

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

Audit Report

**State Public Works Division
Buildings and Grounds Section
Leasing Services**

State-Owned Building Rental Rates

**Inconsistent and undocumented rental rate calculations
may lead to greater General Fund expenditures
than appropriate.**

DIA Report No. 22-01
October 26, 2021

EXECUTIVE SUMMARY
Department of Administration
State Public Works Division,
Buildings and Grounds Section, Leasing Services

Introduction..... page 1

**Objective: Improve Administration of
State-owned Building Rentals**

**Enhance the Transparency and Accuracy of the Rental Rate Calculation Process for
State-Owned Buildings** page 2

Enhancing transparency and accuracy of rental rate calculations will improve the administration of state-owned building rent charges and help ensure General Fund expenditures are appropriate. SPWD/Leasing Services lacks policies and procedures for the building rental rate calculation process.

Documentation for occupied and common area space charges is limited. SPWD/Leasing Services has relied on historical data when calculating rental rate charges. The Grant Sawyer Building rent charges illustrate the inconsistencies in space charges in state-owned buildings. Common area rental charges range from 22 – 67% of rental charges to state agencies occupying the building. In another example of errant charges, the Mail Services Division is being charged the dormitory rental rate for working space. Leasing Services is unable to provide supporting documentation for rental billings and is not following State Administrative Manual requirements. Accurate rent calculations allow for proportionally cost allocating rent charges to multiple funding sources.

Written agreements with agencies occupying state-owned buildings would be helpful and increase confidence that rental charges are correct.

Appendix A page 11
Scope and Methodology, Background, Acknowledgements

Appendix B page 17
Response and Implementation Plan

Appendix C page 19
Timetable for Implementing Audit Recommendations

INTRODUCTION

At the direction of the Executive Branch Audit Committee, the Division of Internal Audits (DIA) conducted an audit of the State Public Works Division (SPWD), Buildings and Grounds Section (B&G), Leasing Services. The audit focused on SPWD's administration of state-owned building rentals. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Improve administration of state-owned building rentals.

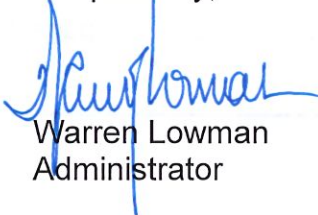
State Public Works Division Response and Implementation Plan

DIA provided draft copies of this report to SPWD for review and comments. DIA considered SPWD's comments in the preparation of this report; SPWD's initial response is included in Appendix B. In its response, SPWD 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 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. 22-01) contains DIA's *findings, conclusions, and recommendation*.

Respectfully,



Warren Lowman
Administrator

Improve the Administration of State-Owned Building Rentals

The State Public Works Division (SPWD), Buildings and Grounds Section (B&G), Leasing Services should improve the administration of state-owned building rental by enhancing the transparency and accuracy of rental rate calculations. Enhancing the transparency and accuracy of the calculation process for rental rates charged to agencies occupying state-owned buildings will benefit Nevadans by providing assurance that agencies are being charged an equitable share and funding sources pay the appropriate cost allocation.¹

Enhance the Transparency and Accuracy of Rental Rate Calculations for State-Owned Buildings

Leasing Services should enhance the transparency and accuracy of rental rate calculations for state-owned buildings by:

- Developing written policies and procedures for state-owned building rentals;
- Documenting the amount of occupied space and common area charged to each agency; and
- Providing written rental agreements to each agency occupying state-owned buildings.

Leasing Services Lacks Policies and Procedures for Building Rentals

Leasing Services should develop written policies and procedures for state-owned building rentals. Policies and procedures will ensure a consistent and standardized approach to the measurement of space and calculation of rental rate charges for agencies occupying state-owned buildings. These policies and procedures can include details on:

- Coordinating information to assist the Governor's Finance Office establish rental rates;
- Measurement of spaces;
- Definition of roles and responsibilities for all parties involved in the process;
- Documentation of occupied, vacant, and common area spaces;
- Updating the State-Owned Building Rent Schedule; and
- Billing.

¹ Funding sources from agencies can include, but are not limited to, the General Fund, the Highway Fund, grants, fees, and revenues from Internal Service Funds.

Other States Have
Written Policies and Procedures

DIA’s survey of other states to determine best practices and processes used in administration of state-owned building rentals revealed other states use more than one tool to administer rentals.² Exhibit I summarizes the results of the state responses and compares them to current State of Nevada practices. Of note, Arizona adopted the BOMA Standards about 12 years ago, which is a standard method for measuring floor area in office buildings.³

Exhibit I

State Comparison – Rental Rate Processes

	Idaho	Utah	Arizona	Nevada
Rental rates based on maintenance and operation costs?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Written policies and procedures for rental rate calculation process?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Occupied, vacant, and common areas documented and tracked?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Agreements with agencies detailing rental rate charges?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: Division of Internal Audits state survey.

The results of the state survey show Leasing Services’ administrative tools for managing building rental rates are relatively limited compared with other states.

Documentation for Occupied and Common Area Space Charges is Limited

Leasing Services provided limited documentation to support the square footage of occupied space and common area charged to each agency. Documenting square footage of occupied, vacant, and common area space in state-owned buildings will enable Leasing Services to verify the accuracy of the State-Owned Building Rent Schedule and assist in addressing agency concerns about rental rate charges. Reliable rental area square footage will ensure accurate rental rate calculations.

Leasing Services Relies on Historical Data
for Rent Charges

Leasing Services does not have detailed drawings that contain the amount of square footage to support what each agency is charged for occupancy in state-owned buildings. Leasing Services has a State-Owned Building Rent Schedule in

² Survey responses from Arizona, Idaho, and Utah.

³ BOMA Standards: The Building Owners and Managers Association has been publishing standards for measuring building areas since 1915. BOMA Standards are most commonly used for leased buildings. BOMA has specific standards for office, industrial, multi-unit residential, retail, and mixed-use buildings. BOMA standards adhere to ANSI processes.

a spreadsheet that details limited information for each agency, including the building name, type of space occupied, and the amount of space occupied.

Leasing Services explained agencies are charged for occupied space in a building as well as a proportionate share of common area. The amount of space attributed to each agency in the State-Owned Building Rent Schedule has been carried over from year to year and could not be substantiated. Consequently, it cannot be determined what space is office and what space is storage.

The rental rate charge for office space and storage space are different and incorrectly classifying the type of space results in incorrect charges assessed to agencies. SPWD has floorplans for each state-owned building but the plans do not contain square footage, measurements of individual occupied spaces, or occupant information. Exhibit II shows the different rental rates charged by type of space.

Exhibit II

**Rental Rates for Selected Types of Space
Fiscal Years 20-21**

Type of Space	\$ per Square Foot
Office	1.071 (FY20)
	1.098 (FY21)
Dorm	0.55
Storage	0.35

Source: Nevada Executive Budget System.

Inconsistency in
Space Charges

Grant Sawyer Building rental rate charges illustrate the lack of consistency and rationale in the Leasing Services process. DIA obtained floor plans for Grant Sawyer from the SPWD Professional Services Section. The floor plans are dated April 19, 2018 and contain square footage for occupiable space for each of the five floors.



Grant Sawyer Building, Las Vegas

Floorplans show total amount of square footage and identify agencies occupying space. Floorplan notes explain areas not identified with a specific agency are common space. These areas include, but are not limited to: circulation, exiting, vertical shafts, restrooms, and building services (mechanical and electrical rooms).

DIA analyzed occupied and common area space to determine the average common space multiplier if all agencies were assessed a proportionate share of common space. The analysis was based on the 2018 floor plans and the fiscal year 2019 Building Assignment Schedule in the Nevada Executive Budget System (NEBS) showing the amount of square footage each agency is budgeted to occupy. The analysis determined the actual common space multiplier charged to each agency. See Exhibit III for common space allocations in the Grant Sawyer Building by agency.

Exhibit III

**Common Space Allocation
Grant Sawyer Building**

Agency	Occupied Space (sq ft)	Budgeted Space (sq ft)	Common Area (% of Budgeted)
Controller's Office	655	1,092	67%
Secretary of State	7,090	11,782	66%
Lt Governor	1,180	1,910	62%
Gaming Control Board	41,990	66,146	58%
Attorney General	35,670	55,765	56%
Legislative Counsel Bureau	12,680	19,484	54%
Colorado River Commission	7,200	10,961	52%
Div of Human Resource Mgmt	6,790	10,344	52%
Treasurer	4,695	7,005	49%
Taxation	7,650	11,353	48%
Health & Human Services	2,960	4,342	47%
Mail Services	860	1,244	45%
Governor's Office	4,575	6,341	39%
Economic Development	3,990	5,223	31%
Other Agencies	9,015	11,008	22%
Total Sq Ft	147,000	224,000	77,000
Average Multiplier^a	52.4%		

Sources: SPWD floor plans and Building Assignment Schedule in the Nevada Executive Budget System (NEBS). See Exhibit VIII of Appendix A for detailed calculations.

Note: ^a Average Multiplier is calculated as total Common Area divided by total Occupied Space.

Leasing Services was unable to provide an explanation or supporting documentation for variances in common area charges billed to agencies in the Grant Sawyer Building. Exhibit IV details actual common area space charged and what would have been charged using the average common area space multiplier for the Lieutenant Governor's Office and the Treasurer's Office in the Grant Sawyer Building.

Exhibit IV

**Common Area Space Analysis - Grant Sawyer Building
Lieutenant Governor and Treasurer**

Average Multiplier (See Exhibit II)				52.4%
Office of the Lt. Governor	Total Space (sq ft)	Occupied Space (sq ft)	Common Space (difference)	Common Space (% of Total)
<i>Actual</i>	1,910	1,180	730	61.9%
<i>Pro Rata</i>	1,798	1,180	618	52.4%
Over/(Under) Billed			112	9.5%
Office of the Treasurer	Total Space (sq ft)	Space Occupied (sq ft)	Common Space (difference)	Common Space (% of Total)
<i>Actual</i>	7,005	4,695	2,310	49.2%
<i>Pro Rata</i>	7,155	4,695	2,460	52.4%
Over/(Under) Billed			(150)	(3.2%)

Sources: SPWD floor plans and Building Assignment Schedule in the Nevada Executive Budget System. See Exhibit IX of Appendix A for detailed calculations.

There is no consistency in common area charge calculations nor is there documentation for the square footage allocated to each agency.

Dormitory Rental Rate
Charged for Working Space

Leasing Services State-Owned Building Rent Schedule shows several budget accounts are charged the dormitory rental rate, including the Stewart Facility for POST occupied buildings as part of their training activities. Other rental charges did not align with the use of the space. For example, the State Mail Services Building in Carson City is being charged the dormitory rate for all 8,200 square feet of building space. Mail Services personnel disclosed this building is comprised of four offices and the remaining space is open working space. There was no explanation for the errant charge.

Leasing Services Unable to Provide Supporting Documentation for Billings



Nevada State Capitol, Carson City

DIA selected three agencies and associated buildings to verify the accuracy of billings for state-owned building space:

- Treasurer's Office: Grant Sawyer, Capitol, and Blasdel;
- Lieutenant Governor's Office: Grant Sawyer and Capitol; and
- Governor's Finance Office (GFO): Blasdel.

DIA requested the following for each budget account in each building:

- Square footage billed for fiscal year 2021, 2nd Quarter;
- Dollar amount billed for fiscal year 2021, 2nd Quarter;
- Information on occupied space and allocation of common area; and
- Supporting documentation for actual space and common area billed.



Blasdel Building, Capital Grounds, Carson City

Leasing Services provided the amount of square footage and amount billed from the State-Owned Building Rent Schedule. The schedule's billed amounts match the actual amounts billed to each budget account. Leasing Services was not able to provide supporting documentation for occupied space and common area billed. Exhibit V summarizes the information provided by Leasing Services.

Exhibit V

Summary of Data Provided by Leasing Services

Tenant	Location	Space Type	Square Feet	FY21 2nd Qtr. Billing \$	Able to Confirm Square Feet?
Treasurer	Blasdel Building	Storage	289	303	No
Treasurer	Capitol Building	Office	7,359	24,241	No
Treasurer	Grant Sawyer	Office	822	2,708	No
Lieutenant Governor	Capitol Building	Office	2,206	7,267	No
Lieutenant Governor	Grant Sawyer	Office	1,910	6,292	No
GFO	Blasdel Building	Office	12,674	41,748	No

Source: SPWD – Leasing Services, State-Owned Building Rent Schedule.

State Administrative Manual (SAM)
Requirements Are Not Being Followed

Leasing Services does not have supporting documentation to demonstrate that the rentable area occupied by each agency and the total yearly charge to each agency is appropriate. Per *SAM 1022 Rent Charges for State Owned Buildings*, “The Administrator of the State Public Works Division determines the rent cost per square foot, the rentable area occupied by each agency and the total yearly charge to each agency. Each agency shall pay the appropriate amount to the Section’s operating fund.”

Supporting documentation such as AutoCAD (computer aided design) software drawings or floorplans with measurements which detail agency occupied and common area space would increase transparency and allow agencies to verify rentable area and yearly charges.

Other States Document
Building Space

Arizona, Idaho, and Utah all rely on software solutions to document the amount of occupied space and common area for agencies occupying state-owned buildings.⁴ The methods used to document and demonstrate space vary: Arizona uses AutoCAD software; Idaho uses space planning software; and Utah uses floorplans and a formula worksheet. Drawings include type of space, square footage, occupant, and a floorplan. These or other software solutions may be helpful for Leasing Services to improve rental charge documentation and to help agencies ensure multiple funding sources are charged appropriately.

⁴ Survey responses from Arizona, Idaho, and Utah.

Accurate Rent Calculations Allow for Proportionally Cost Allocating Rent Charges

Agencies occupying state-owned buildings are not all funded exclusively by the General Fund. Accurately calculating occupied square footage and common space in the rent schedule will allow agencies with multiple funding sources to proportionally cost allocate rent charges to funding sources. Likewise, an accurate calculation of occupied and common area space will allow for the appropriate funding sources to be used rather than a catch-all process that falls to the General Fund.

Written Agreements with Agencies Occupying State-Owned Buildings Would be Helpful and Increase Confidence that Rental Charges Are Correct

Providing written rental agreements to each agency occupying state-owned buildings and updating the agreements as changes occur would be helpful for agencies to understand rental charges and increase confidence the charges are correct. These agreements could include agency access or visibility on existing documents and the Leasing Services State-Owned Building Rent Schedule as alternatives that achieve the audit intent to keep agencies informed. Establishing rental agreements with agencies occupying state-owned buildings will enhance transparency and the reliability of space occupied by each agency.

Leasing Services does not have written rental agreements for agencies occupying state-owned buildings. The amount of space charged to each agency included in NEBS and any budgeted items that may affect square footage. Each agency is aware how much square footage they will be charged prior to submitting budgets but Leasing Services does not provide calculations to support the charges.

Rental agreements can be used to establish and clarify roles and responsibilities for Leasing Services and agencies occupying state-owned space. Alternatively, SPWD could provide roles and responsibilities on its website that explain rental rates, utilities agreements, and other facility requirements. Updating agreements as changes occur will assist with timely changes to the State-Owned Building Rent Schedule and ensure each agency is charged an appropriate and correct amount.

Other States Use Rental Agreements

Utah and Idaho have written rental agreements with each agency occupying state-owned buildings.⁵ Utah uses Operations and Maintenance Agreements to document terms and conditions of rented spaces and updates when changes are made. Idaho uses Memoranda of Understanding provided with agency billings at the beginning of each year or as changes are made. These memoranda include occupied space and rental charges. Other states' rental agreements include

⁵ Survey responses from Arizona, Idaho, and Utah.

information such as building location, type of space, square footage, percent of common area charged, rental rate, and total charges.

Conclusion

Inconsistent and undocumented rental rate calculations may lead to greater General Fund expenditures than appropriate. Inadequate supporting documentation for building rent charges limits transparency and results in a lack of confidence that agencies are being appropriately charged for the amount and type of space they occupy and that appropriate funding sources are being proportionally charged.

Recommendation

1. Enhance the transparency and accuracy of rental rate calculations for state-owned buildings.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

The Division of Internal Audits (DIA) began the audit in March 2021. During the audit, DIA interviewed State Public Works Division (SPWD) staff and discussed processes inherent to SPWD's responsibilities. In addition, DIA had conversations with the Lieutenant Governor's office and the Nevada State Treasurer's office to discuss their concerns. DIA reviewed SPWD records, applicable NRS, NAC, SAM sections, and surveyed other states' best practices. Additionally, DIA reviewed applicable reports, audits, and independent analyses. DIA concluded fieldwork in June 2021.

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

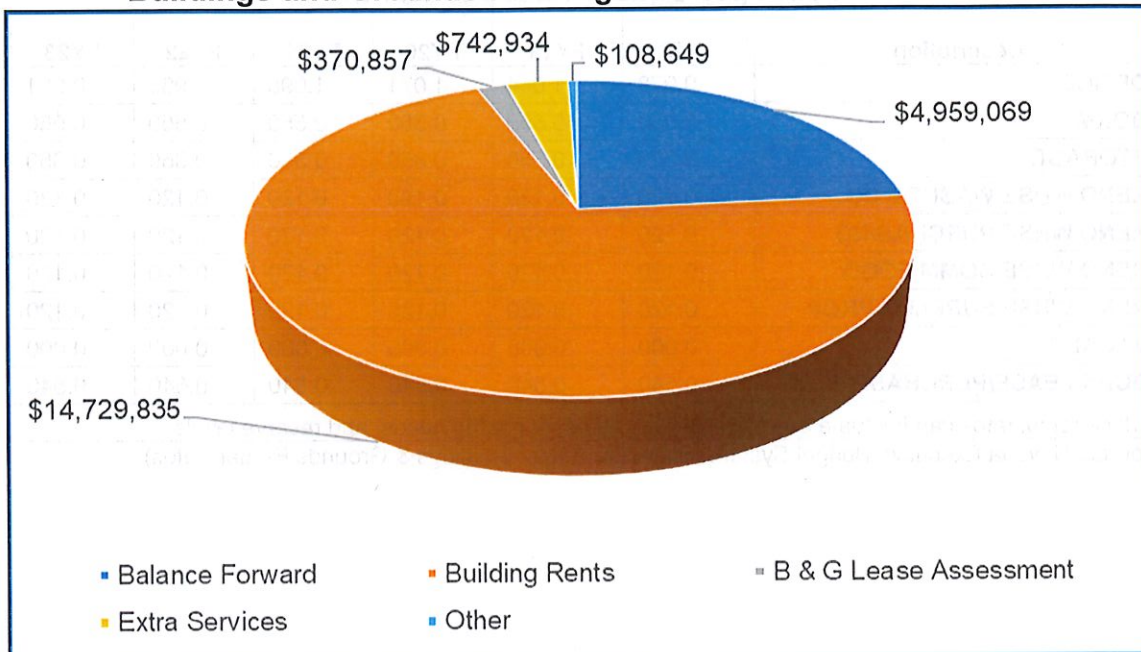
Background

The Buildings and Grounds Section (B&G) of the State Public Works Division (SPWD) includes the Leasing Services unit. B&G provides physical buildings and grounds maintenance and housekeeping for most state-owned buildings in Carson City, Reno, and Las Vegas. Services are provided by B&G staff and contracted vendors ranging from janitorial and maintenance to minor remodeling. Leasing Services provides office space for agencies in state-owned buildings and when not available, locates and negotiates leases in privately owned buildings. Additionally, SPWD provides administrative oversight of the Marlette Lake Water System.

B&G is funded by building rents for supervised properties, assessments for commercial leases, and revenues for extra services provided by B&G staff. B&G budget for fiscal year 2022 is approximately \$20.9 million. The fiscal year 2022 budgeted revenue for Building Rents totals \$14,729,835 for 52 buildings with 1,710,038 square feet of space. A portion of the B&G revenue is transferred to the Capitol Police (budget account 4727) to provide proactive law enforcement services, empower employees through training and education, and enhance the safety of Nevada's citizens and visitors in and around designated state lands and facilities. The transfer to the Capitol Police in fiscal year 2022 is \$2,702,578. Exhibit VI summarizes B&G's budget by funding source for fiscal year 2022.

Exhibit VI

**State Public Works Division
Buildings and Grounds Funding Sources - Fiscal Year 2022**



Source: Fiscal Year 2022 Legislatively Approved Budget.
Notes: "Other" includes refunds, rebates, and miscellaneous sales.

Rental Rate Calculations

The Governor's Finance Office calculates the rent cost per square foot for agencies occupying state-owned buildings. All state-owned buildings have the same rental rates.⁶ Rates are calculated during the budget build each biennium and are dependent upon the operating needs of B&G (Budget Account 1349) and the projected occupied area of state-owned buildings. The projected occupied area is comprised of the amount of space an agency is renting and anticipated changes.

The Administrative Services Division provides fiscal and administrative support to the Department of Administration divisions, as well as a variety of other state agencies, offices, boards, and commissions. Their services include billing agencies that occupy state-owned buildings on behalf of B&G. The billings are sent quarterly and based upon the State-Owned Building Rent Schedule provided by B&G. Exhibit VII summarizes historical B&G rental rates for state-owned buildings.

⁶ SAM 1022 Rent Charges for State Owned Buildings: "The lease rate is expressed as a cost per square foot per month. This is the most common manner of expressing lease or service charges and provides comparability with non-state owned buildings costs. All state owned buildings have the same lease rate."

Exhibit VII**Buildings and Grounds Rental Rates
Cost per Square Foot per Month**

Description	FY18	FY19	FY20	FY21	FY22	FY23
OFFICE	0.978	1.044	1.071	1.098	0.961	0.981
DORM	0.550	0.550	0.550	0.550	0.550	0.550
STORAGE	0.350	0.350	0.350	0.350	0.350	0.350
RENO WHSE WASHOE CO	0.120	0.120	0.120	0.120	0.120	0.120
RENO WHSE PURCHASING	0.120	0.120	0.120	0.120	0.120	0.120
RENO WHSE COMM FOOD	0.120	0.120	0.120	0.120	0.120	0.120
RENO WHSE SURPLUS PROP	0.120	0.120	0.120	0.120	0.120	0.120
VACANT	0.000	0.000	0.000	0.000	0.000	0.000
DCNR LEASE/PURCHASE BLDG	0.540	0.540	0.540	0.540	0.540	0.540

Office rental rates can fluctuate due to occupancy rates, operating needs, and reserve levels

Source: Nevada Executive Budget System (Schedule Rates: Buildings & Grounds Rental Rates).

Exhibit VIII provides additional detail on the multiplier calculation for agencies occupying space in the Grant Sawyer building by floor.

Exhibit VIII

Common Space Charged Analysis for Grant Sawyer Building

	1st Floor	2nd Floor	3rd Floor	4th Floor	5th Floor	Floor Plans	NEBS	Common Area
Gaming Control	6,160	35,830				41,990	66,146	58%
CRC			7,200			7,200	10,961	52%
Lt Governor					1,180	1,180	1,910	62%
Taxation	7,650					7,650	11,353	48%
DHRM	6,790					6,790	10,344	52%
Mail Services	860					860	1,244	45%
Gov's Office					4,575	4,575	6,341	39%
LCB				12,680		12,680	19,484	54%
Controller's Office				655		655	1,092	67%
Treasurer				4,340	355	4,695	7,005	49%
Economic Development	180				3,810	3,990	5,223	31%
Secretary of State					7,090	7,090	11,782	66%
Health & Human Services				2,960		2,960	4,342	47%
Attorney General			26,980	8,690		35,670	55,765	56%
Other	1,510	1,530		5,195	780	9,015	11,008	22%
Totals	23,150	37,360	34,180	34,520	17,790	147,000	224,000	77,000
Total Square Feet from Facility Condition Analysis Report								224,000.00
Less: Occupiable Square Feet from Plans								147,000.00
Difference (Common Space)								77,000.00
Average Multiplier = Common Space divided by Occupiable Space								52.4%

Sources: SPWD Floor Plans dated 4-19-18 and FY18-19 Building Assignment Schedule in NEBS (values are Square Feet).

Exhibit IX provides additional detail on the multiplier calculation for the offices of the Lieutenant Governor and Treasurer occupying space in the Grant Sawyer building by floor.

Exhibit IX

Common Space Analysis for Treasurer and Lt. Governor in Grant Sawyer

Calculation of Average Common Space Multiplier	
Total Square Feet (SF) in Grant Sawyer Building from Facility Condition Analysis Report	224,000
Less: Total Occupiable Square Feet from Plans	147,000
<u>Difference = Total Common Space</u>	<u>77,000</u>
Average Multiplier = Total Common Space Divided by Total Occupiable Space	52.4%
Actual Common Space Multiplier Charged to the Treasurer	
Total Square Feet (SF) Charged to Treasurer	7,005
Treasurer Occupied Space (355 SF on 5th Floor and 4,340 SF on 4th Floor)	4,695
<u>Difference = Common Space Charged to Treasurer</u>	<u>2,310</u>
Multiplier Charged to Treasurer = Common Space Charged Divided by Occupied Space	49.2%
Alternative Method: Charge Average Common Space Multiplier to the Treasurer	
Treasurer Occupied Space (355 SF on 5th Floor and 4,340 SF on 4th Floor)	4,695
Occupied Space times Average Multiplier = Common Space Attributable to Treasurer	2,459
<u>Occupied Space + Share of Common Space = Total Space Attributable to Treasurer</u>	<u>7,154</u>
Actual Common Space Multiplier Charged to the Lt. Governor	
Total Square Feet (SF) Charged to Lt. Governor	1,910
Lt. Governor Occupied Space (1,180 SF on 5th Floor)	1,180
<u>Difference = Common Space Charged to Lt. Governor</u>	<u>730</u>
Multiplier Charged to Lt. Governor = Common Space Charged Divided by Occupied Space	61.9%
Alternative Method: Charge Average Common Space Multiplier to the Lt. Governor	
Lt. Governor Occupied Space (1,180 SF on 5th Floor)	1,180
Occupied Space times Average Multiplier = Common Space Attributable to Lt. Governor	618
<u>Occupied Space + Share of Common Space = Total Space Attributable to Lt. Governor</u>	<u>1,798</u>

Sources: SPWD Floor Plans dated 4-19-18 and FY18-19 Building Assignment Schedule in NEBS (values are Square Feet).

Acknowledgments

DIA expresses appreciation to the State Public Works Division Administrator, Deputy Administrator – Buildings and Grounds, Leasing Services Manager, and staff for their cooperation and assistance throughout the audit.

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Appendix B

Buildings and Grounds Section Response and Implementation Plan

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October 1, 2021

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RE: DIA Report No. 22-01 State-Owned Building Rental Rates

Dear Mr. Lowman:

Thank you for the State Public Works Division, Buildings & Grounds Section, Leasing Services final report of the Division of Internal Audits' findings regarding State-owned Building Rental Rates. We would like to commend your staff as they were thoughtful, thorough, and professional throughout the entire audit process. Leasing Services appreciates the opportunity to respond to your recommendations and we look forward to working with the Division of Internal Audits on implementation. The single recommendation is divided into three subparts, Leasing Services will respond to each.

Recommendation #1: Enhance the Transparency and Accuracy of Rental Rate Calculation for state owned buildings.

1a. Developing written policies and procedures for state-owned building rentals.

Leasing Services understands and accepts the audit recommendation. Leasing Services concurs that a policy and procedure will ensure a consistent and standardized approach to measurement of space and rental calculation charges for agencies occupying state-owned space. As recognized in the audit, this policy will necessarily involve clarifying the roles of Leasing Services, the Governor's Finance Office, Administrative Services Division, and the using Agency. Leasing Services has already begun drafting the policy and will coordinate with the other involved agencies to develop and finalize the formal policy and procedure. The policy and procedure will address the following:

- Coordination with the Governor's Finance Office to establish rental rates;

- Updated space measurements, including documentation of occupied, vacant, storage, and common area space;
- Define roles and responsibilities among the GFO, ASD, Leasing Services, and renting Agencies;
- Maintenance of an updated rent schedule;
- Billing; and
- Implement rental agreements

Leasing Services anticipates developing a written policy and procedure in less than 6 months.

1b. Documenting the amount of occupied space and common area charged to each agency.

Leasing Services understands and accepts the audit recommendation. Leasing Services concurs that documentation of square footage occupied, vacant, and common area space in state-owned buildings will enable Leasing Services to verify the accuracy of the State-Owned Rent Schedule and rental rate charges. The audit correctly notes, Leasing Services currently relies upon historical data to ascertain the amount of square footage that agencies occupy. Leasing Services will seek funding to contract for services to measure the 1.7 million square feet of state-owned space currently available for rent.

In connection with this recommendation, once square footage is verified, Leasing Services will use AutoCAD software to maintain this data. Square footage measurements can then be revised and updated to reflect square footage changes associated Agency moves or space need changes. This will ensure Agencies are paying rent for the correct square footage. Leasing services does not currently have this AutoCAD and will need funding to support this effort. Additionally, leasing services will require training on AutoCAD software.

Leasing Services anticipates that implementing this item in 6 to 12 months.

1c. Providing written rental agreements to each agency occupying state-owned buildings.

Leasing Services understands and accepts the audit recommendation. Leasing Services will work with their Deputy Attorney General, a.k.a. Construction Law Counsel to develop an agreement that memorializes roles and responsibilities between Leasing Services and Agencies occupying state-owned space. Once Leasing Services has an accurate measurement of the state-owned space, and the policy and procedure are accepted by all involved agencies, Leasing Services will implement a boilerplate rental agreement for all state-owned space.

Leasing Services anticipates implementing this item within 12 months, following the measuring of state-owned space square footage.

Sincerely,



Ward D. Patrick, P.E. SPWD Administrator

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the State Public Works Division (SPWD), 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). SPWD should begin taking steps to implement all recommendations as soon as possible. SPWD target completion dates are incorporated from Appendix B.

Category 2: Recommendations with an anticipated implementation period exceeding six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Enhance the transparency and accuracy of rental rate calculations for state-owned buildings. (page 10)	Oct 2022

The Division of Internal Audits shall evaluate the action taken by SPWD 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 SPWD.