

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

Audit Report

**Department of Conservation and
Natural Resources**

Division of Water Resources

Fiscal Processes

**Nevadans subsidize the cost of water
management throughout the state.**

DIA Report No. 23-02
November 30, 2022

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Department of Conservation and Natural Resources
Division of Water Resources
Water Management Rates and Fees

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Seek Legal Analysis of Statute to Determine Allowable Charges to Water Users page 2

Seeking legal analysis of statute to determine allowable charges to water users and assessing users for those costs will reduce NDWR’s reliance on State General Fund appropriations of \$2.9 million annually and ensure the costs of water management are paid by those who receive the benefit. Statute allows NDWR to charge water users for all necessary expenses. The cost of water management, monitoring, and regulation in Nevada has been subsidized with State General Funds of \$2.9 million annually, on average, since 2019. Water assessment revenues, State Engineer Services fees, and other fees collected are insufficient to fund NDWR’s operations.

The cost of managing water in Nevada has increased by \$1.3 million (12%) since fiscal year 2019. NDWR does not charge water users for indirect costs such as: most leadership salaries, indirect operating costs, and costs allocated to NDWR by other state entities. In fiscal year 2022, \$1.5 million of NDWR’s indirect operating costs were not charged to those who received the benefit of NDWR’s water management activities. Over \$5 million of potentially allocable indirect staff salaries were not charged to water users in fiscal year 2022. Statute is unclear as to what portion of these water management costs can be charged to water users. Preliminary legal analysis indicates NDWR may be able to charge water users for a portion of its indirect costs. Determining what costs can be charged to water users and assessing users for those costs will ensure the costs of water management in Nevada are paid by those who receive the benefit.

Seek BDRs to Update NDWR’s Fee Schedules..... page 9

Seeking BDRs to update NDWR’s fee schedules to reflect the increase in costs of providing the associated services will increase fee revenue and could save the State General Fund \$1 million annually. NDWR’s fee-based revenue sources have decreased by 4.3%, while total operational costs have increased by 11.5% over the last four years. State Engineer Services fees, NDWR’s largest fee-based revenue source, have not been updated since 2013 and other fees have not changed since 1991.

Inflation has increased the cost of goods and services by 117.5% since 1991 and by 26.8% since 2013. This reflects an increase in costs of \$1 million (27.4%) annually since fees were last changed. Revenue will continue to decline if the fees established in statutes are not updated to reflect the current costs of providing the services. Updating NDWR’s fee schedules to reflect the increase in costs will increase fee revenue and could save the State General Fund \$1 million annually.

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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 Conservation and Natural Resources, Division of Water Resources (NDWR). The audit focused on reducing NDWR's reliance on State General Funds by pursuing self-sustaining funding options. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Reduce NDWR's reliance on State General Funds.

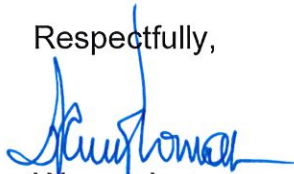
Department of Conservation and Natural Resources Division of Water Resources Response and Implementation Plan

DIA provided draft copies of this report to NDWR for review and comment. NDWR's comments have been considered in the preparation of this report; NDWR's response is included in Appendix B. In its response, NDWR 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 NDWR 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 NDWR.

The following report (DIA Report No. 23-02) contains our *findings, conclusions, and recommendations*.

Respectfully,



Warren Lowman
Administrator

Reduce NDWR's Reliance on State General Funds

The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) can reduce its reliance on State General Funds by:

- Seeking legal analysis of statute to determine allowable charges to water users; and
- Seeking BDRs to update NDWR's fee schedules.

Reducing NDWR's reliance on State General Funds to subsidize the cost of water management could save the state \$3.9 million annually and ensure fees and assessments levied are sufficient to cover NDWR's water management costs.

Seek Legal Analysis of Statute to Determine Allowable Charges to Water Users

The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) should seek legal analysis of statute to determine allowable charges to water users. Determining what costs can be charged to water users and assessing users for those costs will reduce NDWR's reliance on State General Fund appropriations of \$2.9 million annually and ensure the costs of water management are paid by those who receive the benefit.

The Cost of Water Management is Subsidized by the State General Fund

NDWR is tasked to conserve, protect, and enhance the state's water resources for citizens through the appropriation, reallocation, and management of public waters.¹ The cost of water management, monitoring, and regulation in Nevada has been subsidized with State General Funds of \$2.9 million annually, on average, since 2019. NDWR funds 93% of its water management operations through State General Fund appropriations, assessments on surface and ground water users, and fee-based revenues.² NDWR received federal grants and ARPA funds, revenue transferred from other state agencies, and a small amount of other income to supplement its budget (7% of total funding). Exhibit I shows NDWR's funding

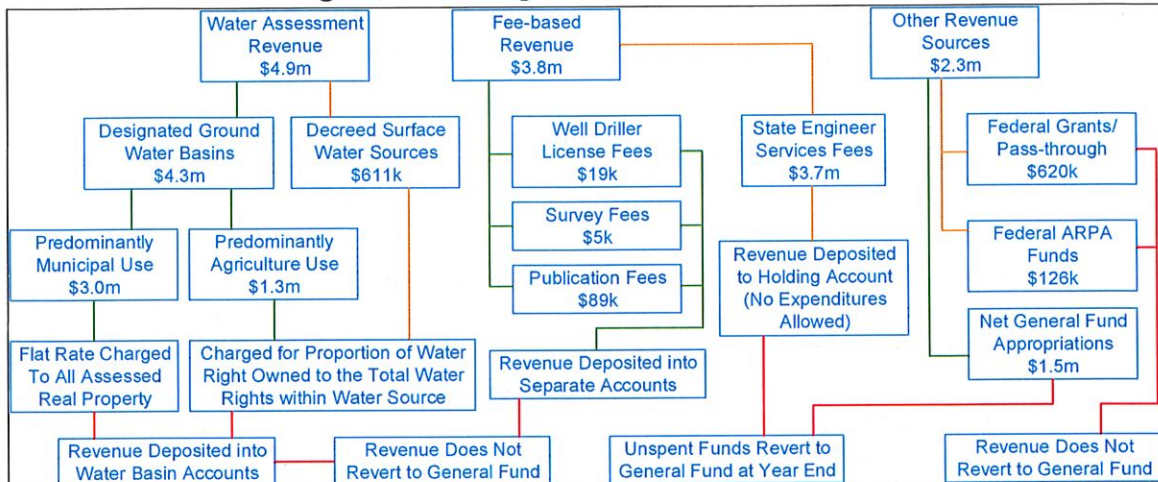
¹ NDWR's management authority excludes Colorado River water. The Colorado River Commission of Nevada establishes policy for the management of Nevada's allocation of water resources and electrical power from the Colorado River. NDWR manages decreed surface water sources and designated ground water basins.

² State Engineer Services fees are set in NRS 533.435. State Engineer Services fees are reverted at fiscal year end to the State General Fund to partially offset the general funds appropriated at the beginning of the fiscal year. In fiscal year 2022, \$3.7 million of State Engineer Services fees partially offset NDWR's \$7.5 million general fund appropriation. An additional \$2.3 million of unspent funds reverted at fiscal year-end. NDWR netted \$1.5 million in general fund appropriations in fiscal year 2022 when calculated using this methodology.

model using fiscal year 2022 revenues. Pass-through budget accounts and accounts not related to surface or ground water are excluded.³

Exhibit I

Funding Model Using Fiscal Year 2022 Revenues

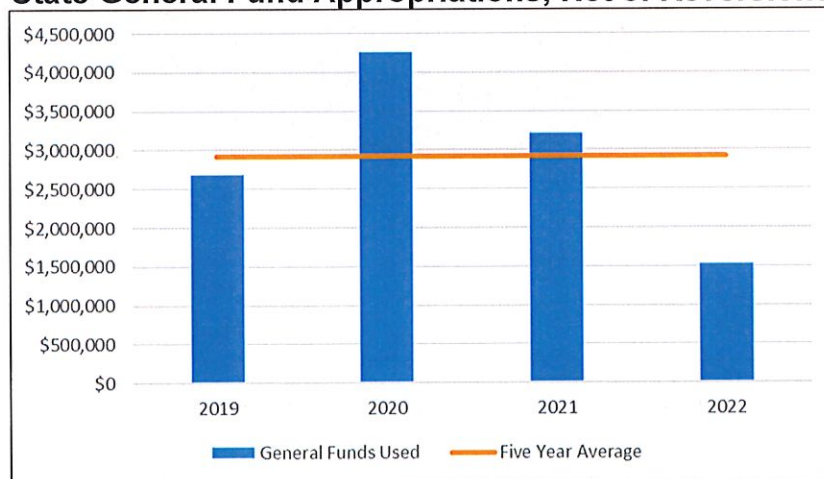


Source: Data Warehouse of Nevada.

In fiscal year 2022, 79% (\$8.7 million) of NDWR’s funding was derived from water assessments and fee-based revenues. State General Funds, federal funds, and a small amount of other income (\$2.3 million) bridge the funding gap between assessments and fees collected and NDWR’s water management costs throughout the state. NDWR relies primarily on State General Funds to subsidize its water management mission. Exhibit II shows NDWR’s State General Fund appropriations, net of reversions, since fiscal year 2019.

Exhibit II

State General Fund Appropriations, Net of Reversions



Source: Data Warehouse of Nevada.

³ Excluded budget account numbers: 4108, 4154, 4157, 4158, 4177, 4199, 4222, and 4238. These budget accounts are either no longer used or are used to pass-through revenues and expenditures related to specific projects.

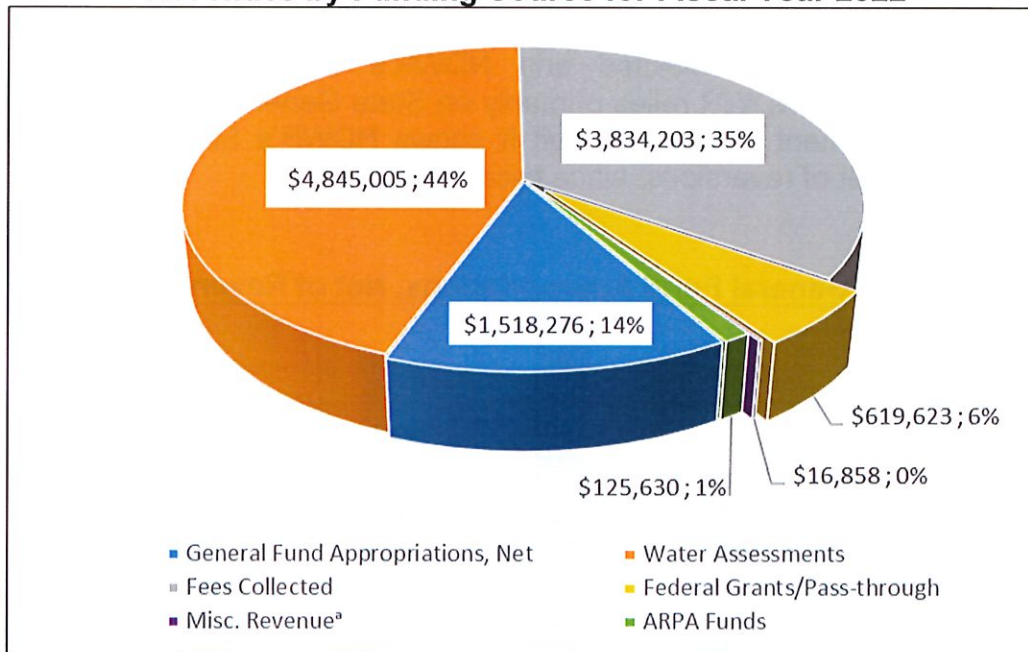
For fiscal year 2022, NDWR received a State General Fund appropriation of approximately \$7.5 million and reverted \$6 million to the State General Fund at fiscal year-end, netting NDWR approximately \$1.5 million in State General Funds. The reverted funds are primarily State Engineer Services fees (\$3.7 million) and a portion of unspent State General Funds (\$2.3 million). Statute mandates State Engineer Services fees be collected then reverted at fiscal year-end to the State General Fund to partially offset the funds appropriated to NDWR at the beginning of the fiscal year.⁴

Water Assessments and Fee-based Revenues Are Insufficient to Fund Operations

Water assessment revenues, State Engineer Services fees, and other fees collected are insufficient to fund NDWR’s operations. In fiscal year 2022, NDWR collected \$4.9 million of water assessment revenues and \$3.8 million of combined fee-based revenues.⁵ The water assessment and fee-based revenues are used to offset the cost of managing water in Nevada. Exhibit III shows NDWR’s revenues by funding source for fiscal year 2022. The State General Fund appropriation is reported net of State Engineer Services fees and funds reverted at fiscal year-end.

Exhibit III

Revenues by Funding Source for Fiscal Year 2022



Source: Data Warehouse of Nevada.

Note: ^a Miscellaneous revenue includes prior year revenue and credit card rebates.

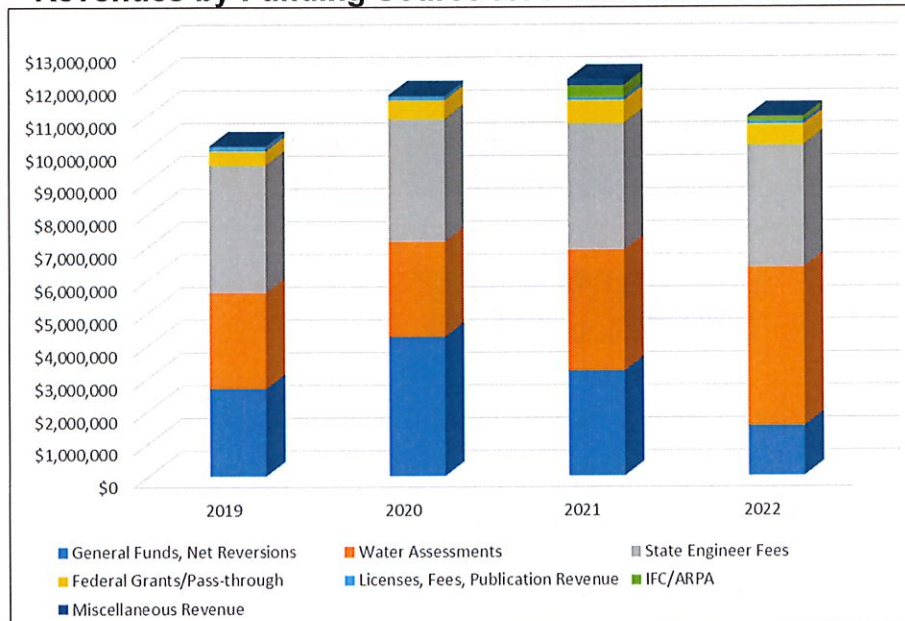
⁴ Senate Bill 514 of the 2017 Legislature amended NRS 533.435 to require these fees to revert to the State General Fund. Previously, fee revenue was retained by NDWR in the Water Distribution Revolving Account then transferred to water assessment accounts and expended as needed.

⁵ NDWR collected approximately \$89,000 of fee revenue from the sale of publications in fiscal year 2022. This revenue is used to offset 100% of the costs of publications and is not reverted to the State General Fund pursuant to NRS 533.435(3).

Revenue from water assessments and fees collected is insufficient to fully fund NDWR’s operations. NDWR netted \$1.5 million of State General Funds in fiscal year 2022 to bridge the funding gap. Reliance on State General Fund appropriations will continue in fiscal year 2023. NDWR is anticipated to receive over \$2 million in State General Funds, net of State Engineer Services fees and estimated reversions in fiscal year 2023.⁶ Exhibit IV shows NDWR’s revenues by funding source for fiscal years 2019 through 2022.

Exhibit IV

Revenues by Funding Source for Fiscal Years 2019-2022



Source: Data Warehouse of Nevada.

NDWR has relied primarily on State General Fund appropriations to bridge the funding gap between revenues collected and water management costs. NDWR incurs certain costs to manage water in Nevada, such as personnel, travel, supplies, and equipment. These costs are charged to the water assessment budget accounts (funded by assessments on surface and ground water users) or NDWR’s operating account (funded primarily by State General Fund appropriations).⁷ Costs are never charged to the State Engineer Services fees budget account pursuant to statute.⁸ Costs are charged to the water assessment and operational budget accounts.

⁶ The estimated reversion in fiscal year 2023 is based on NDWR’s four-year average reversion (2019 through 2022).

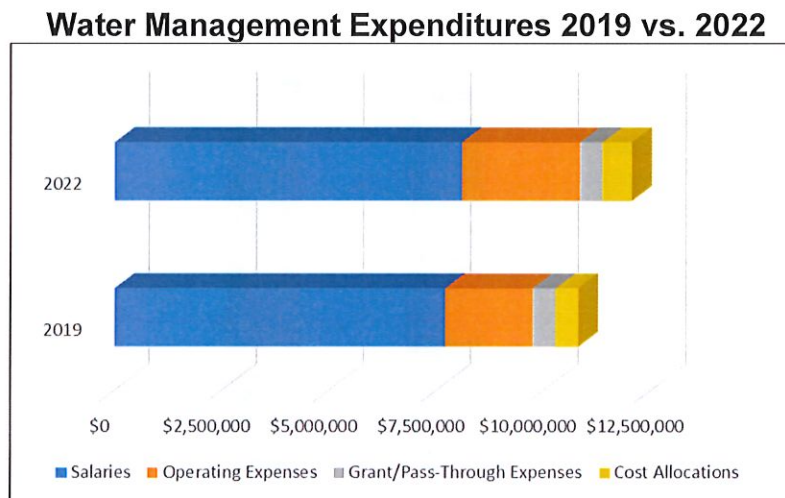
⁷ A de minimis amount of expenditures are charged to budget accounts for Water Rights Surveyors (\$1,000), Well Drillers Licenses (\$13,000), and State Engineer Publications (\$89,000). The use of these accounts is restricted by statute. Only direct costs can be charged, and the funds do not revert at fiscal yearend.

⁸ Senate Bill 514 of the 2017 Legislature amended NRS 533.435 to require these fees to revert to the State General Fund at year-end to offset general fund appropriations received at the beginning of the fiscal year.

The Cost of Managing Water in Nevada has Increased by 12% Since 2019

The cost of managing water in Nevada has increased by 12% (\$1.3 million) since fiscal year 2019. Total operating expenditures increased by 35% and funds spent on cost allocations increased by 31%. DIA classified NDWR's expenditures into four groups: Personnel, Operating, Grant/Pass-through, and Cost Allocations. Exhibit V shows a comparison of water management expenditures for fiscal years 2019 and 2022.

Exhibit V



Source: Data Warehouse of Nevada.

Personnel includes: direct labor costs, such as time spent by a staff engineer inspecting or monitoring a specific water source; and indirect labor costs, such as administrative staff time spent supporting water management functions. Operating expenditures include the direct costs of managing water sources and the indirect costs of NDWR's operations. Cost allocations are considered indirect costs and Grants/Pass-through expenditures are not allocable.⁹

NDWR Charges Water Users for Direct Costs

NDWR charges water users for direct costs. Direct operating costs are charged to the applicable water assessment budget account. NDWR identifies direct labor costs by mandating employees code their time spent managing a surface or ground water source to the applicable water source activity code on their timesheet.¹⁰

⁹ Cost allocation is the process of charging a cost to the funding source(s) that receive the benefits of the services provided. Accounting best practices require the allocation methodology to be equitable and reasonable. Source: University of Washington.

¹⁰ The Nevada Employee Action and Timekeeping System (NEATS) accepts time codes to track employee time spent on an activity or job. Each water source is assigned an activity code. Time coded in NEATS is used to determine the direct labor cost to charge to the water source. Owners of water rights, or water consumers, pay for the direct labor costs associated with managing their water source.

NDWR also identifies certain staff positions whose time is spent, wholly or in part, directly supporting work being completed on water sources throughout the state. This staff time is allocated and charged to the water assessment budget accounts.

NDWR Does Not Charge for Indirect Costs

NDWR does not charge water users for indirect costs. These costs include most leadership salaries, indirect operating costs, and costs allocated to NDWR by other state entities, such as the Attorney General's Office and the Statewide Cost Allocation Plan. In fiscal year 2022, \$1.5 million of NDWR's indirect operating costs were not charged to those who received the benefit of NDWR's water management activities. Over \$5 million of potentially allocable indirect staff salaries cost was not charged to water users in fiscal year 2022.

Statute is Unclear About Allowable Indirect Water Management Costs

Statute is unclear as to what indirect water management costs NDWR is allowed to charge water users. Preliminary analysis by the Deputy Attorney General for the Division of Internal Audits indicates NDWR may be able to charge water users for indirect costs relating to the "supervision" of the state's groundwater basins.

NRS 534.040(1) provides that the State Engineer may employ a well supervisor or other necessary assistants to assist in the supervision of water basins. NRS 534.040(2) provides that, if the money collected is insufficient to pay those salaries, together with "necessary expenses", a special assessment shall be levied upon all taxable property situated within the confines of the area in an amount necessary to pay "such salaries and expenses."

Legal Analysis of Statute is Necessary to Determine What Water Management Costs can be Charged to Water Users

Legal analysis of statute is necessary to determine what water management costs can be charged to water users. Statute allows for "necessary expenses" to be charged. A persuasive argument exists that "necessary expenses" would include both direct and indirect costs associated with managing the state's surface and ground water basins.

A definition of "necessary expenses" is not provided in statute. Examination of case law in other contexts reveals a relatively broad definition for "necessary expenses." In the context of tax law, federal courts have found that, "The term 'necessary' imposes only the minimal requirement that the expense be 'appropriate and helpful'."¹¹ Legal analysis will help determine NDWR's authority to charge for additional direct and indirect costs associated with managing surface water sources and ground water basins. Doing so may allow NDWR to offset its water management costs and reduce its reliance on State General Fund appropriations of \$2.9 million annually.

¹¹ Cinergy Corp. v. United States, 55 Fed. Cl. 489, 516 (2003).

Conclusion

NDWR relies on the State General Fund to subsidize the cost of managing water in Nevada. NDWR received \$2.9 million annually of State General Fund appropriations over the last four years, on average, to bridge the funding gap due to insufficient revenue from water assessments and fee-based services. The cost of managing water in Nevada has increased by \$1.3 million since 2019. NDWR does not charge water users for most indirect costs incurred. In fiscal year 2022, \$1.5 million of NDWR's indirect operating costs and over \$5 million of indirect staff salaries were not charged to those who received the benefit of NDWR's water management activities. Statute is unclear as to what portion of these water management costs can be charged to water users. Preliminary legal analysis indicates NDWR may be able to charge water users for a portion of its indirect costs. Determining what costs can be charged to water users and assessing users for those costs will ensure the costs of water management in Nevada are paid by those who receive the benefit.

Recommendation

1. Seek legal analysis of statute to determine allowable charges to water users.

Seek BDRs to Update NDWR's Fee Schedules

The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) should seek bill draft requests (BDRs) to update NDWR's fee schedules to reflect the costs of providing the services. Updating the fee schedules to reflect the increase in NDWR's costs of providing the associated services will increase fee revenue and could save the State General Fund \$1 million annually.

Fee-based Revenue Sources are Decreasing While Costs are Increasing

NDWR's fee-based revenue sources have decreased by 4.3%, while total operational costs have increased by 11.5% over the last four years. Revenues from State Engineer Services fees, well driller fees, and survey fees have decreased by 4.3% since fiscal year 2019. State Engineer Services fees alone decreased by 4.2% since 2019. Well driller and survey fees decreased by 10.7% during the same period.

Revenue shortfall will continue if the fees established in statute are not updated to reflect the costs of providing the services. NDWR has relied primarily on State General Fund appropriations to bridge the funding gap that exists from insufficient revenue collection. The cost of providing the various fee-based services has increased by \$1 million (27%) since the last time fees were changed, when adjusted for inflation.

Fees Have Not Been Updated to Reflect Inflation or Rising Costs

State Engineer Services fees have not been updated since 2013. Survey fees and well driller fees have not been updated since 1991. Inflation has increased the cost of goods and services by 117.5% since 1991 and by 26.8% since 2013.¹² This reflects an increase in costs of \$1 million (27.4%) annually since fees were last changed. See Appendix D for a projection of NDWR's inflation-adjusted, fee-based revenues. Exhibit VI shows an example of the State Engineer Services fees, survey fees, and well driller fees adjusted for inflation to July 2022.

¹² Source: United States Bureau of Labor Statistics, Consumer Price Index, Inflation Calculator.

Exhibit VI

Example of Fee-based Services Adjusted for Inflation

	Existing Fees	Equivalent Value as of July 2022	Fee
A. Fees of State Engineer - NRS 533.435	Last Changed in 2013	CPI Inflation Factor: 26.84%	Increase
Copy Charge - Black and White	\$1.00	\$1.27	\$0.27
Dam Storage Fee per Acre-foot	\$1.25	\$1.59	\$0.34
Document Certification fee	\$6.00	\$7.61	\$1.61
Colored Mylar Plots	\$10.00	\$12.68	\$2.68
Color Copy Charge	\$12.00	\$15.22	\$3.22
Application Notice of Intent to Drill	\$25.00	\$31.71	\$6.71
Protest Filing Fee	\$30.00	\$38.05	\$8.05
Filing Fee - Proof of Completion	\$60.00	\$76.10	\$16.10
Corrected Application	\$100.00	\$126.83	\$26.83
Waiver for Application to Drill Well	\$120.00	\$152.20	\$32.20
Temporary Permit	\$180.00	\$228.30	\$48.30
Permit for Wildlife or Livestock Diversion	\$240.00	\$304.40	\$64.40
Affidavit to Relinquish Water Rights	\$300.00	\$380.50	\$80.50
Application to Change Water Rights	\$360.00	\$456.60	\$96.60
Change to Nonconsumptive Use	\$480.00	\$608.80	\$128.80
Permit for Irrigation Diversion	\$750.00	\$951.24	\$201.24
Permit for Well Diversion	\$1,000.00	\$1,268.33	\$268.33
Dam Construction Application	\$1,200.00	\$1,521.99	\$321.99

	Existing Fees	Equivalent Value as of July 2022	Fee
B. State Surveyor Fees - NRS 533.080	Last Changed in 1991	CPI Inflation Factor: 117.53%	Increase
Initial Certification Fee	\$50	\$108.77	\$58.77
Annual Renewal Fee	\$20	\$43.51	\$23.51

	Existing Fees	Equivalent Value as of July 2022	Fee
C. Well Driller Fees - NRS 534.140	Last Changed in 1991	CPI Inflation Factor: 117.53%	Increase
Well Drillers' Initial Application Fee	\$100	\$217.53	\$117.53
Annual Fee	\$50	\$108.77	\$58.77

Source: United States Bureau of Labor Statistics, Consumer Price Index, Inflation Calculator.

Updating Fees Set in Statutes Will Require Submission of BDRs

Updating the State Engineer Services fees, well driller fees, and survey fees to reflect NDWR's increased costs will require NDWR to submit BDRs for legislative approval. NDWR provides a variety of fee-based services. Fees are established in statutes. NRS 533.435 codified the State Engineer Services fees.¹³ NRS 534.140 established well driller fees, and NRS 533.080 established survey fees. BDRs to amend NRS 533 and 534 would be required to modify the established fees.

¹³ NDWR collected approximately \$89,000 of fee revenue from the sale of publications in fiscal year 2022. This revenue is used to offset 100% of the costs of publications and is not reverted to the State General Fund pursuant to NRS 533.435(3). These fees are excluded from analysis.

Conclusion

NDWR could collect more fee-based revenue and reduce its reliance on \$1 million of State General Funds if NDWR updated its fee schedules established in statutes. State Engineer Services fees have not been updated since 2013 and other fees have not been updated since 1991. Fee-based revenue sources have decreased while operational costs have increased. Revenue will continue to decline if the fees established in statutes are not updated to reflect the current costs of providing the services. Inflation has increased the cost of goods and services resulting in an increase in expenditures of \$1 million (27.4%) since fees were last adjusted. Updating the fees will require NDWR to submit BDRs for legislative approval. Updating NDWR's fee schedules to reflect the increase in costs to provide the associated services will increase fee revenue and could save the State General Fund \$1 million annually.

Recommendation

2. Seek BDRs to update NDWR's fee schedules.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

We began the audit in June 2022. In the course of our work, we interviewed members of management and fiscal staff from the Department of Conservation and Natural Resources, Division of Water Resources (NDWR) to discuss processes inherent to management and accounting of the water resources in Nevada. We reviewed NDWR records and researched legislative history, State Controller procedures, applicable Nevada Revised Statutes, Nevada Administrative Code, State Administrative Manual, governmental generally accepted accounting principles, and other state and federal guidelines. We concluded fieldwork in October 2022.

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

Background

The Department of Conservation and Natural Resources (department), Division of Water Resources (NDWR) is one of eight divisions under the department. NDWR manages Nevada's ground and surface water resources and is responsible for quantifying existing water rights, monitoring water use, distributing water in accordance with court decrees, reviewing water availability for new development, reviewing the construction and operation of dams, appropriating geothermal water, licensing and regulating well drillers and water right surveyors, reviewing flood control projects, monitoring water resource data and records, and providing technical assistance to the public and government agencies.

Acknowledgments

We express appreciation to the Department of Conservation and Natural Resources, Division of Water Resources management and staff, the Governor's Finance Office, Budget Division, and the State Controller's Office for their cooperation and assistance throughout the audit.

Contributors to this report included:

Craig Stevenson
Executive Branch Audit Manager

Ruby Camposano, CPA
Executive Branch Auditor

Appendix B

Department of Conservation and Natural Resources Division of Water Resources Response and Implementation Plan



Nevada Division of
WATER RESOURCES

STATE OF NEVADA
Department of Conservation and Natural Resources
Steve Sisolak, Governor
Jim Lawrence, Acting Director
Adam Sullivan, P.E., State Engineer

November 8, 2022

Warren Lowman, Administrator
Governor's Finance Office
Division of Internal Audits
209 East Musser Street, Room 200
Carson City, Nevada 89701

Re: DIA Report No. 23-2022

Dear Mr. Lowman:

Please accept this letter as the Nevada Division of Water Resources' (NDWR) response to the Audit Report dated November 30, 2022 (hereafter "DIA Report No. 23-02" or Report).

It is an objective of NDWR to find meaningful mechanisms to increase funding for the important work of the agency in support of Nevada's communities and economic development, and to responsibly manage the public's limited water resources. NDWR accepts the findings of the DIA Report No. 23-02, that to reduce the agency's reliance on State General Funds, there is prudence in determining whether allowable charges to water users may also include those indirect costs presently funded through NDWR's General Fund budget account 4171 as well as seeking to update the Division's fee schedules to reflect rising costs and inflation since the last revisions in 2013.

Consistent with these recommendations, NDWR anticipates proceeding with the following:

- Before December 31, 2022, NDWR will request a formal Attorney General Opinion regarding the scope and extent of the use of water assessments collected pursuant to NRS 533.280 and 534.040, including whether such assessments may be used to support indirect costs and expenses of the agency.
- Consult with the Director of the Department of Conservation and Natural Resources (NDCNR) and the Governor's Finance Office regarding development of a budget bill draft request to update NDWR's fees set forth in NRS Chapters 533 and 534 to reflect increased costs and inflation as measured by the Consumer Price Index inflation factor of January 2023.

While NDWR accepts these findings and intends to implement the recommendations, NDWR acknowledges that these are significantly challenging discussions and issues to address. NDWR has observed a broad consensus that the agency is underfunded, which results in challenges for water users and those engaged in transactions involving water rights. These challenges not only result in delays for public entities, businesses and individuals in proceeding with projects, but the workloads and demands on NDWR's staff continues to increase without corresponding increases to the resources to support the work of the agency.

However, despite broad consensus on the need for additional funding, there is not consensus as to where the additional funding to support the work of the agency should be derived. There are members of the

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Warren Lowman
November 8, 2022
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public and those served by the agency who believe that because water is a public resource, the cost of supporting the agency should be borne by the public to whom the resource belongs. Yet, there are others who believe that the financial resources necessary to support the business of NDWR should be borne by those who benefit from the use of the public resource—the water users. This is further emphasized by the public response to NDWR's use of basin assessments in recent years to meet required budget reductions, which NDWR could only otherwise achieve by cutting staff. NDWR has prioritized in its budget request that the basin budget transfers presently used to support classified—general funded—staff be restored with general funds. While NDWR believes that there is merit to different arguments about funding the agency, the determination about the extent and use of assessments should be informed by the Attorney General's opinion and ultimately made by the Nevada Legislature.

While reliance on statutory fees is insufficient to support funding NDWR, updating the fee schedules to match inflation is reasonable and responsible fiscal management for both the agency as well as the State. It is important to note that NDWR's position is that reliance on statutory fees is insufficient to support fully and adequately funding the agency as demonstrated previously in Fiscal Years 2013-2017.

The findings of DIA Report No. 23-02 are appreciated, and NDWR fully intends to proceed with pursuing the recommendations as outlined above. NDWR hopes to continue to work with the Governor's Finance office and its divisions to find meaningful mechanisms in which to support the fiscal needs of NDWR. It is my hope that we can continue to work collaboratively in developing recommendations for the Legislature to appropriately and adequately fund NDWR.

Sincerely,



Adam Sullivan, P.E.
State Engineer

AS/lr

cc: Jim Lawrence, Acting Director, NDCNR

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Department of Conservation and Natural Resources, Division of Water Resources (NDWR), 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). NDWR 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. Seek legal analysis of statute to determine allowable charges to water users. (page 2)	Dec 2022
2. Seek BDRs to update NDWR's fee schedules. (page 9)	Jan 2023

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

Appendix D

Fee-based Revenues Adjusted for Inflation

Fee-based Revenues Adjusted for Inflation				
Revenue Source	Revenue From Fees (FY 2022)	Inflation Factor (July 1991)	Inflation Factor (July 2013)	Revenue Adjusted for Inflation
State Engineer Services	\$3,721,744		26.8%	\$4,719,171
Well Driller Fees	\$18,550	117.5%		\$40,352
Survey Fees	\$5,380	117.5%		\$11,703
Totals:	\$3,745,674			\$4,771,226
Additional revenue if fees were adjusted for inflation: \$1.03 million (27.4%).				

Sources: United States Bureau of Labor Statistics and Data Warehouse of Nevada.

