



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

Audit Report

Department of Administration

**State Public Works Division
Building and Grounds Section**

Extra Services

**Transparency and accuracy of charges for extra services
will benefit state agencies and ensure statutory compliance.**

DIA Report No. 22-07
June 30, 2022

EXECUTIVE SUMMARY
State Public Works Division
Buildings and Grounds Section
15% Contingency and Overhead Fees

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**Objective: Improve Transparency and Accuracy of
Charges for Extra Services**

Define and Document Overhead Charges and Ratespage 2

Defining and documenting overhead charges and rates will allow the Buildings and Grounds Section (B&G) to develop a methodology for charging overhead. Developing a methodology will improve the transparency and accuracy of charges for extra services. B&G’s overhead and contingency rates lack justification. NRS allows B&G to charge labor and materials when providing extra services to agencies. The lack of methodology makes it difficult for B&G to determine if the appropriate rate is being charged or identify when rates need to be re-evaluated.

Break Out Charges for Labor, Materials, and Overhead for Extra Servicespage 6

Breaking out charges for labor, materials, and overhead for extra services will ensure agencies are paying the appropriate amount for extra services. B&G does not maintain complete records. B&G’s tracking of extra services is inaccurate and incorrectly categorized. Improving the tracking of extra services will ensure compliance with the State Administrative Manual.

Adjust Charges for Inmate Laborpage 7

Adjusting charges for inmate labor will align the cost of providing extra services with the amount charged to agencies. B&G uses both inmates and state employees for extra services. Inmate labor is much cheaper than state employee labor. B&G charges a flat labor rate dependent on the type of service provided to the agency, regardless of the workforce performing the work. Flat labor rates generate both overages and under charges. Inmate labor provides the majority of the overage for extra services.

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INTRODUCTION

At the direction of the Executive Branch Audit Committee, the Division of Internal Audits (DIA) conducted an audit of the Department of Administration, State Public Works Division (SPWD), Buildings and Grounds Section (B&G). The audit focused on B&G's contingency and overhead fees charged to agencies requesting extra services not covered by annual rental payments. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Improve transparency and accuracy of charges for extra services.

**Department of Administration
State Public Works Division, Building and Grounds Section
Response and Implementation Plan**

DIA provided draft copies of this report to SPWD/B&G for review and comment. DIA considered B&G's comments in the preparation of this report; B&G's response is included in Appendix B. In its response, B&G accepted the 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 B&G 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/B&G.

The following report (DIA Report No. 22-07) contains DIA's *findings, conclusions, and recommendations*.

Respectfully,

Warren Lowman
Administrator

Improve Transparency and Accuracy of Charges for Extra Services

The Department of Administration (DofA), State Public Works Division (SPWD), Building and Grounds Section (B&G) can improve transparency and accuracy of charges for extra services by:

- Defining and documenting overhead charges and rates;
- Breaking out charges for labor, materials, and overhead for extra services; and
- Adjusting charges for inmate labor.

Improving the transparency and accuracy of labor and material charges and associated rates for extra services will ensure state agencies are charged appropriate amounts allowed by state regulations. Improving the accuracy of charges for extra services will benefit state agencies that depend on B&G for services not covered under rental agreements.

Define and Document Overhead Charges and Rates

The Department of Administration (DofA), State Public Works Division (SPWD), Building and Grounds Section (B&G) should define and document overhead and contingency charges. Defining and documenting overhead and contingency charges will ensure costs assessed to agencies for extra services provided by B&G follow state regulations.

B&G Extra Services Provided at Additional Cost to Agencies

B&G provides extra services to agencies occupying state-owned buildings as part of the rental agreement. These extra services are not covered by rent payments and are charged to agencies on a per job basis. These extra services include office space reconfigurations, moving services, and other non-construction work agencies require. In general, these projects are completed by B&G personnel who are in many cases supplemented by an inmate workforce from the Department of Corrections. B&G charges labor, materials, and overhead when providing extra services to agencies.

B&G Lacks a Documented Methodology for Setting Rates

B&G lacks a documented methodology for setting the contingency and overhead rates. B&G confirmed that they are unaware of how the rates were originally determined. The overhead was increased to 15% from 10% with no justification or identified reason. Without documented justification for the established rates, B&G

cannot determine if the rates are appropriate or should be adjusted. Additionally, without justification for the established rates, B&G will be unaware when a need arises for the rates to be reevaluated and adjusted.

NRS and Regulations Allow B&G to Charge for Labor and Materials

The Nevada Revised Statute (NRS) 331 and State Administrative Manual (SAM) allow SPWD to charge departments, agencies, and institutions for the cost of labor and materials for extra services provided by B&G.^{1,2} Extra services are services excluded under the rental agreement and include but are not limited to office remodeling, furniture construction, moving, and shelf building.³ NRS requires SPWD to “care, maintain, and preserve the buildings, grounds, and their appurtenances and to repair any furniture and fixtures included therein.”⁴

B&G Charges 15% Contingency Fee on Extra Services

B&G charges a 15% contingency fee on all extra service requests as an allowance for overages that may occur.⁵ Review of work orders and service request estimates showed that almost 90% in fiscal year 2020 and over 92% of workorders in fiscal year 2021 were below the original estimates.⁶ Additionally, most work orders had an estimate variance between 11% and 75% from the estimated amount. The value of the difference between estimates and actuals ranged between \$1.28 and \$2,307.06. See Exhibit I for estimate variance rates for fiscal year 2020 and fiscal year 2021.

¹ SAM 1016 Craft Services.

² NRS 331.085 Administrator Authorized to Charge for Extra Services; Deposit of Receipts.

³ NRS 331.070 Jurisdiction of Administrator; Requisition for Repairs: The Administrator shall have supervision over and control of all state buildings, ground and properties not otherwise provided for by law except for any buildings, grounds or other properties owned or leased by boards that are exempt from provision of chapter 353 of NRS pursuant to NRS 353.005.

⁴ NRS 331.080 Authorized Expenditures for Maintenance and Repairs.

⁵ Buildings and Grounds Maximo Guide – Maximo 7.6.

⁶ Fiscal year 2020 rounded to 90% from 89.5. Fiscal year 2021 rounded to 92% from 92.6%.

Exhibit I

Estimate Variance Rates

Estimate Variance	Fiscal Year 2020 ^{a,b}	Fiscal Year 2021 ^{c,d}
0 - 10%	9.2%	7.4%
11 - 25%	41.2%	33.3%
26 - 50%	22.2%	22.2%
51 - 75%	20.9%	25.9%
76 - 100%	6.5%	11.1%

Source: DIA analysis of B&G work orders.

Note: ^a 153 out of 202 work orders were reviewed.⁷

^b Work order amounts were between \$14.37 and \$5,006.

^c 27 out of 60 work orders were reviewed.⁸

^d Work order amounts were between \$21.85 and \$6,072.90.

All work order estimates had a variance from the actual cost. The exhibit shows over 11% of B&G's extra services estimates for fiscal year 2021 had a variance of up to double the estimated cost. In fiscal year 2020, over a quarter of all work orders had a variance of 50% or greater from the original estimated cost.

Agencies are required to encumber funds needed for extra services putting an additional restriction on already tight budgets. A methodology providing guidance on an appropriate rate would ensure B&G is providing a more accurate estimate and transparent service to agencies.

Documenting a methodology for assessing contingency fees and establishing an appropriate contingency rate would allow B&G to provide more accurate estimates for extra services and allow agencies to budget more efficiently.

B&G Charges a 15% Overhead Fee on Most Extra Services

B&G charges a 15% overhead fee on most extra services provided. Review of work orders revealed that all but one extra service request in fiscal year 2020 (153 work orders) and four extra services requests in fiscal year 2021 (27 work orders) were charged an overhead fee. The four services in fiscal year 2021 without the overhead fee were janitorial services that did not include a labor charge and were provided by a third party.⁹

⁷ 100% of the work orders with supporting documentation were reviewed.

⁸ Ibid.

⁹ The extra service in fiscal year 2020 that was not charged an overhead fee requested B&G to deliver furniture from Purchasing Division's surplus warehouse. It is within the administrator's purview to omit the overhead charge.

Overhead Fee Rate Lacks Documentation

B&G's overhead fee rate lacks documentation. Review of internal policies disclosed that the overhead rate was increased from 10% to 15% with no justification supporting the increase. Discussions with SPWD and B&G revealed that the agency has no methodology for establishing the overhead rate at 15% and is unaware if the 15% covers the materials and labor necessary to support extra services.

NRS Limits Charges

NRS 331 does not allow B&G to charge beyond the associated labor and materials needed to provide extra services to state agencies. Additional administrative expenses are incurred to support extra services. It is unclear if these legislatively allowed costs are accurately accounted for in B&G's 15% overhead charge.

Developing a method for determining the appropriate rate or amount of overhead to charge beyond the direct labor and materials associated with the extra service would ensure B&G is being reimbursed for their administrative expenses without charging beyond what is allowable.

Conclusion

Transparency and accuracy of B&G charges for extra services can be improved. B&G provides extra services to agencies for an additional cost. B&G is allowed by statute to charge for labor and materials for extra services. B&G charges an additional overhead rate to cover the cost of administrative expenses incurred with providing extra services. B&G rates lack justification and a methodology for how they are set.

Defining and documenting overhead charges will ensure B&G is charging an allowable amount for extra services. By improving the transparency and accuracy of charges for extra services, B&G will be better able to determine appropriate overhead rates for extra services and develop a methodology for reviewing rates and making necessary adjustments in the future.

Recommendation

1. Define and document overhead charges and rates.

Break Out Charges for Labor, Materials, and Overhead for Extra Services and Adjust Charges for Inmate Labor

The Department of Administration (DofA), State Public Works Division (SPWD), Building and Grounds Section (B&G) should break out charges for labor, materials, and overhead for extra services. Additionally, B&G should improve tracking of extra services.

Breaking out charges will ensure agencies are paying the appropriate amount for extra services allowable pursuant to statute. Improving the tracking of extra services will ensure compliance with the State Administrative Manual (SAM) requirements for adequate documentation.

Proper Records are not Maintained

Proper records are not maintained for extra services. SAM 402 requires agencies to make, receive, and preserve records containing proper and adequate documentation.¹⁰ Review of work orders and work order tracking revealed that supporting documentation is missing or incomplete. Additionally, supporting documentation exists for extra services work orders excluded from the agency's tracking documentation.

There were 262 work orders included in the tracking spreadsheet for fiscal year 2020 and fiscal year 2021, 81% of which included supporting documentation. There were an additional 26 work orders for which supporting documentation was included but the work orders were missing from the agency's tracking database.

Tracking Spreadsheet Categories are Inaccurate

B&G's tracking spreadsheet combined all materials and overhead into a single line item incorrectly categorizing work order costs. Review of the work order tracking spreadsheet revealed B&G categorizes both materials and overhead as materials. In instances where the work order contained both materials and overhead, they were lumped into one line item. Moreover, there was no distinction between the types of materials used in the extra service.

B&G Charges Flat Labor Rates for Extra Services

B&G charges flat labor rates for extra services regardless of the actual cost for labor or workforce providing the service. B&G reports labor rates have not been reviewed in over 15 years. See Exhibit II for labor rates.

¹⁰ SAM 402 Agency Responsibility for Records.

Exhibit II

Labor Rates^a

Service	\$ Rate
Movers	19.00
General Maintenance	25.00
Heating and Air Conditioning	32.00
Painting	25.00

Source: Buildings and Grounds Section.

Note: ^aService rates are per worker per hour.

Review of work orders and pay rates for fiscal year 2020 and fiscal year 2021 revealed on average, when all labor is included, B&G work orders charge a higher labor rate than the actual cost of labor. Much of the difference comes from the use of inmate labor. State employees are paid between \$17.59 and \$39.07 with an average wage of \$28.09.¹¹ The average cost for labor was \$27.28 when accounting for inmate wages.

Flat Labor Rates Generate Both Overages and Under Charges

B&G generates both overages and under charges on its extra services due to flat labor rates. Review of work orders revealed that every extra service where B&G under charged for labor, primarily state employees were used. There was an overage in instances where inmate labor was used. The more inmate labor used, the greater the overage.¹²

For work orders reviewed, the average work order had a labor charge of \$144.13 with an average cost of \$104.02.¹³ The average labor charge for a single worker for fiscal year 2020 and fiscal year 2021 was \$52.05 whereas the average labor cost was \$37.37. The average labor cost for a single state employee was \$58.77 and the average labor cost for a single inmate was \$4.07.¹⁴

Inmate Labor Provides the Majority of the Overage for Extra Services

Inmate labor provides the majority of the overage for extra services received by B&G. Inmate labor is primarily used for moving activities which has a labor rate of \$19. B&G charges labor rates based on activity not which workforce is providing the service. As a result, B&G charges \$19 for both inmate and state employee labor.

¹¹ Salaries have been grossed up to include the state portion of Medicare and PERS.

¹² All extra services included at least one state employee. No extra services were performed with just inmate labor.

¹³ Averages include inmate labor.

¹⁴ The average wage for a state employee was \$28.09 hourly.

Overages from Inmate Labor Deposited in B&G's Account

Inmate wages start at one dollar per hour and increase twenty-five cents every three months. Inmates are paid time and a half during overtime hours. The average inmate wage for the fiscal years reviewed was \$1.06.^{15,16} The difference between the labor rate and the inmate labor cost is deposited into B&G's operating fund.¹⁷

B&G Overcharged the Use of Inmate Labor by 94%

B&G verified that only the cost of inmate labor is forwarded to the Department of Corrections (NDOC) to be paid to the inmate. The balance is deposited into B&G's operating fund. For fiscal year 2020 and fiscal year 2021, there were 80 work orders with inmate labor for a total of 703 inmate hours.¹⁸ It was estimated that B&G charged \$13,362 for inmate labor and paid approximately \$745 to NDOC overcharging by 94% (\$12,616).¹⁹

Conclusion

Improving transparency and accuracy of extra services charges is hindered by B&G's failure to maintain appropriate records for extra services. Tracking spreadsheet is incomplete and categories are inaccurate and do not reflect actual charges. B&G charges a flat rate for labor depending on the type of work performed. The flat rate applies to both state employees and inmate labor.

The majority of the overage for extra services results from inmate labor and is deposited into B&G's operating fund. B&G's over charge from inmate labor alone is 94%. B&G does not have authority to over charge for extra services and is limited to the cost of labor and materials incurred for performing extra services. Breaking out the labor and material charges for extra services will improve transparency and accuracy of charges for extra services and ensure compliance with regulation.

¹⁵ DIA reviewed inmate wages for the conservation camp to determine the average pay rate for inmate labor.

¹⁶ Conservation camp wages included overtime which is paid at time and a half. Overtime was excluded from the average pay rate since extra services are provided during a standard 8-5 workday and do not incur overtime.

¹⁷ NRS 331.085 Administrator Authorized to Charge for Extra Services; Deposit of Receipts requires the money received from extra services to be deposited in the Building and Grounds Operating Fund in the State Treasury.

¹⁸ Rounded inmate hour to 703 from 703.25.

¹⁹ Rounded inmate charge to \$13,362 from \$13,361.75. Rounded overage to \$12,616 from \$12,616.31.

Recommendation

-
2. Break out charges for labor, materials, and overhead for extra services; and
3. Adjust Charges for inmate labor.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

We began the audit in March 2022. In the course of our work, we interviewed members of management from the Department of Administration, State Public Works Division and Building and Grounds Section to discuss processes inherent to B&G's extra services. We reviewed B&G records and researched legislative history, state budget manual procedures, applicable Nevada Revised Statutes, Nevada Administrative Code, Nevada State Administrative Manual, governmental generally accepted accounting principles, and other state guidelines. We concluded fieldwork in April 2022.

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

Background

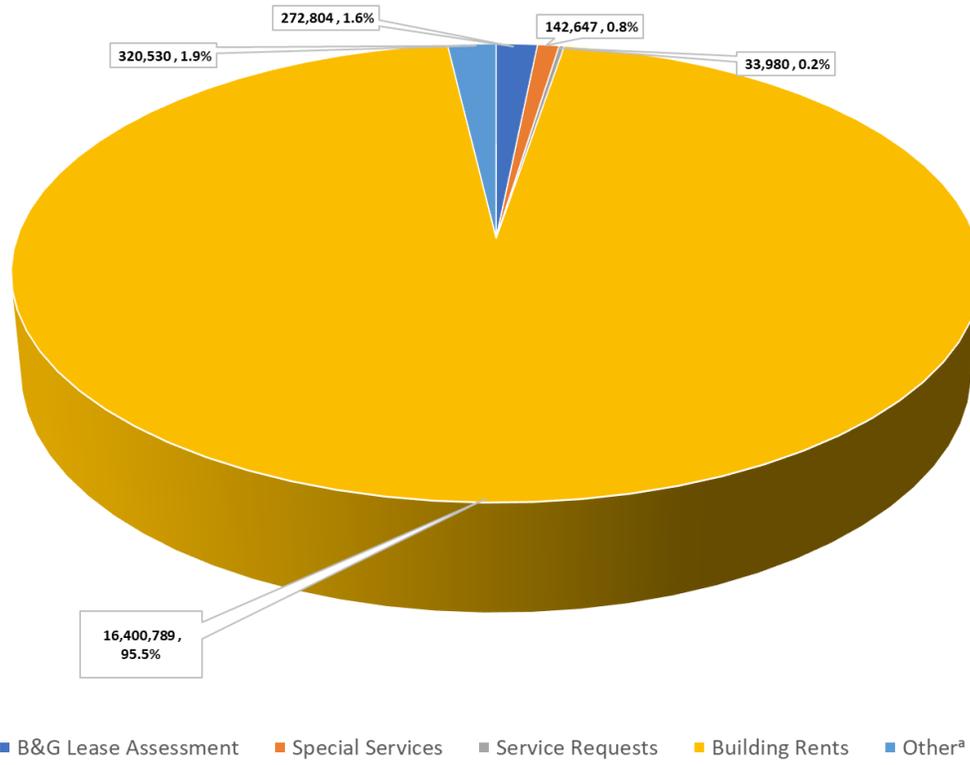
The Building and Grounds Maintenance Section (B&G) is responsible for providing physical building maintenance and grounds maintenance for most state-owned buildings. B&G's mission is to provide the proper building services from needs that are communicated to the section.

B&G is one of four services within the State Public Works Division (SPWD). The mission of SPWD is to provide well planned, efficient, and safe facilities to state agencies so they can effectively administer their programs. SPWD is comprised of four services and is part of the Department of Administration.

B&G is funded mostly by \$16.4 million in building rents representing 95.5% of fiscal year 2021 funding. The remainder is funded by a variety of agency-generated services. B&G's funding was \$17.2 million for the most recently completed state fiscal year, 2021. Exhibit III summarizes B&G's budget by funding source for fiscal year 2021.

Exhibit III

B&G's Budget by Funding Source
Fiscal Year 2021



Source: Derived from state accounting records.

Notes: ^a Other includes the following revenues: reimbursements; energy rebates and utility credits; prior year refunds; and other miscellaneous revenues.

Acknowledgments

We express appreciation to the Department of Administration, State Public Works Division, and Building and Grounds Section's management and staff, the Governor's Finance Office, Budget Division, and the Office of the Attorney General for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Appendix B

Department of Administration Nevada State Public Works Division Buildings and Grounds Section Response and Implementation Plan

Steve Sisolak
Governor



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June 9, 2022

Warren Lowman, Administrator
State of Nevada
Governor's Finance Audit
Division of Internal Audits
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Carson City, NV 89704

RE: DIA Report No. 22-07 Extra Services

Dear Mr. Lowman:

Thank you for the State Public Works Division (SPWD), Buildings & Grounds Section final report of the Division of Internal Audits' findings regarding Extra Services. We would like to commend your staff as they were thoughtful, thorough, and professional throughout the entire audit process. Buildings and Grounds 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 and Document Overhead Charges and Rates

Effective July 1, 2022, State Public Works Division will discontinue the practice of including charges for "overhead" as part of the Chargeback process. As these extra services are primarily for work done to better agencies' use and occupancy of B&G owned buildings, overhead costs are captured primarily through Building Rent rate (annual rental payments) and not necessary to include as a calculation with the Extra Services billings.

Recommendation #2: Break Out Charges for Labor, Materials, and Overhead for Extra Services

Effective July 1, 2022, State Public Works Division will discontinue the practice of including charges for labor as part of the chargeback process. Agencies will be provided an estimate for materials and contracted services required to complete a project which will include a 15% contingency in advance for pre-approval. Upon project completion, the agencies will be billed the actual cost of materials and contracted services, not to exceed the pre-approved quote for a project.

Recommendation #3: Adjust Charges for Inmate Labor

Effective July 1, 2022, State Public Works Division will discontinue charging inmate labor as part of the chargeback process.

SPWD, Buildings and Grounds understands and accepts the audit recommendation and will make these changes effective July 1, 2022.

Sincerely,



Kent A. LeFevre, Interim Administrator

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Nevada State Public Works Division (SPWD), Buildings and Grounds Section (B&G), the Division of Internal Audits categorized the recommendations contained within this report into 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.

Category 1: Recommendations with an anticipated implementation period less than six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Define and Document Overhead Charges and Rates (page 2)	Jul 2022
2. Break Out Charges for Labor, Materials, and Overhead for Extra Services (page 6)	Jul 2022
3. Adjust Charges for Inmate Labor (page 7)	Jul 2022

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.