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We have completed an audit of the Department of Business and Industry, Office of the Director. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Department of Business and Industry, Office of the Director, for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

January 19, 2006
Carson City, Nevada



STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
OFFICE OF THE DIRECTOR

AUDIT REPORT

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EXECUTIVE SUMMARY

DEPARTMENT OF BUSINESS AND INDUSTRY OFFICE OF THE DIRECTOR

Background

The purpose of the Department of Business and Industry is to encourage and promote the growth, development, and operation of business and industry for the benefit of citizens and workers of Nevada. The Director's Office provides leadership, direction, and administrative support to the Department for improving services to business and the public. During fiscal year 2005, the Office had 10 authorized positions and recorded \$1,187,000 in expenditures.

The Director's Office also administers the Industrial Development Revenue Bond (IDRB) program. This program provides financing opportunities to promote industry, employment, and develop trade. Although bonds are issued by the Director's Office, state law requires no state dollars or the pledge of state dollars be used to finance projects. Because the bond process is complex, it involves the use of outside experts specializing in government financing and evaluating the financial structure of the project. In addition, the project is reviewed at public meetings and closely examined by the Director, local governments, and the State Board of Finance before the bond offering can proceed.

From calendar years 1982 through 2004, the program issued 62 bonds totaling over \$1 billion. Starting in 2000, the program experienced a shift in the dollar amount of bonds issued and the number and types of projects. For example, prior to 2000 bond issues seldom exceeded \$5 million, but in 2004 the issues averaged over \$25 million.

Purpose

The purpose of this audit was to evaluate the adequacy of controls over the IDRB program administered

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by the Director's Office. This audit focused on bonds issued through the IDRB program from calendar years 2000 through 2004.

Results in Brief

The Director's Office has implemented controls over the Industrial Development Revenue Bond program to provide reasonable assurance that bonds are issued in compliance with laws, regulations, and policies. Although controls are in place for key areas of the IDRB program, improvements can be made to the process for collecting and refunding applicant deposits. In addition, improvements can be made to the program's contracting process by ensuring services are provided under a written contract. During our audit, management took steps toward better oversight of these areas.

Principal Findings

- The Director's Office did not always collect deposits from bond applicants sufficient to pay for direct costs incurred by the Office. This happened in three of eight projects tested. As a result, the IDRB program did not recover about \$12,340 in costs for two projects, and the direct costs for one project exceeded the deposit amount for several months. These problems occurred because program procedures did not clearly identify deposit monitoring and oversight responsibilities. (page 13)
- The Office needs to improve its monitoring of internal accounting records to ensure project deposit refunds are processed timely. Refund payments for four of six projects were made from 172 to 609 days after the last direct cost was incurred. These refunds ranged

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from approximately \$400 to \$14,900. As a result, the project companies did not have these dollars available for use. Delays in refunding deposits occurred because policies and procedures did not identify time requirements for deposit refunds. (page 14)

- The Office did not always have written contracts with firms providing Bond Counsel and Financial Advisor services. Written contracts are important to reduce the risk of disputes related to deliverables, compensation, and other significant program requirements. During calendar years 2000 through 2004, the Office used two firms for Bond Counsel and four firms for Financial Advisor services. However, there were eight instances involving six projects where written contracts were not in place. Although Nevada law exempts the IDR program from following state contracting processes, using written contracts for legal and financial services is a good business practice. (page 15)

Recommendations

This audit contains two recommendations to improve the oversight of the Industrial Development Revenue Bond program. These recommendations include modifying policies and procedures to improve controls over the deposit process and to ensure written contracts are in place when Bond Counsel and Financial Advisor services are provided. (page 29)

Agency Response

The Agency, in its response to our report, accepted the two recommendations. (page 27)

Introduction

Background

The purpose of the Department of Business and Industry is to encourage and promote the growth, development, and operation of business and industry for the benefit of citizens and workers of Nevada. These duties are carried out through 16 divisions, authorities, and commissions; many of these agencies have regulatory authority.¹ The Director's Office provides leadership, direction, and administrative support to the Department for improving services to businesses and the public. In addition, NRS 349 allows the Director to facilitate public prosperity and welfare by administering the Industrial Development Revenue Bond (IDRB) program.

The Director's Office locations are maintained in Carson City and Las Vegas. During fiscal year 2005, the Office had 10 authorized positions and recorded \$1,187,000 in expenditures. Funding for the Office is primarily from cost allocations assessed to the various agencies within the Department. However, it also received a General Fund appropriation of \$190,600 in fiscal year 2005.

Industrial Development Revenue Bond Program

The Office of Business Finance and Planning, established within the Director's Office, assists in issuing industrial development bonds through the IDRB program. The program provides financing opportunities to promote industry, employment, and develop trade. Manufacturers and other entities, such as public health facilities, civic and cultural enterprises, and corporations for public benefit, may receive financing through the IDRB program.

All bonds issued by the program are industrial development bonds. Although these bonds are issued by the Director's Office, state law requires no state dollars or the pledge of state dollars be used to finance the projects. The bond documents clearly describe that the bond principle and interest are payable from bond proceeds and revenue generated from the project. Further, Nevada law establishes that the State is

¹ See Appendix C for a listing of divisions, commissions, authorities, and agencies within the Department of Business and Industry.

not liable should the project default on the bonds. However, the State is responsible for ensuring the bond process complies with federal and state requirements.

Private Activity Bonds

Most of the industrial development bonds fall within the federal definition of a private activity bond. Under federal tax law, governmental bonds issued by a state bear tax-exempt interest unless the proceeds are used by a private entity in its trade or business. When proceeds are used in an entity's trade or business, the bonds are considered "private activity bonds" or PABs. However, when a project satisfies certain Federal Internal Revenue Code requirements it is called a "qualified" project. That is, the project will use the financing proceeds for an activity that qualifies the bond for tax-exempt status.

In addition, the Federal Government has established several limitations for qualified projects within the PAB program. Two significant limitations are:

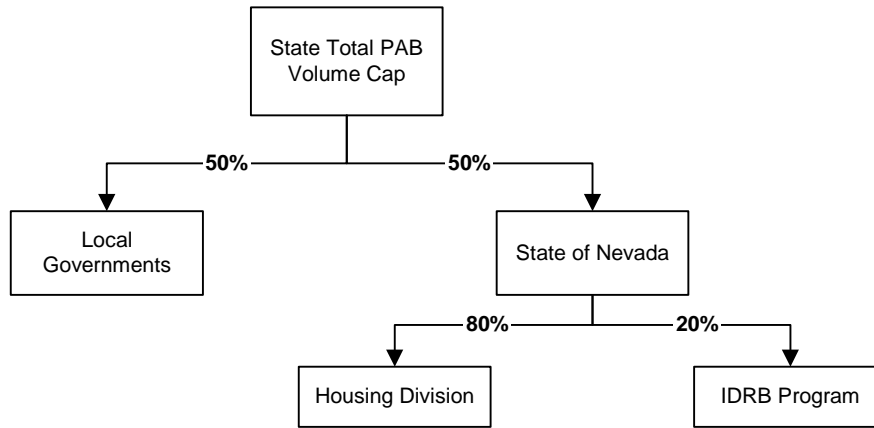
- Volume Cap Restriction
- Public Approval Requirements

Volume Cap Restriction

The volume cap restriction is a limitation on the total amount of tax-exempt PABs that may be issued within each state. The volume cap for PABs is determined on a per capita basis for each state during a calendar year. Nevada's share of the volume cap was \$234 million and \$239 million for calendar years 2004 and 2005, respectively.

The volume cap is further controlled by state law. Nevada requires 50% of the volume cap be available for local governments and 50% be available for the State. The Director distributes the State's portion acting on the advice of the Special Committee to Provide Advice on Private Activity Bonds. According to management, typically 80% of the State's share is allocated to the Housing Division and 20% to the IDR program. Exhibit 1 shows the PAB volume cap allocation between the State and local governments and the allocation of the State's portion between the IDR program and the Housing Division.

**Office of Business Financing and Planning
Private Activity Bonds
Volume Cap Allocation**



Source: NRS 348A and the Office of Business Finance and Planning.

The Director's Office tracks the total amount of PABs to ensure all the volume cap is used or earmarked for qualified projects. However, not all tax-exempt bonds issued by the Office are subject to the volume cap or considered PABs. A company with the Federal Tax Code 501(c)(3) nonprofit designation could obtain financing through the program as a PAB, but the bonds issued are not included in the volume cap limitation. Further, the Office can issue tax-exempt bonds to instrumentalities of the State. In general, these bonds are issued for projects that are considered to perform a governmental function and are subject to certain controls by the State. Bonds issued for instrumentalities of the State are not PABs and are not included in the volume cap.

Public Approval Requirements

The Federal Internal Revenue Code imposes public approval requirements as another limitation for a qualified bond issue. The project must obtain the approval of the governmental unit that issues the bond and each governmental unit having jurisdiction over the area in which the financed facility is located. For example, if a company submits a bond application to the State for a project located in Clark County, the project must be approved by the local government as well as the State. Further, because PABs are issued by the State, the State has the responsibility to ensure the project

meets these limitations and other federal requirements qualifying the project for tax-exempt status.

Bond Issuance Process

The bond issuance process for the IDRB program is complex. The State is the issuer of the bonds; however, it does not receive bond proceeds and is not responsible for repayment of the debt. The bond proceeds are kept by a financial institution designated as the trustee. Then, the company requesting the bond “borrows” the bond proceeds from the trustee. This type of financing is called “conduit debt.”² Conduit debt is payable by the company borrowing the proceeds, or third party, for which the government does not provide credit or security. As such, it is necessary for the issuing government to have sound policies to approve the borrower’s creditworthiness, clearly identify the purpose of the bond issue, and ensure a minimum acceptable credit rating for the bond.

The process for each project involves interaction with experts. This includes obtaining opinions on the federal program, state laws and regulations, and the project’s potential financial success. Further, an evaluation of potential competitive effect on existing like facilities and potential environmental effect are made. Also, public meetings are held, the Director’s Office performs an analysis and prepares findings, plus the Office of Attorney General reviews the project. Finally, local governments and the State Board of Finance review the Director’s findings and project documents.

To provide and coordinate these services the Director’s Office charges the applicants various fees and collects deposits to cover direct costs incurred by the agency. In addition, the Office has established a detailed management information system to monitor and track IDRB program activities and documents.

Outside Experts Involved

The implementation of the IDRB program involves private financing experts and state agencies. Bond Counsel is a central participant in the financing process. Legal firms specializing in government financing provide Bond Counsel services including interpretations of federal laws and regulations, state constitution and statutes, and local

² See Appendix D for a glossary of common bond terms.

charters and ordinances. These interpretations provide the framework within which the proposed obligation will be issued.

Another significant expert in the bond process is the Financial Advisor. The Financial Advisor provides opinions whether the financial structure of a company is sound and if the project is viable. The financing team, consisting of the State as the issuer, Bond Counsel, and the Financial Advisor, work together to determine terms, conditions, and timing of the bond offering.

The Director's Office enhances the IDR process by involving two state agencies to review the application and provide independent information relating to the project. The Nevada Commission on Economic Development researches other "like" companies and identifies potential competition on existing facilities. Further, the Nevada Division of Environmental Protection reviews the project for potential environmental issues and researches the applicant for occurrences of prior violations.

Approval Process

After the external experts provide their opinions on a given project, the Office contacts the applicant through an inducement letter. The inducement letter provides a summary of the process and includes details about processing fees, deposits, and direct costs. In turn, the applicant indicates willingness to continue with the bond process by signing and returning the letter. At this point the document becomes a commitment letter.

The receipt of the commitment letter triggers actions necessary to finance the project with a bond offering. First, a series of meetings are held. These meetings, called "all hands" meetings, include the financing team, applicant, the applicant's bond consultant and advisors, and representatives from the local jurisdiction. The all hands meetings are held various times throughout the IDR process for the purpose of identifying additional information needed, making assignments, and establishing a timeline to keep the project moving forward.

The process continues with public hearings, review and opinion from the Office of Attorney General, and preparation of the Director's Findings. The Findings contain a significant amount of information including:

- The project's compliance with federal, state, and local government laws and regulations;
- Opinions from various Bond Counsels representing the State, the applicant, and the local government; and
- Various other documents and reports as required by law.

Next, the Findings are presented to the local government for approval of the project. Finally, the Findings are presented to the State Board of Finance. After the Board approves the project, the bond offering can proceed.

Fees and Deposits

The Director's Office charges applicants various processing fees and also collects deposits to cover direct costs. To begin, the applicant pays an application fee. The fee ranges from \$500 to \$1,000 and is dependent on the amount of the bond request. The Office recorded \$2,500 in application fees for fiscal year 2005.

When the application is approved and the company submits the commitment letter, a deposit is also submitted. The deposit is to pay for processing fees and direct costs. State regulation provides that the deposit should not exceed 1% of the bond request. However, the Office usually requires a \$15,000 deposit which can be submitted as \$7,500 with the commitment letter and \$7,500 before public hearings begin.

Processing fees are first deducted from the deposit. Depending on the project, processing fees could include an administrative charge and a volume cap fee. During fiscal year 2005, the Office recorded \$38,600 in administrative charges and volume cap fees of \$8,500.

Direct costs include Bond Counsel and Financial Advisor fees, Office travel costs, postage, and copy expenditures. Although the deposit is intended to pay for the direct costs, frequently the Bond Counsel and Financial Advisors are paid from bond proceeds at closing. After the bonds are issued, the Director's Office refunds the unexpended deposit to the project company.

IDRB Program Tracking System

The Office has implemented an extensive information system to track IDRB program activity. This database includes two major categories: the Bond Program and

Volume Cap. Information, such as e-mails, electronic documents, and scanned documents, is current and readily available. The information system allows management to monitor program activity.

The Bond Program category includes a listing of bond projects noting the name, project description, contact date, project type, and status. The information system enables the program manager to easily access documents relating to a particular project. Some of the documents retained in the system are voluminous. For example, official transcripts for projects' bonds are frequently well over 1,000 pages and are entirely in the database.

In addition, the Office uses this information system to track the volume cap limitation. All activity impacting the volume cap is captured in this database, including bonds issued by the Housing Division. Local governments' resolutions accepting projects, local government allocations, and proposed changes to state regulations are examples of information in the database used to track the volume cap.

Bonds Issued Through the IDR Program

According to IDR program data, 62 bonds totaling over \$1 billion were issued from calendar years 1982 through 2004.³ In calendar year 2004 the Office issued nearly \$76 million in bonds for three projects. The largest single bond issuance was \$649 million for a transit project in 2000.

Starting in 2000, the program experienced a shift in the dollar amount of bonds issued and the number and types of projects. For many years the average bond issue seldom exceeded \$5 million. These bonds were primarily for businesses operating for a profit, and the bonds were subject to the volume cap limitation. However, the average bond issue in 2004 was over \$25 million. Modifications to the federal program and lower commercial interest rates available for financing changed the complexion of the projects receiving bonds. Exhibit 2 shows the number of projects, amount of bonds, and average amount issued since 1982.

³ See Appendix E for a complete listing of bond projects from 1982 through 2004.

**Industrial Development Bonds
Number and Amount Issued
1982 Through 2004**

Calendar Year(s)	Number of Projects	Amount Issued	Average Amount Issued
1982-1984	13	\$ 29,108,500	\$ 2,239,115
1985-1989	21	62,905,000	2,995,476
1990-1994	10	43,236,000	4,323,600
1995-1999	10	56,308,930	5,630,893
2000	1	649,148,217	649,148,217
2001	2	35,000,000	17,500,000
2002	0	-	-
2003	2	53,970,000	26,985,000
2004	3	75,846,000	25,282,000
Totals	62	\$1,005,522,647	\$ 16,218,107

Source: Compiled from IDRB program information maintained by the Director's Office.

Note: No bonds were issued in 1987, 1992, 1996, and 2002.

The types of projects financed with industrial development bonds have also changed. During the first 18 years of the program there were 54 projects. Most projects were manufacturing companies operating for a profit, and only two projects had a nonprofit designation per the Federal Internal Revenue Code. However, of the eight projects from 2000 through 2004, only one was a manufacturing company and four were nonprofit entities. The bond issues for the nonprofit entities were not included in the volume cap limitation. Exhibit 3 shows the number and type of projects financed through the IDRB program from 1982 through 2004.

**Industrial Development Bonds
Number and Type of Projects
1982 Through 2004**

Calendar Years	Number of Projects	Project Type					Business Tax Status	
		Manufacturing	Health Care	Solid Waste	Transit	Other	Profit*	Not For Profit*
1982-1984	13	8				5	13	
1985-1989	21	18				3	21	
1990-1994	10	9	1				9	1
1995-1999	10	8	1	1			9	1
2000-2004	8	1	3	3	1		4	4
Totals	62	44	5	4	1	8	56	6

Source: Compiled from IDRB program information maintained by the Director's Office.

Note: No bonds were issued in 1987, 1992, 1996, and 2002.

* Profit and Not for Profit designation determined by Federal Internal Revenue Code.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit focused on bonds issued through the IDRB program from calendar years 2000 through 2004. The objective of our audit was to evaluate the adequacy of controls over the IDRB program administered by the Director's Office.

Findings and Recommendations

The Director's Office has implemented controls over the Industrial Development Revenue Bond (IDRB) program to provide reasonable assurance that bonds are issued in compliance with laws, regulations, and policies. Although controls are in place for key areas of the IDRB program, improvements can be made to the process for collecting and refunding applicant deposits. In addition, improvements can be made to the program's contracting process by ensuring services are provided under a written contract. During our audit, management took steps toward better oversight of these areas.

Collecting and Refunding Applicant Deposits Can Be Improved

The Director's Office can improve its process for collecting and refunding applicant deposits for the IDRB program. We examined the files for eight projects and found deposit amounts were not always sufficient to cover the program's direct costs for three projects. In addition, deposit refund payments to four project companies were untimely. Changes to the deposit monitoring process will help ensure deposits are sufficient to cover direct costs and refunds are timely.

Project Deposits Not Always Sufficient to Cover Direct Costs

The Director's Office did not always collect deposits from bond applicants sufficient to pay for direct costs incurred by the Office. This happened in three of eight projects tested. As a result, the IDRB program did not recover over \$12,340 in costs for two projects, and the direct costs for one project exceeded the deposit amount for several months.

- One project did not submit enough deposit money to pay for over \$11,870 in direct costs. Although the project submitted about \$682,000 to the Office during the bond issuance process, accounting records did not clearly identify administrative charges and direct costs. In addition, direct costs were charged to the project for almost 5 years; however, there was no evidence of supervisory review of accounting records.

- A second project did not submit a deposit or reimbursement for over \$470 in direct costs. Although management indicated this deposit may have been waived, the deposit requirement on official documents was not revised.
- The deposit amount required for one project was too small to cover direct costs. For 7 months the program subsidized direct costs ranging from about \$9,900 to \$42,700 for this project. Although the project company reimbursed these direct costs when the bonds were issued, carrying an outstanding balance for several months is not a good business practice.

State regulations require applicants submit a deposit sufficient to cover estimated costs. In 2002 regulations were revised to address IDR fees and deposits. However, program procedures did not clearly identify processes for monitoring deposits, including oversight and communication responsibilities. As a result, deposit deficiencies were not always detected.

Untimely Project Deposit Refunds

The Office needs to improve its monitoring of internal accounting records to ensure project deposit refunds are processed timely. Refund payments for four of six projects were made from 172 to 609 days after the last direct cost was incurred. These refunds ranged from approximately \$400 to \$14,900. As a result, the project companies did not have these dollars available for use. Further, four of the files did not contain documentation that management reviewed and approved the refunds.

Because of the nature of each project, the timing of deposit refunds could vary. For example, the Office might decide that an on-site visit is appropriate after a particular project is completed. In this situation direct costs could be incurred well over 1 year after the bond is issued and closing procedures are performed. On the other hand, an on-site visit might not be necessary for a different project. Exhibit 4 shows the number of days it took the Office to pay deposit refunds to the project company after incurring the last direct cost and the approximate dollar amount involved.

Number of Days to Pay IDRB Deposit Refunds to Project Company

Project	Deposit Refund Amount	Number of Days From:		
		Bond Closing⁽¹⁾ to Refund Payment Date	Bond Closing to Date of Last Direct Cost	Last Direct Cost to Refund Payment Date
A	\$ 400	624	15	609
B	\$ 4,700	486	252	234
C	\$ 4,900	485	251	234
D	\$14,900	180	8	172
E	\$ 3,000	84	22	62
F	\$12,000	48	17	31

Source: Compiled from state's accounting system information and program data.

⁽¹⁾The date securities are delivered and proceeds received by the project company.

Statutes require that deposits remaining after payment of direct costs be refunded to the project company. Although this requirement is clearly stated in the program's policies and procedures, we found various conditions impacting refund payments. First, the program's policy and procedures did not identify time requirements for deposit refunds. Second, project company information needed to process the payment was not readily available. Third, communication between the program manager and the accounting staff was not always timely and with complete information.

Written Contracts for Professional Services Not Always Prepared

The Office did not always have written contracts with firms providing Bond Counsel and Financial Advisor services. Written contracts are important to reduce the risk of disputes related to deliverables, compensation, and other significant program requirements. During calendar years 2000 through 2004, the Office used two firms for Bond Counsel and four firms for Financial Advisor services. However, there were eight instances involving six projects where written contracts were not in place.

- One Bond Counsel provided services for three projects between 2003 through 2004 without a written contract. This legal firm had a written contract ending December 2001, but the next written contract started in April 2005.

- Another Bond Counsel provided services for one project in 2004 without a written contract. The original contract terminated in August 2003. During our audit, the written contract was extended to cover future services.
- One Financial Advisor provided services for four projects tested. Management indicated this firm has provided services to the agency since 2000 without a written contract.

According to management, Nevada law exempts the IDRB program from following state contracting processes. NRS 349.670 provides that no laws other than those specific to the program apply; plus no other board, agency, or commission has authority over the program. In addition, the Director may execute any contract, certificate, or document for the program without intervention of any other officer.

By integrating good business practices into the program policies and procedures, the Office could improve contract management. For example, Nevada law requires other state agencies to have written contracts for services costing over \$2,000. The Government Finance Officers Association recommend written contracts for legal and financial services. Further, internal control standards recommend significant transactions be clearly documented.

Recommendations

1. Modify IDRB program policies and procedures to ensure project deposits are sufficient to cover direct costs and to ensure deposit refunds due the applicant are approved and processed timely.
2. Revise IDRB program policies and procedures to ensure written contracts are in place when Bond Counsel and Financial Advisor services are provided.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Department of Business and Industry, Director's Office, we interviewed agency staff and reviewed statutes, regulations, and procedures significant to the Office's operations. In addition, we reviewed the Office's financial information, prior audit reports, budgets, minutes of various legislative committees, and other information describing the activities of the Office.

To gain an understanding of the Industrial Development Revenue Bond program we reviewed federal and state laws and regulations, professional pronouncements and literature, and interviewed current personnel and the prior acting Director. In addition, we reviewed minutes of various legislative committee hearings from the 1997 Legislative Session through the 2003 Legislative Session for discussion of bills impacting the bond program. We also reviewed amendments to the Nevada Administrative Code effective in 2002 that address the bond program. Further, we documented the process of issuing an Industrial Development Revenue Bond and identified key controls. We confirmed our understanding of the process and controls with the program manager.

To test the key controls in the bond process we selected all eight projects for which bonds were issued in calendar years 2000 through 2004. To determine compliance with laws and regulations identified as key controls we examined official documents and accounting records. To obtain criteria for timeliness of deposit refunds, dates of expenditure transactions recorded in the state's accounting system were analyzed. This information was discussed with agency officials to determine reasonable deposit refund time parameters. Further, to determine the adequacy and timeliness of bond applicants' deposits, the agency's internal accounting documents and the records in the state's accounting system were examined and reviewed.

To evaluate contracting practices we examined official documents to identify Bond Counsel and Financial Advisors representing the Director's Office for each project

in the sample. Dates of professional service rendered for the projects were traced to written contracts.

Our audit work was conducted from November 2004 to July 2005, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Business and Industry and the Chief of the Office of Business Finance and Planning. On January 6, 2006, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix F which begins on page 27.

Contributors to this report included:

Stephany Gibbs, CPA, CGFM
Deputy Legislative Auditor

Rocky J. Cooper, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B
Prior Audit Recommendations

In 1995 we issued an audit of the Department of Business and Industry, Industrial Development Revenue Bond Program containing six recommendations. We evaluated the status of these recommendations and found the Department fully implemented all of the recommendations.

Appendix C
Department of Business and Industry
Listing of Divisions, Commissions, Authorities, and Agencies

Consumer Affairs Division

Division of Financial Institutions

Division of Industrial Relations

Nevada Occupational Safety and Health Administration
Mine Safety and Training Section
Safety Consultation and Training Section
Worker's Compensation Section

Division of Insurance

Agent Licensing
Consumer Services
Corporate and Financial Affairs
Self-insured Workers' Compensation

Division of Mortgage Lending

Housing Division

Local Government Employee-Management Relations Board

Manufactured Housing Division

Nevada Athletic Commission

Office of the Director

Office of Business Finance and Planning

Office of the Labor Commissioner

Office of the Nevada Attorney for Injured Workers

Real Estate Division

Office of the Ombudsman

State Dairy Commission

Taxicab Authority

Transportation Services Authority

Source: Nevada Revised Statutes and the Department of Business and Industry.

Appendix D

Glossary of Bond Terms

Authority	A separate state or local governmental issuer expressly created to issue bonds or run an enterprise, or to do both. Certain authorities issue bonds on their own behalf, such as transportation or power authorities. Authorities that issue bonds on the behalf of qualified nongovernmental issuers include health facilities and industrial development authorities.
Authorizing Resolution	Issuer document which states the legal basis for debt issuance, and states the general terms of the financing.
Bond	(1) The written evidence of debt, bearing a stated rate or stated rates of interest, or stating a formula for determining that rate, and maturing on a date certain, on which date and upon presentation a fixed sum of money plus interest (usually represented by interest coupons attached to the bond) is payable to the holder or owner. (2) For purposes of computations tied in to “per bond,” a \$1,000 increment of an issue (no matter what the actual denominations are). (3) Bonds are long-term securities with a maturity of greater than one year.
Bond Counsel	A lawyer or law firm that delivers a legal opinion which deals with the issuer’s authorization to issue bonds and the tax-exempt nature of the bond. Bond counsel is retained by the issuer.
Bond Insurance	Legal commitment by insurance company to make scheduled payment of interest and principal of a bond issue in the event that the issuer is unable to make those payments on time.
Bond Resolution	Issuer legal document which details the mechanics of the bond issuer, security features, covenants, events of default and other key features of the issue’s legal structure. Indentures and trust agreements are functionally similar types of documents, and the use of each depends on the individual issue and issuer.
Closing Date	This is similar to a settlement date, but occurs for a new issuance of bonds. The closing may be as long as 30 days in case of a competitively sold issue.
Conduit	Debt payable by third parties for which the government does not provide credit or security. Debt limitations may reflect the right of the issuing government to approve the borrower’s creditworthiness, the purpose of the borrowing issue, or a minimum credit rating. Such limitations reflect sound public policy.
Credit Enhancement	The use of the credit of a stronger entity to strengthen the credit of a weaker entity in bond or note financing. This term is used in the context of bond insurance, bank facilities, and government programs.
Dated Date (or Issue Date)	The date of a bond issue from which the bondholder is entitled to receive interest, even though the bonds may actually be sold or delivered at some other date.

Appendix D
Glossary of Bond Terms
(continued)

Debt Service	Principal and interest.
Default	Failure to pay principal or interest when due. Defaults can also occur for failure to meet nonpayment obligations, such as reporting requirements, or when a material problem occurs for the issuer, such as a bankruptcy.
Downgrade Risk	Possibility that a bond's rating will be lowered because the issuer's financial condition, or the financial condition of a party to the financial transaction, deteriorates.
Exempt Facilities Bond	Refers to those types of privately owned or privately used facilities which are authorized to be issued on a tax-exempt basis under the Internal Revenue Code. The Tax Reform Act of 1986 amended prior law to exclude the following types of facilities from those which can be financed on a tax-exempt basis: sports facilities; convention and trade show facilities; air and water pollution control facilities; privately owned airport, dock, wharf and mass-commuting facilities; and most parking facilities, among others.
Financial Advisor	A consultant to an issuer of municipal securities who provides the issuer with advice with respect to the structure, timing, terms, or other similar matters concerning a new issue of securities.
Indenture	Issuer legal document which details the mechanics of the bond issuer, security features, covenants, events of default and other key features of the issue's legal structure. Bond resolutions and trust agreements are functionally similar types of documents, and the use of each depends on the individual issue and issuer.
Industrial Revenue Bond	A security issued by a state, political subdivision, or certain agencies or authorities, for certain specific purposes, but backed by the credit of a private enterprise.
Investment Grade	Bonds considered suitable for preservation of invested capital; ordinarily, those rated Baa3 or better by Moody's Investors Service, or BBB- or better by Standard & Poor's Corporation.
Issue	The issue description includes the name of the issuer of the bonds. If a municipal bond, the issuer is typically a state, political subdivision, agency or authority which borrows money through the sale of bonds or notes. Corporate bonds are issued by private corporations.
Issue Date	The date on which a security is deemed to be issued or originated.
Issuer	A state, political subdivision, agency, authority or corporation that borrows through the sale of bonds or notes. The public entity is the "issuer" even in those cases where the actual source of the money to pay debt service is to be an entity other than the issuer.

Appendix D
Glossary of Bond Terms
(continued)

Legal Opinion	An opinion concerning the validity of a securities issue with respect to statutory authority, constitutionality, procedural conformity, and usually the exemption of interest from federal income taxes. The legal opinion is usually rendered by a law firm recognized as specializing in public borrowings, often referred to as bond counsel.
Moral Obligation Bond	A municipal bond which, in addition to its primary source of security, possesses a structure whereby a state pledges to make up shortfalls in a debt service reserve fund, subject to legislative appropriation. There is no legal obligation for the state to make such a payment, but market participants recognize that failure to honor the "moral" pledge would have negative consequences for the state's own creditworthiness.
Mortgage Revenue Bond	A security issued by a state, certain agencies or authorities, or a local government to make or purchase loans (including mortgages or other owner-financing) with respect to single-family or multifamily residences.
Official Statement (OS)	The offering document for municipal securities that is prepared by the issuer. The "OS" discloses security features, and economic, financial and legal information about the issue. The final OS contains the pricing information on the issue that is not contained in the preliminary official statement.
Private Activity Bond	<p>Under the 1986 Code, defined as any municipal obligation, irrespective of the purpose for which it is issued or the source of payment, if</p> <ol style="list-style-type: none">1. more than 10% of the proceeds of the issue will finance property that will be used by a nongovernmental person in a trade or business, and2. the payment of debt service on more than 10% of the proceeds of the issue will be<ol style="list-style-type: none">a. secured by property used in a private trade or business or payments in respect of such property, orb. derived from payments in respect of property used in a private trade or business. <p>These two tests — the "private business use test" and the "private payment or security test" — must be examined in connection with the issuance of any municipal security.</p>
Qualified Private Activity Bonds	State or local private activity bonds that are eligible for the statutory exemption from federal taxation. The Internal Revenue Code specifies seven categories of qualified private activity bonds. At least 95% of the net proceeds of the private activity bonds must be used for purposes justifying the exemption and must meet the volume cap and other limitations.
Ratings	Alpha and/or numeric symbols used to give indications of relative credit quality.

Appendix D
Glossary of Bond Terms
(continued)

Revenue Bond	A bond on which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities, or from other non-tax sources.
Section 501(c)(3)	The section of the Internal Revenue Code under which not-for-profit organizations receive their tax-exempt status.
Secured Debt	Debt backed by specific assets or revenues of the borrower. In the event of default, secured lenders can force the sale of such assets to meet their claims.
Security	Specific revenue sources or assets pledged by an issuer to the bondholder to secure repayment of the bond.
Settlement Date	The date for the delivery of securities and payment of funds.
Surety Bond	A bond that backs the performance of another. In the asset backed securities market, a surety bond is an insurance policy typically provided by a rated and regulated monoline insurance company to guarantee securities holders against default.
Tax-Exempt Bond	A common term for municipal bonds. The interest on the bond is excluded from the gross income of its owners for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended. Municipal bonds that are also exempt from state and local as well as federal income taxes are said to have double or triple tax exemption.
Trust Agreement	Agreement between the issuer and the trustee (1) authorizing and securing the bonds; (2) containing the issuer's covenants and obligations with respect to the project and payment of debt service; (3) specifying the events of default; and (4) outlining the trustee's fiduciary responsibilities and bondholders' rights. Generally does not include an assignment to the trustee of collateral to secure the payment of debt service.
Trustee	A bank designated by the issuer as the custodian of funds and official representative of bondholders. Trustees are appointed to ensure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.
Volume Cap	Dollar limitation of private activity bonds that are allowed to be issued, by state, each year. Legislation enacted by Congress sets the volume cap.

Appendix E
Industrial Development Revenue Bonds Issued
Calendar Years 1982 Through 2004

Number	Project Name	Type	Profit or Nonprofit	Amount Issued	Year
Calendar Years 1982 - 1984					
1	Carrousel Party Favors	Manufacturing	Profit	\$ 1,800,000	1982
2	Lakeridge Tennis Club, Inc.	Recreational	Profit	1,000,000	1982
3	Havas Motors Project	Retail	Profit	650,000	1982
4	Bonanza Beverage Co.	Manufacturing	Profit	1,850,000	1983
5	Lady Luck Hotel	Hotel	Profit	3,200,000	1983
6	Industrial Micro Systems	Manufacturing	Profit	1,808,500	1983
7	Cannon Enterprises	Manufacturing	Profit	1,200,000	1983
8	J.W. Costello	Manufacturing	Profit	1,200,000	1983
9	The Standard Slag Co.	Manufacturing	Profit	2,000,000	1984
10	Norick Properties	Real Estate	Profit	3,000,000	1984
11	Porsche Cars	Retail	Profit	7,000,000	1984
12	Hunt-Spiller Manufacturing Corp.	Manufacturing	Profit	2,400,000	1984
13	Sunbeam Corp.	Manufacturing	Profit	2,000,000	1984
Subtotal				\$ 29,108,500	
Calendar Years 1985 - 1989					
1	Ennis Business Forms	Manufacturing	Profit	\$ 2,400,000	1985
2	Southern Wine and Spirits of Nv.	Retail	Profit	1,500,000	1985
3	ATAP Company - Puliz	Manufacturing	Profit	850,000	1985
4	Dermody - C & K Project	Manufacturing	Profit	2,250,000	1985
5	YKC Yamada Industries	Manufacturing	Profit	2,500,000	1985
6	Shetakis Wholesalers, Inc.	Manufacturing	Profit	2,100,000	1985
7	Truckee River Lodging House	Hotel	Profit	3,500,000	1985
8	Howard Hughes Properties	Real Estate	Profit	4,750,000	1985
9	Parise and Sons, Inc.	Manufacturing	Profit	970,000	1986
10	H. S. Crocker Co.	Manufacturing	Profit	4,300,000	1986
11	Lynx Golf, Inc.	Manufacturing	Profit	6,500,000	1988
12	Dura-bond Bearing Co.	Manufacturing	Profit	7,600,000	1988
13	Kinplex	Manufacturing	Profit	1,100,000	1988
14	Marshmallow Lane Partners	Manufacturing	Profit	6,000,000	1989
15	Mallory, Inc.	Manufacturing	Profit	2,000,000	1989
16	Quality Air	Manufacturing	Profit	2,000,000	1989
17	REDCO	Manufacturing	Profit	1,900,000	1989
18	Smithers-Oasis	Manufacturing	Profit	2,500,000	1989
19	Master-Halco, Inc.	Manufacturing	Profit	4,900,000	1989
20	Mikohn, Inc.	Manufacturing	Profit	2,000,000	1989
21	Basic Food Flavors, Inc.	Manufacturing	Profit	1,285,000	1989
Subtotal				\$ 62,905,000	

Appendix E
Industrial Development Revenue Bonds Issued
Calendar Years 1982 Through 2004
(continued)

Number	Project Name	Type	Profit or Nonprofit	Amount Issued	Year
Calendar Years 1990 - 1994					
1	Primex	Manufacturing	Profit	4,000,000	1990
2	Pilot Co.	Manufacturing	Profit	5,000,000	1991
3	Caramella-Ballardini Ltd. Co.	Manufacturing	Profit	5,000,000	1991
4	Washoe Convalescent Center	Health care facility	Nonprofit	2,530,000	1993
5	Cimco, Inc.	Manufacturing	Profit	5,625,000	1993
6	Fortifiber	Manufacturing	Profit	5,600,000	1993
7	Poly Pipe	Manufacturing	Profit	4,275,000	1994
8	PEVCO	Manufacturing	Profit	2,006,000	1994
9	Diamond Plastics Corp.	Manufacturing	Profit	6,300,000	1994
10	North Sails Nv./H2W Partnership	Manufacturing	Profit	2,900,000	1994
Subtotal				\$ 43,236,000	
Calendar Years 1995 - 1999					
1	Carson Valley Medical Center	Health care facility	Nonprofit	3,700,000	1995
2	Penn Ventilator	Manufacturing	Profit	1,062,500	1995
3	Warren Applicators, Inc.	Manufacturing	Profit	3,500,000	1997
4	Valley Joist, Inc.	Manufacturing	Profit	8,250,000	1997
5	Huck Store & Furniture Co.	Manufacturing	Profit	2,775,000	1998
6	Feldmeier Equipment	Manufacturing	Profit	3,500,000	1998
7	B&J Machine & Tool	Manufacturing	Profit	3,700,000	1999
8	Barrick Goldstrike Mines	Solid waste disposal	Profit	25,000,000	1999
9	REDCO	Manufacturing	Profit	1,321,430	1999
10	Wheeling Pittsburgh Steel Corp.	Manufacturing	Profit	3,500,000	1999
Subtotal				\$ 56,308,930	
Calendar Years 2000 - 2004					
1	Las Vegas Monorail Co.	Public transit	Nonprofit	\$ 649,148,217	2000
2	Republic Services	Solid waste disposal	Profit	25,000,000	2001
3	Waste Management	Solid waste disposal	Profit	10,000,000	2001
4	Carson Tahoe Hospital	Health care facility	Nonprofit	3,970,000	2003
5	Nevada Cancer Institute	Health care facility	Nonprofit	50,000,000	2003
6	SME Industries, Inc.	Manufacturing	Profit	3,576,000	2004
7	Republic Services, Inc.	Solid waste disposal	Profit	13,000,000	2004
8	Las Ventanas Retirement Comm.	Health care facility	Nonprofit	59,270,000	2004
Subtotal				\$ 813,964,217	
62	Total			\$1,005,522,647	

Source: Compiled from IDR program information maintained by the Director's Office.

Appendix F
Response From the Department of Business and Industry

KENNY C. GUINN
Governor

STATE OF NEVADA

SYDNEY H. WICKLIFFE, C.P.A.
Director



DEPARTMENT OF BUSINESS AND INDUSTRY
OFFICE OF THE DIRECTOR

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January 17, 2006

Paul V. Townsend, C.P.A.
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, Nevada 89701-4747

Re: Response to Audit Report

Dear Mr. Townsend

Your letter of December 21, 2005 requested our office to submit a written explanation to the preliminary audit report of the Department of Business and Industry, Office of the Director. Below is our response to the recommendations contained in the report.

Recommendation 1: Modify IDR program policies and procedures to ensure project deposits are sufficient to cover direct costs and to ensure deposit refunds due the applicant are approved and processed timely.

Response: The Director's Office concurs with this recommendation. Levels for deposits to cover direct costs associated with processing bond applications were set at a time when the majority of bond applications were for manufacturing projects which could not exceed \$10 Million. During the time period covered in the report, the Office of Business Finance and Planning (OBFP) issued more bonds for other types of eligible projects such as solid waste, and health care and transportation projects sponsored by non-profit companies. These types of projects may generate costs that exceed the level of deposits currently required. Application documentation has been amended to allow the OBFP to request application deposits sufficient to cover all direct costs related to the project. In addition, policies and procedures have been amended to allow for certain large direct costs, such as those of the project's financial advisor, to be submitted directly to the applicant to be paid at the bond closing.

Policies and procedures have been amended to provide for the review and approval by the Chief of the OBFP of all direct costs and payments relating to the bond program, including deposit

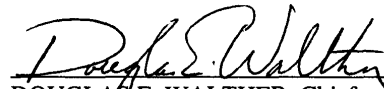
Paul V. Townsend, C.P.A.
January 17, 2006
Page 2

refunds. In addition, application documentation has been amended to request sufficient information for the processing of deposit refunds and procedures have been added to ensure that deposits refunds are processed as soon as possible after the bond closing. Finally, procedures have been modified to more clearly identify the tasks and responsibilities of staff for the accounting functions of the IDRB program.

Recommendation 2: Revise IDRB program policies and procedures to ensure written contracts are in place when Bond Counsel and Financial Advisor Services are provided.

Response: The Director's Office concurs with this recommendation. Although contracts for services of Bond Counsel have been executed, they have not always been renewed in a timely manner. Program procedures have been amended to ensure that services for Bond Counsel and Financial Advisor are not commenced for a project until written contracts are executed and currently in effect.

Sincerely,


DOUGLAS E. WALTHER, Chief
Office of Business Finance and Planning
(775) 687-4246

c: Sydney Wickliffe, Director
Department of Business and Industry

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**Department of Business and Industry
Office of the Director
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Modify IDRB program policies and procedures to ensure project deposits are sufficient to cover direct costs and to ensure deposit refunds due the applicant are approved and processed timely	<u> X </u>	<u> </u>
2	Revise IDRB program policies and procedures to ensure written contracts are in place when Bond Counsel and Financial Advisor services are provided	<u> X </u>	<u> </u>
	TOTALS	<u> 2 </u>	<u> 0 </u>