

Steve Sisolak
Governor
Chairman

Warren Lowman
Administrator
Division of Internal Audits
Governor's Finance Office



STATE OF NEVADA EXECUTIVE BRANCH AUDIT COMMITTEE

209 E. Musser Street, Room 302 | Carson City, NV 89701-4298
Phone: (775) 684-0222 | <http://budget.nv.gov/IAudits/About/EBAC/EBAC/> | Fax: (775) 687-0145

Members
Vacant
Lieutenant Governor
Barbara K. Cegavske
Secretary of State
Zach Conine
State Treasurer
Catherine Byrne
State Controller
Aaron D. Ford
Attorney General
Trudy Dulong
Public Member

Date and Time: October 26, 2021, 1:00 PM
Location: Old Assembly Chambers of the Capitol Building
101 N. Carson Street
Carson City, Nevada 89701
Video Conference Location: Grant Sawyer State Office Building
555 E. Washington Avenue, Ste. 5100
Las Vegas, Nevada 89101

MEETING MINUTES

1. Call Meeting to Order/ Roll Call/ Remarks.

Governor Sisolak, Chairman, called the Executive Branch Audit Committee meeting to order at 1:00 pm. Roll call established a quorum was present.

Members Present:

Governor Steve Sisolak, Chairman
Secretary of State Barbara Cegavske
State Treasurer Zach Conine
Controller Catherine Byrne
Public Member Trudy Dulong

2. Public Comment.

There were no requests to make public comment.

3. Approval of the June 29, 2021 Minutes.

Motion: Approve the June 29, 2021 EBAC Meeting Minutes
By: Treasurer Conine
Vote: Passed with one abstention (Controller Byrne)

4. Presentation of Audit Reports Pursuant to NRS 353A.085.

- A. (DIA 22-01) Department of Administration, State Public Works Division, Building and Grounds Section – Rents; Maria Moreno, Executive Branch Auditor; Craig Stevenson, Audit Manager.

Maria Moreno, Executive Branch Auditor, noted Administrator Ward Patrick was representing the State Public Works Division (SPWD). The audit objective was to improve administration of the state-owned building rentals process. The audit found inconsistent and undocumented rental rate calculations may lead to greater General Fund expenditures than appropriate. Leasing Services was unable to provide documentation to support the accuracy of state-owned building rental calculations. The audit made one recommendation to enhance the transparency and accuracy of rental rate calculations for state-owned buildings. SPWD provided limited documentation to support square footage of occupied space and common area space charged to each agency. Lack of detailed drawings and square footage measurements charged to each agency resulted in unsubstantiated calculations with rent schedules being carried over year-to-year without review. Rental rate charges for office space, common area space, and storage space are different; incorrect classification of each type results in incorrect rental charges. Inconsistent and undocumented rental rate calculations resulted in a range of variable common area charges billed to state agencies, which may lead to greater General Fund expenditures than appropriate. For example, occupants of the Grant Sawyer Building were charged between 22% and 67% of rental charges for common area space. Other rental charges billed to state agencies did not align with the use of space. For example, dormitory rental rates were charged for 8,200 square feet of space in the Mail Services building. SPWD/Leasing Services could not explain these variances in calculations and charges.

The audit recommends SPWD/Leasing Services enhance the transparency and accuracy of rental rate calculations for state-owned buildings by developing policies and procedures, documenting occupied space and common area charges to each agency, and providing written rental agreements. Other states rely on software solutions to ensure accurate rate calculations. Implementing computer-aided design software, such as AutoCAD, to create and maintain floor plans with measurements and detailing agency occupied and common area space will help SPWD/Leasing Services increase transparency and allow agencies to verify rentable area and annual charges. Providing written rental agreements to each agency occupying state-owned buildings would help ensure transparency of documented occupied and common area space and the calculation of rental rate charges. Updating the agreements as changes occur would be helpful for agencies to understand rental charges and increased confidence that the rates are correct.

Public Member Trudy Dulong asked about the objective for the rate SPWD charges agencies for various types of space in state-owned buildings. Is the rate just to cover the operations of SPWD Leasing Services or is there some methodology built into fund maintenance costs that are going to be needed in the future or is there some overall objective with these rates?

Administrator Patrick responded the rental rates are used to develop over 95% of the budget for the Buildings and Grounds Section. All the staff for janitorial, building maintenance, grounds maintenance, and HVAC maintenance are included, which is approximately \$16 million a year. The rent is covering that cost. Mr. Patrick noted there are also immediate and preventive maintenance items that are covered within that rent rate. There is also a category for small projects under \$100,000. All these items total approximately \$16 million per year and are covered within the rent rate.

Ms. Dulong noted the rates are a flat-out bargain and with the way commercial real estate is going to be going, does SPWD have any expertise in-house as far as a commercial real estate broker or someone that has that type of background to help with implementing these recommendations?

Administrator Patrick thanked Ms. Dulong for pointing out the rates are very reasonable. The rates also include the utilities and janitorial whether the service is contracted or not. Regarding having a person on staff that has a real estate license, SPWD has been pursuing that resource. SPWD has two current staff members pursuing a real estate license. SPWD does not have a licensed broker on staff.

Treasurer Conine thanked Mr. Patrick and the audit team for taking the time to go through the rental rate issue. The Treasurer noted this audit actually came up originally when the Treasurer's Office was moving spaces from the fourth floor to the fifth floor of Grant Sawyer and were trying to figure out what the numbers were and it didn't seem to pencil for us. The Treasurer commented as the state is going through the process of determining remodeling for Grant Sawyer or looking at the spaces that are leased outside of Grant Sawyer around that the state is paying commercial rents for that, getting a better handle on what state assets are available will make that other work easier. The Treasurer noted coordinating all of that together will be important as opposed to doing it in silos.

Secretary of State Cegavske asked if SPWD has staff qualified to look at the rates and are there qualified real estate people that assist with any of this? Administrator Patrick clarified there are two issues. He noted this audit is about the rental space, which is owned space. The Governor's Finance Office calculates the rental rates based on planned expenses and rented space square footage. Mr. Patrick stated it is a very simple calculation, the total dollars that are needed divided by the total square feet that are being rented. There's no broker or leasing agent involved in that. It is more of a budgetary process. Mr. Patrick then discussed the leasing side and said SPWD/Leasing Services does consult brokers for some of those activities, especially when it is a new lease.

B. (DIA 22-02) Department of Public Safety – Investigations Division;
Jeet Bains, Executive Branch Auditor; Warren Lowman, Administrator.

Saranjeet Bains, Executive Branch Auditor, noted Chief Patrick Conmay was representing the Investigations Division (NDI) and Deputy Director Sherri Brueggemann was representing the Department of Public Safety (DPS). The audit focused on improving oversight of NDI's administrative functions. While NDI has done a satisfactory job of running day-to-day operations, there is still room for improvement. Administrative functions play a critical role in NDI accomplishing its law enforcement and public safety missions.

The audit found that improved oversight of federal grants, performance measures, and workforce diversity will help ensure more efficient and effective operations. The audit makes three recommendations; first, to improve grants management and physical processes; second, to develop performance measures that better align with NDI's strategic priorities; and lastly, to take proactive measures to promote workforce diversity.

Regarding the first recommendation, although NDI developed thorough internal controls to administer grants, they do not include guidelines that address timely expenditure reimbursements. Accurate and timely reporting is critical to complying with grant terms as it may negatively impact current or future spending decisions. Additionally, NDI does not review and charge expenditures timely. Guidelines require charging the grant within 30 days; however, NDI charged grants months after several expenditures occurred. Inadequate internal controls also resulted in NDI not timely spending \$1.6 million in federal grants within original grant periods. The audit found state fiscal year 2019 spending included charges against 2015, 2016, 2017, and 2018 grants, indicating that multiple awards were not spent within original grant periods. The overall fiscal situation reflects challenges in grants management and inadequate spending plans as the oldest grant should be spent down and closed. NDI can also improve grant management by using federal funds first before tapping into state General Fund dollars from salary savings and compensatory time. NDI paid out approximately \$160,000 of compensatory time through salary savings dating back to fiscal year 2018. Utilizing grant-funded overtime in lieu of paying out compensatory time would help NDI spend all grant funds, eliminate staff inefficiencies, and reduce spending of state funds.

Second, the audit recommends NDI develop performance measures that better align with its strategic priorities. Discussions with NDI management reveal that current arrest metrics are not effective in addressing its strategic priorities. Not only does NDI not control the outcome of arrests but arrests are also not calculated consistently year-to-year. Performance measures based on arrests also make NDI vulnerable to producing quantity in the face of pressure without exercising proper discretion and judgment, although the audit found no such evidence. Enforcing reliable performance measures is important because they can affect budget and policy decisions made by oversight bodies as well as judgments made by stakeholders and the public about NDI's operations.

Lastly, the audit recommends NDI take proactive measures to promote workforce diversity. Minorities are underrepresented in NDI in comparison to other divisions within

DPS and other law enforcement agencies in Nevada. DPS asserts responsibility for personnel recruiting efforts and as such, all NDI sworn officers are hired internally. DPS attributes recruiting challenges to lack of competitive pay and a negative atmosphere surrounding law enforcement careers; however, innovative approaches such as establishing relationships with members of the minority community and internships can encourage those from underrepresented communities to consider a profession with NDI.

Governor Sisolak stated he hears regularly and does not think it is anecdotal about the salary comparability study between public safety officers or highway patrol and other agencies. The Governor asked for a one-page sheet on how those salaries compare. Deputy Director Brueggemann responded DPS would provide that information.

5. Presentation of Annual Follow-Up Reports.

- A. (DIA 20-01) Cannabis Compliance Board – Marijuana Licensing; Warren Lowman, Administrator.

Administrator Lowman began his remarks with an overview statement. DIA provides one annual follow-up hard copy letter report to the committee. This report is as of one year after DIA has presented the six-month follow-up required by statute. Consequently, the annual follow-up letter is really looking at a time period of a year and a half after the original audit was presented to the Committee.

In this case, this audit migrated from the Department of Taxation to the Cannabis Compliance Board (CCB). Mr. Lowman noted Executive Director Tyler Klimas was here to talk about that migration and any concerns he has. From DIA's perspective, there are no concerns at this point as the CCB moves forward with developing the licensing process for consumption lounges approved by the Legislature during the 2021 session. It is DIA's understanding that process will be one that can guide any licensing requirement for any sort of establishment, other lounges or other retail facilities. In conversations with the Executive Director, DIA is confident the CCB will get to where DIA can assess these recommendations as fully implemented.

- B. (DIA 20-02) Department of Administration, State Public Works Division, Leasing Services – Commercial Leases; Craig Stevenson, Audit Manager.

Craig Stevenson, Audit Manager, noted Administrator Ward Patrick was representing the SPWD. The audit focused on minimizing the cost of commercially leased office space.

The audit recommended SPWD ensure negotiated rates for commercial office space reflect the strength of the state's negotiating position. Since the six-month follow-up, SPWD has taken the following actions; revised the lease contract template to reserve the right to renegotiate rates for commercial office space throughout the lease term; required agencies to submit space requests 12 months in advance instead of six; and requested and received legislative authorization to purchase real estate market data to assist in leasing oversight.

Full implementation of the recommendation is dependent upon SPWD establishing adequate oversight of strategic planning for future needs and implementation of leasing best practices with current staffing.

Second, the audit recommended SPWD develop a method to ensure all available office space options are considered. Since the six-month follow-up, SPWD began compiling missing state office space vacancy information and updated the office space inventory list. Agencies are now required to report vacancies as they occur or a minimum of every biennium. Since submitting the status report on this recommendation, SPWD requested and obtained much of the required vacancy information.

Full implementation of this recommendation is dependent upon SPWD developing a method to ensure Leasing Services uses this vacancy information when considering all available options in state state-owned and commercially-leased properties.

Public Member Dulong noted SPWD cited not being able to take advantage of available software solutions and asked if SPWD had reached out to UNR or anyone else, any other public-type agency that does leasing to determine if SPWD can use their services or work with them. Ms. Dulong stated she knew universities lease all kinds of their space and asked if there is any reciprocal agreement or something SPWD could get into to help out with software solutions.

Administrator Patrick answered he would get back to Ms. Dulong with what SPWD has done to research what other agencies are doing.

C. (DIA 20-03) Department of Administration, State Public Works Division, Buildings and Grounds Section – Project Management; Craig Stevenson, Audit Manager.

Craig Stevenson, Audit Manager, noted Administrator Ward Patrick was representing the SPWD. The audit focused on improving Buildings and Grounds project management.

The audit had one recommendation outstanding, to formally define construction contracts in the State Administrative Manual (SAM) and establish policies and procedures to clarify the use of owner-contractor agreements. SPWD submitted a draft definition of construction contracts to the Governor's Finance Office for inclusion in SAM, which will require approval by the Board of Examiners. SPWD also established written policies and procedures to clarify the use of owner-contract agreements and updated the contracting checklist to reflect the changes.

Full implementation of this recommendation is dependent upon approval of the proposed definition of construction contracts in SAM and compliance with the new policies and procedures for owner-contractor agreements.

6. Status of Outstanding Audit Recommendations.

Administrator Lowman advised this is the first of several agenda items addressing annual administrative updates to the EBAC and asking for approval of the audit plan and annual report. Tab six is a look at the outstanding audit recommendations that DIA is still following and tracking. Mr. Lowman noted DIA had no particular concern at this point about the progress agencies are making. With respect to the Governor's comments last year, the agencies did a very, very good job of being more detailed in the actions that they were taking to achieve implementation of the recommendations, and DIA would thank them very much for their support on this.

The Governor stated the status notes were really helpful and DIA knew what was happening with progress on the recommendations.

7. Estimated Benefits to Nevadans from Audit Recommendations.

Administrator Lowman advised this report is the summary of the dollar benefits that DIA is currently taking into account to support the performance measure for dollars invested into the internal audit section and a return to the state. The report shows that in fiscal year 2021 for every dollar invested in internal audits DIA has returned \$87 in benefit to the state.

The Governor stated he thought the result was great and noted it was something he and Treasurer have stressed. This is not an expense; it is an investment in these programs that return significantly for the state.

8. Approval of the Division's Annual Report Pursuant to NRS 353A.065.

Administrator Lowman advised this is the 2021 annual report, and as required by statute, is the EBAC's responsibility to approve. The report summarizes last fiscal year's activities and accomplishments.

Public Member Dulong stated that just having come from an audit background, she wanted to thank DIA for the diligence in putting together the information in a succinct manner that is understandable to people other than auditors. Administrator Lowman cited staff, specifically Audit Manager Heather Domenici, who work hard to produce the administrative reports for the EBAC.

Motion: Approve the Fiscal Year 2021 DIA Annual Report
By: Treasurer Conine
Vote: Passed unanimously

9. Approval of the Annual Audit Plan Pursuant to NRS 353A.038.

Administrator Lowman advised per statute; it is an annual requirement for the EBAC to approve DIA's audit plan for the upcoming year. Audits in red are ones requested for the EBAC's approval. Other audits listed on the audit plan were previously approved. New audits for approval resulted from DIA's risk assessment conducted after the legislative session every biennium.

Mr. Lowman said DIA is on schedule to present the audits listed for the February 22, 2022 EBAC meeting and mostly on schedule for all the others. There may be some adjustment in the future audit schedule. DIA has approximately two years of work planned and requests EBAC approval on the new audits.

Motion: Approve the Fiscal Year 2022 DIA Audit Plan
By: Public Member Dulong
Vote: Passed unanimously

10. Committee Members' Comments.

There were no Committee member comments.

11. Public Comment.

There were no requests to make public comment.

12. Adjournment

Governor Sisolak adjourned the meeting.