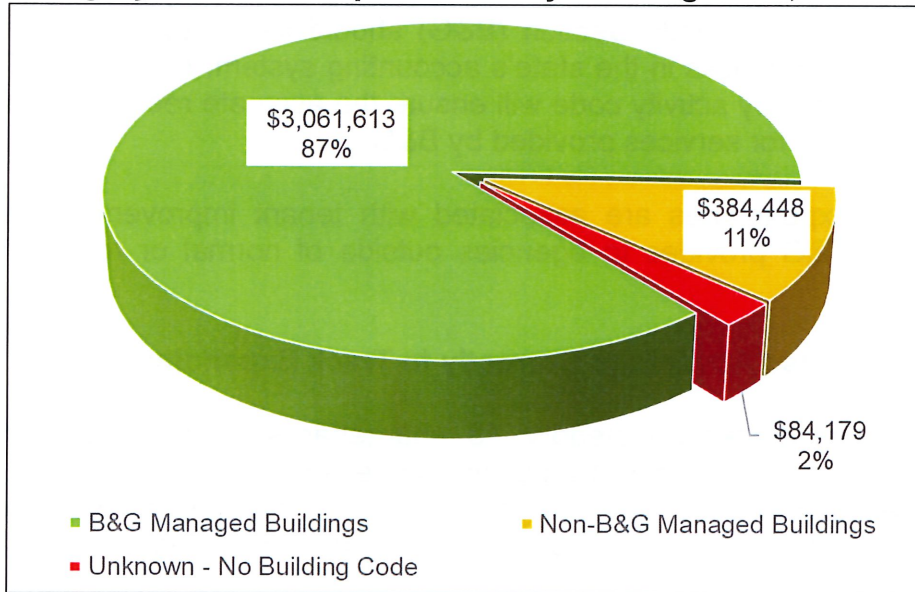
Moreover, some Category 13 expenditures (tenant improvements and other services) were incorrectly recorded to Category 12 (building maintenance).

### Some Costs Not Coded to Buildings

We reviewed Category 12 and 13 expenditures during fiscal year 2020 and noted that approximately \$84,000 (2%) were not associated with any building code in Advantage. All other expenditures were coded to a building whether or not managed by B&G. Exhibit III shows the composition of expenditures by building code in fiscal year 2020.

### Exhibit III

#### Category 12 and 13 Expenditures by Building Code, FY 2020



Source: Data Warehouse of Nevada.

#### Activity Codes Necessary to Charge Agencies

The use of building codes in Advantage to associate a Category 12 or 13 expenditure with a specific building instead of a specific agency has not been useful to track and reconcile expenditures to chargebacks. All Category 13 expenditures and some Category 12 expenditures are funded by charging-back agencies. Therefore, adopting a method to track expenditures in Advantage by agency, and reconciling these costs to agency chargebacks, is essential to ensure accurate accounting of services provided to agencies.<sup>4</sup>

#### **Budget Building Manual Requires Accurate Classification of Expenditures**

The Budget Building Manual requires an accurate classification of expenditures when creating a new or special use expenditure category. Specifically, a “clear, concise definition at the category level.” Categories 12 and 13 are special use categories within B&G’s budget. Where it has been deemed appropriate to do so, the Manual allows special use expenditure categories to be used to “track and report expenditures separately for any program or function authorized in their budget.” B&G can track expenditures within a category by agency, using activity codes to ensure expenditures are accurately tied to the requesting agency.

Classifying expenditures accurately requires B&G to identify project costs prior to entry in Advantage. Costs associated with B&G in-house labor, for example, must

<sup>4</sup> In fiscal year 2020, 11% of Category 12 expenditures were funded through charges to agencies and 89% of expenditures were funded through the building rent assessment. Expenditures funded by charges to agencies include prior and current year reimbursements to B&G and miscellaneous revenue used for agency or building-specific maintenance projects.

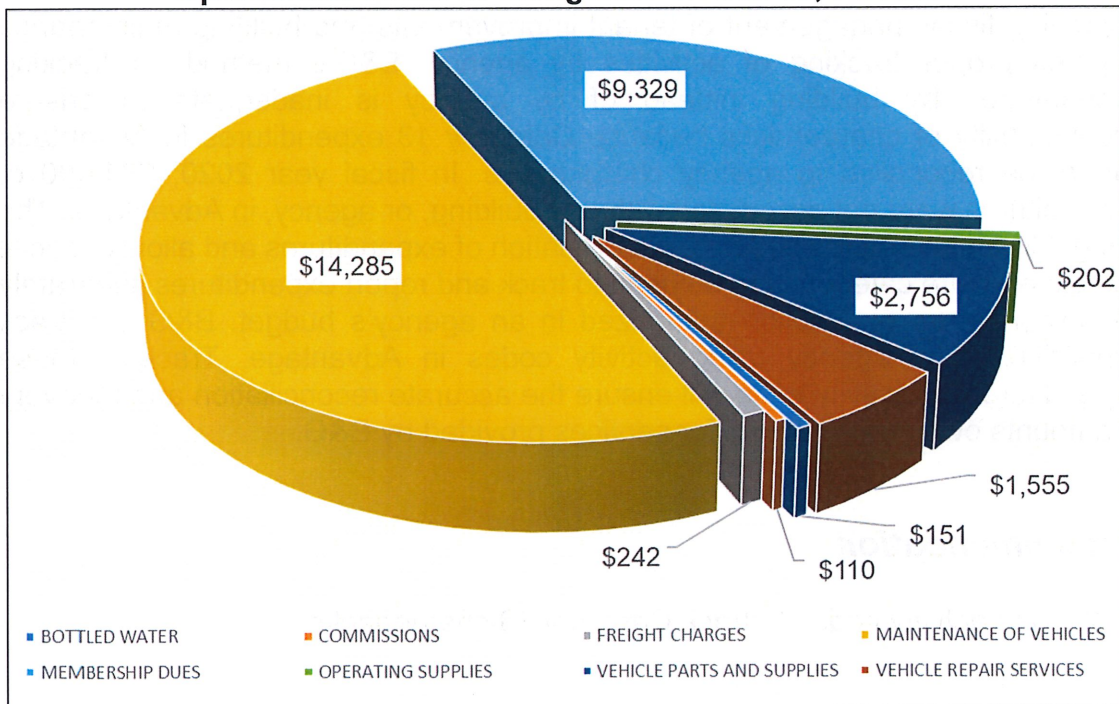
be coded to Category 01, "Personnel." These costs are not included in Category 12 or 13 despite being a cost related to building maintenance or tenant improvements. Personnel costs must be accounted for in Category 01 regardless of funding source; therefore, personnel costs associated with other services for building maintenance and tenant improvement projects must be accurately classified to ensure correct accounting of project labor.

Operational Costs May Be Included in Category 12 and 13

In fiscal year 2020, approximately \$29,000 of operational costs may have been incorrectly coded to Category 12 and 13. B&G and ASD were unable to associate these costs with specific Category 12 or 13 projects; therefore, it is unclear if these operational expenditures were accounted for in the correct budget category. According to the Budget Building Manual, operational costs should be captured in Category 04 "Operations." Accurate coding is necessary to ensure that Category 12 and 13 only include expenditures related to building maintenance and tenant improvements. See Exhibit IV for fiscal year 2020 operational costs included in Categories 12 and 13.

**Exhibit IV**

**Operational Costs in Categories 12 and 13, FY 2020**



Source: Data Warehouse of Nevada.

### Accurate Coding Necessary to Reconcile Project Costs to Agency Chargebacks

Accurate coding in Advantage is necessary to reconcile project costs to agency chargebacks. NRS 331.085 allows B&G to charge agencies for services, but states that B&G must remit revenue from these services to the operating account. B&G cannot reconcile chargebacks to the associated expenditures because B&G has not implemented a method to track these expenditures by agency.

### Activity Codes Available To Track Expenditures

Activity codes are available in Advantage to track expenditures and chargebacks by agency. According to the Controller's Accounting Policies and Procedures, an activity code is a four-digit (or less) code defined by each agency. State agencies have an existing three-digit code assigned that could be used in the activity code field to track expenditures and chargebacks. This would ensure that expenditures are associated with the agency responsible for the chargebacks.

### ***Conclusion***

Improving fiscal management of tenant improvements and building maintenance requires proper tracking of activities by agency. B&G's method for tracking expenditures by building instead of by agency is inadequate to ensure accountability of chargebacks because Category 13 expenditures in Advantage cannot be reconciled to agency chargebacks. In fiscal year 2020, \$84,000 of expenditures were not associated with any building, or agency, in Advantage. The Budget Manual requires accurate classification of expenditures and allows special use expenditure categories to be used to track and report expenditures separately for any program or function authorized in an agency's budget. B&G can track expenditures by agency using activity codes in Advantage. Tracking these expenditures by activity code will ensure the accurate reconciliation and recovery of amounts owed by agencies for services provided by B&G.

### ***Recommendation***

2. Use activity codes to track Category 13 chargebacks.

## Appendix A

### Scope and Methodology, Background, Acknowledgements

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#### Scope and Methodology

We began the audit in July 2020. In the course of our work, we interviewed management and staff and discussed processes inherent to the State Public Works Division (SPWD), Buildings and Grounds Section (B&G). We reviewed financial records and contracts for fiscal years 2018 through 2020 and applicable Nevada Revised Statutes, Nevada Administrative Code, State Administrative Manual, and the Budget Building Manual 2021-2023 Biennium. We concluded fieldwork and testing in September 2020.

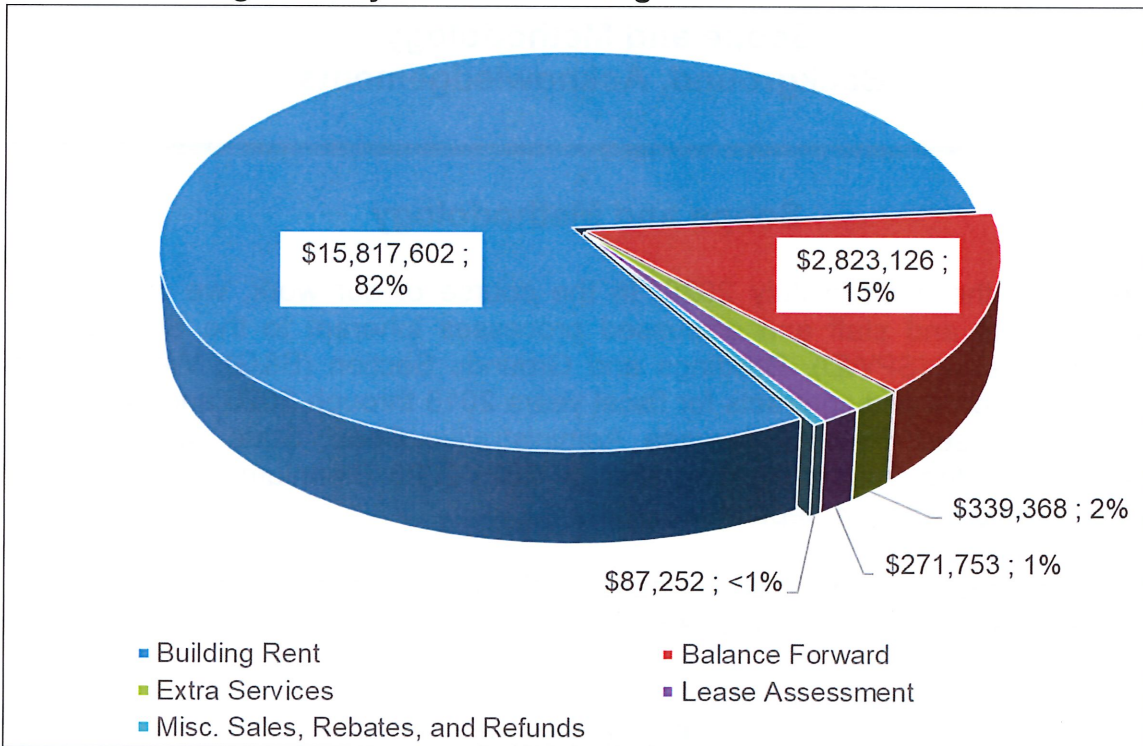
We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

#### Background

B&G was merged into SPWD in June 2011 as part of the consolidation of agencies under the Department of Administration. B&G's mission is to proactively manage state facilities; provide efficient office space within budget; and provide a reliable water supply through the Marlette Lake-Hobart Reservoir Water System. B&G provides building and grounds maintenance, janitorial services, and security for most state-owned buildings in Carson City, Reno, and Las Vegas. B&G staff also provide, locate, and negotiate office space leases for state agencies. B&G is authorized to charge a labor rate for all services requested by agencies, such as: remodeling, moving, and shelf building. For fiscal year 2020, the legislatively approved budget was approximately \$19.3 million with 62 authorized positions. See Exhibit VI for the fiscal year 2020 legislatively authorized budget.

**Exhibit VI**

**Legislatively Authorized Budget – Fiscal Year 2020**



Source: 2020 Legislatively Authorized Budget (openbudget.nv.gov).

**Acknowledgments**

We express appreciation to the Department of Administration, SPWD, Administrative Services Division, Budget Division, and B&G staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Vita Ozoude, MBA, CPA, CMA, CGMA  
Audit Manager

Craig Stevenson, MBA  
Executive Branch Auditor



## Appendix B

### State Public Works Division Buildings and Grounds Section Response and Implementation Plan

Steve Sisolak  
Governor



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Director

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Ward D. Patrick, PE  
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STATE OF NEVADA  
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**PUBLIC WORKS DIVISION**

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Buildings & Grounds Section  
Phone: (702) 486-4300

To: Warren Lowman, Governor's Finance Office, Division of Internal Audits  
From: Ward Patrick, State Public Works Division  
Date: October 28, 2020  
Re: Response to Audit, DIA Report No. 21-01

A handwritten signature in blue ink, appearing to read "Ward Patrick".

Thank you for the State Public Works Division's (SPWD) final report of the Division of Internal Audits' findings regarding Tenant Improvement Category 13. We would like to commend your staff as they were thoughtful, thorough and professional throughout the entire audit process. SPWD appreciates the opportunity to respond to your recommendations and we look forward to working with the Division of Internal Audits on implementation.

**Recommendation #1:** Define Category 13 Projects and Establish Policies and Procedures to Properly Manage and Estimate Expenditures

- The SPWD understands and accepts this audit recommendation.

**Recommendation #2:** Use activity codes to track Category 13 chargebacks

- The SPWD understands and accepts the audit recommendation.

It is anticipated that the recommendations will be fully implemented by November 2021.

## Appendix C

### Timetable for Implementing Audit Recommendations

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In consultation with the State Public Works Division (SPWD), Buildings and Grounds Section (B&G), the Division of Internal Audits categorized the two recommendations contained within this report into one of two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). B&G should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

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#### **Category 2: Recommendations with an anticipated implementation period more than six months.**

<u>Recommendations</u>	<u>Time Frame</u>
1. Define Category 13 projects and establish policies and procedures to properly manage and estimate expenditures. (page 2)	Nov 2021
2. Use activity codes to track Category 13 chargebacks. (page 7)	Nov 2021

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The Division of Internal Audits shall evaluate the action taken by B&G concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and B&G.