

# Audit Highlights



Highlights of Legislative Auditor report on the State Public Works Board, issued on December 11, 2008. Report # LA08-27.

## Background

The mission of the State Public Works Board (SPWB) is to efficiently and effectively plan, manage, and implement capital improvements for the State of Nevada, and to regulate all construction on state lands to safeguard public health, safety and welfare.

A primary responsibility of the SPWB is the development and implementation of the state's Capital Improvement Program (CIP). In addition, the SPWB functions as the building official for projects constructed on state lands.

The SPWB maintains offices in Las Vegas and Carson City. The 2007-2009 Legislatively Approved Budget authorized a total of 80 full-time equivalent positions for each year of the biennium. Administrative expenditures are accounted for in a General Fund budget account and project management in a Special Revenue Fund account. Fiscal year 2008 expenditures for these accounts were approximately \$1 million and \$6.6 million respectively.

## Purpose of Audit

The purpose of this audit was to determine whether the SPWB managed the design and construction of CIP projects in accordance with laws, regulations, policies, and industry practices. To accomplish this purpose, we included project management functions for the CIP's construction projects ("C" projects) that had construction activity during the 21 months ended March 31, 2008, and certain "C" projects using the Construction Manager at Risk process that had activity through August 2008.

## Audit Recommendations

This report contains 10 recommendations to improve the SPWB's project management practices. Three recommendations relate to improving controls over change order costs and one recommendation relates to discontinuing practices not in compliance with state policy. Another recommendation relates to ensuring CMAR activities follow recommended guidelines. In addition, one recommendation relates to obtaining sufficient documentation to verify the propriety of NSHE reimbursements, and two recommendations relate to improving monitoring activities for professional services contracts and contractor retention payments. Finally, two recommendations relate to improving controls over the SPWB's project management database and timesheets.

The agency accepted the 10 recommendations.

## Status of Recommendations

The agency's 60-day plan for corrective action is due on March 11, 2009. In addition, the six-month report on the status of audit recommendations is due on September 11, 2009.

# State Public Works Board

## Results in Brief

Although the SPWB generally complied with laws, regulations, and policies for managing CIP projects, additional controls are needed to help strengthen its construction management processes. For example, change orders did not always have sufficient documentation to determine the propriety of the charges, and some included prohibited charges. Because change orders can result in millions of dollars in additional costs, improved controls will help ensure all charges are appropriate. Furthermore, additional costs may have been added to some projects because industry practices recommended for the efficient completion of Construction Manager at Risk projects were not followed, and documentation was not always sufficient to ensure construction reimbursements to the Nevada System of Higher Education were appropriate. Finally, improved monitoring procedures will help ensure professional service contracts and contractor retention payments are in compliance with state laws, and the hours recorded for project billings are accurate.

## Principal Findings

Change order items totaling approximately \$1.6 million did not have sufficient documentation to verify their propriety. For example, approximately \$344,000 in use tax was approved through a change order without any documentation indicating the contractor paid the tax. After we requested additional information, the contractor provided documents showing about \$318,000 had been paid. However, the tax was paid shortly after our request and no documentation was provided to account for the remaining \$26,000.

Fifteen of the 16 change orders tested included charges not allowed by the General Conditions of the contract or state policy. As a result, about \$192,000 in prohibited charges were added to the contracts.

For one project, the SPWB exceeded the statutory limit for increasing the original contract amount through change orders. The SPWB processed change orders totaling approximately \$261,000, or 21% of the original contract amount. However, the Board was authorized to approve contract changes that did not exceed 10%.

Our review of three projects that used a Construction Manager at Risk (CMAR) showed the SPWB selected the CMAR after the optimum time. Certain public work entities and professional organizations recommend the CMAR and architect be selected at the same time. However, the CMAR on one project was selected almost a year and a half after the architect. Without the CMAR's early involvement, the benefits of increased speed and coordination can be lost.

The maximum amount the CMAR would receive to complete a project was obtained before recommended. Once the design of a project nears completion, the CMAR solicits bids from subcontractors and submits a Guaranteed Maximum Price (GMP). However, for two of the projects reviewed, the GMP was provided when the construction documents were only 50% complete. As a result, additional costs may have been incurred on one of these projects.

The SPWB did not obtain sufficient documentation to ensure the appropriateness of several construction reimbursements to the Nevada System of Higher Education (NSHE). As a result, the College of Southern Nevada (CSN) received more than \$500,000 in duplicate payments for expenditures related to the Telecommunication Building project. Furthermore, the SPWB was not able to obtain sufficient evidence CSN contributed the entire \$1 million to this project as required by the 2001 CIP.

For one project we examined, three billings totaling about \$28,000 for contracted inspection services had not been authorized by the SPWB. Furthermore, the system used to monitor the contract's available balance did not include any expenditures for this project. As a result, the remaining balance of this \$500,000 contract was overstated by more than \$119,000.

Progress payment retentions for the University of Nevada, Reno Knowledge Center were less than 10% until the project was 50% complete. As a result, the SPWB retained \$297,000 less than required at 50% completion. NRS 338.515 requires 10% of the amount of a progress payment to be retained until at least half the project is complete.

The SPWB had not established procedures to ensure the time project managers and inspectors charged to projects or their timesheets was accurate. Approximately 19% of the employees' timesheets we examined did not agree to the hours recorded in the project billing system. As a result, projects were undercharged a net amount of \$29,400, which had to be absorbed by the Project Management and Inspection Account. Although these errors did not result in a significant loss of revenue, the lack of controls increases the risk these errors could become significant.