

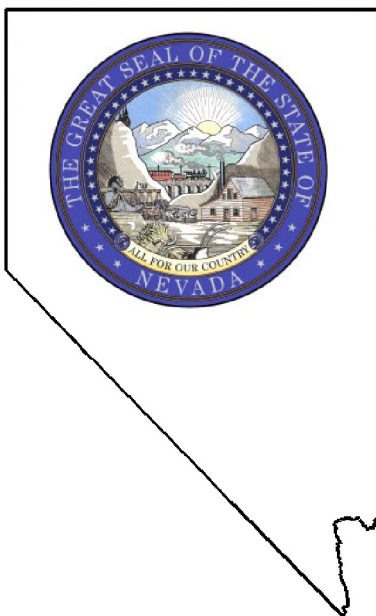
STATE OF NEVADA

Performance Audit

Department of Administration
State Public Works Division

Project Identification, Cost Estimation,
and Reporting

2024



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Department of Administration, State Public Works Division issued on January 16, 2025.

Legislative Auditor report # LA26-01.

Background

The State Public Works Division's (Division) mission is to provide well-planned, efficient, and safe facilities to state agencies so they can effectively administer their programs. In 2011, the Division was created from the State Public Works Board (Board) and the Buildings and Grounds Division.

The Board provides the Governor of Nevada with recommendations regarding the priority for the construction of Nevada's projects for capital improvements. It is also responsible for adopting regulations and presiding over appeals regarding the qualifications of contractors and contract disputes.

The Division is primarily funded by assessments paid by state agencies for its services, but also received almost \$400,000 in General Fund appropriations in fiscal year 2023.

Administrative expenditures for fiscal year 2023 were about \$7.5 million.

In 2023, the number of state facilities overseen by the Division was about 2,400 and comprised 10.1 million square feet. As of May 2024, the Division had 146 authorized positions, with 120 of those positions filled, an 18% vacancy rate. The Division has offices in Carson City and Las Vegas.

Purpose of Audit

The purpose of the audit was to determine whether the Division had adequate controls to identify, complete, and report on construction projects. The scope of our audit focused on the Division's activities from July 1, 2020, through June 30, 2023, and included Capital Improvement Program projects approved in 2019.

Audit Recommendations

This audit report contains five recommendations to help identify and use capital improvement funding timely and improve the accuracy of information reported to key decision-makers about the cost of maintenance needed for state facilities in the near future. The Division accepted the five recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Project Identification, Cost Estimation, and Reporting

State Public Works Division

Summary

By reallocating unused funds from completed projects to other projects, the Division has opportunities to complete additional capital improvement projects more timely. We identified over \$18 million in savings from recently completed projects that were not submitted to the Interim Finance Committee (IFC) for approval to be used on other projects. Furthermore, the Division can expand the use of an alternative budgeting method to more agencies to improve the timely completion of maintenance projects. Completing projects more timely can reduce project costs and improve conditions at state facilities.

The Division can enhance use of its facility condition assessment reports to benefit the Capital Improvement Program (CIP) development process. Specifically, project managers often did not coordinate with the facilities group or use the facility condition assessment reports to assist with identifying CIP needs. Better coordination would help ensure project recommendations from the facility condition assessment reports are completed more timely.

Information reported biennially to the Legislature by the Division about the costs of recommended maintenance for state buildings has some inaccuracies. Specifically, the report included tens of millions of dollars in cost for projects already completed and outdated cost information. The Legislature, Office of the Governor, and State Public Works Board need accurate information when deciding the amount of funds required to keep state facilities in good condition.

Based on a comparison of estimated costs in the CIP to actual project costs, the Division has an effective process for estimating project costs. However, the Division needs to retain documentation of information it uses to develop cost estimates for projects included in the CIP, to allow for greater oversight and to improve the process.

Key Findings

We identified over \$18 million in savings from the 13 closed projects we tested in our sample of 20 projects from the 2019 CIP. The Division did not present these savings to the IFC to request the projects' expenditure authority be transferred to other approved projects. The Division can enhance policies and procedures to address the reallocation of funds from project savings. (page 5)

The Division has another opportunity to reallocate unused funds to other projects as savings are realized from maintenance projects. This involves including additional maintenance projects in the CIP portion of the State of Nevada Executive Budget so project savings can be reallocated to other deferred maintenance projects without the need for IFC approval. In the 2023 CIP, this method was used for two state departments. Expanding the approach to more departments will result in more maintenance projects being completed more timely. (page 6)

The Division is not fully utilizing its Facility Condition Assessment (FCA) reports as intended in the CIP process. FCA reports include projects that are recommended based on periodic assessments of state facilities. Four of five CIP projects tested did not have evidence that project managers coordinated with the FCA team and used the reports in developing CIP projects. As a result, projects recommended based on assessments of state facilities may not be completed timely. (page 8)

Information reported biennially to the Legislature by the Division about the cost of recommended maintenance for state buildings has some inaccuracies. We identified costs for 732 projects already completed, which resulted in an error of about \$51 million. Another inaccuracy is the result of using outdated costs for projects. Based on a 5-year estimate, we predict this understated the cost of recommended maintenance in 2023 by as much as \$220 million. (pages 10 and 11)

Our testing found the Division often did not have documents to support the estimated project costs used in the CIP. In instances where it had documentation, there were frequently significant differences between the amounts in the documents and the CIP estimate. This lack of documentation of how estimates were developed makes it more difficult for the Division to evaluate and enhance its process for estimating costs on projects included in the CIP. This increases the risk of inaccurate cost estimates in the CIP. (page 13)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Department of Administration, State Public Works Division, Project Identification, Cost Estimation, and Reporting. This audit was conducted pursuant to 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.

This report includes five recommendations to help identify and use capital improvement funding timely and improve the accuracy of information reported to key decision-makers about the cost of maintenance needed for state facilities in the near future. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel L. Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

December 3, 2024
Carson City, Nevada

State Public Works Division Project Identification, Cost Estimation, and Reporting

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Introduction

Background

The mission of the State Public Works Division (Division) is to provide well-planned, efficient, and safe facilities to state agencies so they can effectively administer their programs. In 2011, the Division was created within the Department of Administration from the State Public Works Board (Board) and the Buildings and Grounds Division.

The Board is made up of the Director of the Department of Administration and six appointed members. The Board provides the Governor with recommendations regarding the priority for the construction of Nevada's projects for capital improvements. It is also responsible for adopting regulations and presiding over appeals regarding the qualifications of contractors and contract disputes involving state projects.

In 2023, the number of state buildings overseen by the Division was about 2,400 and comprised 10.1 million square feet. The Division consists of four main sections, which are explained below:

- Professional Services – This section is comprised of architects, engineers, and other experienced professional staff used in the analysis, planning, design, construction, and management of projects needed by other state agencies and funded through the State Capital Improvement Program by the Division. This section includes the Facility Condition Assessment team that assesses the condition of existing state buildings and provides input to state agencies in submitting budget requests.
- Buildings and Grounds – This section provides buildings and grounds maintenance for buildings and property owned by the State, including electrical, carpentry,

painting, and plumbing tasks. The Division can charge a labor rate for extra services for extensive work including remodeling, moving, shelf building, carpet laying, and other jobs.

- Permitting and Code Enforcement – All projects involving state-owned facilities require a permit from the Division. This section oversees the code compliance and enforcement services on state-owned land or property held in trust for any division of state government. They are responsible for issuing building permits, performing plan reviews, and assessment services for state-owned property.
- Leasing Services – The Division attempts to house all agencies in state-owned buildings. However, if an appropriate space is unavailable, the Division’s Leasing Services section will place agencies in leased space and perform all negotiations for the lease.

Budget and Staffing

The Division is primarily funded by assessments paid by state agencies for its services, but also received almost \$400,000 in General Fund appropriations in fiscal year 2023. As of May 2024, the agency had 146 authorized positions, with 120 of those positions filled, an 18% vacancy rate. The Division has offices in Carson City and Las Vegas. Expenditures for fiscal year 2023 are summarized by function in Exhibit 1.

Administrative Expenditures by Function Fiscal Year 2023

Exhibit 1

Description	Totals
Engineering and Planning	\$6,305,182
Administration	845,383
Facility Condition Assessment	361,332
Total	\$7,511,897

Source: State accounting system.

Scope and Objective

The scope of our audit focused on the Division's activities from July 1, 2020, through June 30, 2023, and included Capital Improvement Program projects approved in 2019.

Our audit objective was to:

- Determine whether the Division had adequate controls to identify, complete, and report on construction projects.

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 Nevada Revised Statutes (NRS) 218G.010 to 218G.350. 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.

Opportunities Exist to Complete Capital Improvement Program Projects More Timely

By reallocating unused funds from completed projects to other projects, the Division has opportunities to complete additional capital improvement projects more timely. We identified over \$18 million in savings from recently completed projects that were not submitted to the Interim Finance Committee (IFC) for approval to be used on other projects. Furthermore, the Division can expand the use of an alternative budgeting method to more agencies to efficiently utilize project savings and improve the timely completion of maintenance projects. Completing projects more timely can reduce project costs and improve conditions at state facilities.

Overview of Capital Improvement Program Process

The biennial Capital Improvement Program (CIP) project development process involves the Division and various state agencies working together to improve state facilities. The development of projects starts with state agencies submitting their project applications to the Division.

The Division's project managers then determine the full scope of project requirements, which includes the review of any related Facility Condition Assessment (FCA) projects and the development of better cost estimates. FCA projects are developed based on Division assessments of state facilities. The CIP projects consist of new construction, economic development, maintenance, planning, and statewide projects such as roofing repairs needed at multiple state facilities.

For Division-recommended projects, Division staff support agencies as they present their projects to the State Public Works

Board. The Board then submits its recommendations of projects for capital improvements in the next biennium to the Governor before October 1 of each even-numbered year. The Governor then creates the final CIP project list, and the list is then presented to the Legislature for consideration in the form of the official biennial CIP book. CIP projects approved by the Legislature in 2019, 2021, and 2023 are summarized below in Exhibit 2.

CIP Projects Approved by the Legislature in 2019, 2021, and 2023

Exhibit 2

Project Types	2019		2021		2023	
	Amounts	Projects	Amounts	Projects	Amounts	Projects
Construction	\$216,229,586	13	\$173,932,090	12	\$ 830,509,913	30
Planning	13,237,098	10	23,616,892	7	57,131,088	6
Maintenance	94,584,187	54	180,415,010	55	258,851,088	49
Economic Development	-	-	6,170,101	7	-	-
Statewide	22,959,180	12	28,919,961	9	42,518,458	13
Totals	\$347,010,051	89	\$413,054,054	90	\$1,189,010,547	98

Source: Division's 2019, 2021, and 2023 Capital Improvement Program Summary list of projects approved.

Reallocating Unused Funds to Other Projects Through the Interim Finance Committee

We identified over \$18 million in cost savings from the 13 closed projects in our sample of 20 projects tested from the 2019 CIP. Savings were from actual project costs that were less than budgeted. The Division did not present these cost savings to IFC to request the projects' expenditure authority be transferred to other approved projects. The Division can enhance policies and procedures to address the reallocation of funds from project savings.

In contrast, the Division requested IFC approval for a portion of unused CIP funds from August 2019 to June 2022. Specifically, project savings of about \$700,000 from 6 projects out of the 20 projects we identified as having been presented at IFC, were transferred to other projects. Savings occurred mainly due to improved bidding conditions. These reallocated funds were used to complete other maintenance projects. The following are examples of how the reallocated funds were used:

- Project 17-M63 utilized the reallocated funds for the increased quantity and quality of light fixtures.

- Project 17-M33 used these funds for an increase in project costs the Division encountered due to unexpected conditions related to the pump system.
- Project 17-M46 utilized these funds to address the shortfalls experienced in the heating, ventilation, and air conditioning system renovation at the Regional Medical Facility in Northern Nevada Correctional Center.
- Project 17-M18 used these funds to address the shortfalls realized in the upgrading of wastewater treatment facilities at the Wells Conservation Camp.

CIP bills have allowed for the transfer of authorization, appropriation, and allocation of CIP money from one project to another within the same agency with IFC approval for the projects listed in the bill. Although unused funds are reverted at the end of the 4 years in accordance with the CIP bill, not reallocating funds when the Division finds savings has the potential of missing an opportunity to benefit the State as other needed projects could be completed more timely and the State could avoid paying higher costs due to potential future inflation.

Expanding Alternative Budgeting Method to More Departments

The Division has another opportunity to reallocate unused funds to other projects as project savings are realized from maintenance projects. This involves including additional maintenance projects in the CIP portion of the State's Executive Budget so project savings can be reallocated to other deferred maintenance projects without the need for IFC approval. In the 2023 CIP, this method was used for two state departments and approved by the Legislature. Expanding the approach to more departments will result in additional maintenance projects being completed more timely.

Of the \$18 million in project savings mentioned earlier, over \$3 million was from maintenance projects. Therefore, these savings could have been reallocated to other projects without the need for IFC approval if this budget method had been used at other departments.

Alternative Budgeting Method Used for Some Agencies

The Division used this method in the Department of Health and Human Services' and Department of Administration's deferred maintenance projects in the 2023 CIP. Each department's maintenance projects were combined into a single maintenance project for budgeting purposes. It included priority 1 projects equal to the budget request, but also priority 2 projects if savings were realized upon completing priority 1 projects. This method allows the priority 2 projects to move forward more timely in the current biennium without requiring IFC approval or waiting until the next biennium.

Appendix A on page 15 is an excerpt from the 2023 CIP of how this method was utilized for the Department of Health and Human Services. Division management concurs this method can be expanded to other departments and wants to develop policies and procedures to guide the process.

Recommendations

1. Develop policies and procedures to timely identify project savings and to seek IFC approval to reallocate savings to other CIP projects.
2. Develop policies and procedures to include additional maintenance projects in the CIP portion of the State's Executive Budget so project savings can be reallocated to other maintenance projects without the need for IFC approval.

Facility Condition Assessment Reports Can Be Used More in Developing the Capital Improvement Program

The Division is not fully utilizing its Facility Condition Assessment (FCA) reports as intended in the CIP process. FCA reports include projects that are recommended based on periodic Division assessments of state facilities. Four of five CIP projects tested did not have evidence that project managers coordinated with the FCA team and used the reports in developing CIP projects. As a result, opportunities to efficiently and timely complete needed projects may be delayed.

Overview of FCA Process

The FCA process involves the Division examining and evaluating the condition of state-owned buildings. The FCA team works to comply with NRS 341.128, which requires the Division to periodically inspect and report on state-owned buildings. The FCA reports are the final product of this process.

The FCA reports are created based on assessments, where the FCA team identifies recommended maintenance projects for state agencies in the next 10 years. The report provides the Division and state agencies with information on how to improve and maintain the overall condition of state facilities. Additionally, it serves as a resource for the development of capital budgets, the prioritization of resources, and the CIP process.

The FCA team sends out a survey to all state agencies with outstanding FCA projects before each Legislative Session inquiring about the status of those projects. Survey results are then used to calculate the recommended maintenance cost total

which is presented alongside the recommended CIP projects each Legislative Session.

Lack of Coordination When Developing CIP Projects

From our sample of 5 projects out of the 20 CIP projects tested that required coordination between FCA personnel and CIP project managers, 4 did not have evidence of coordination to ensure the FCA reports were considered in developing the CIP project. According to the FCA team desk manual, the FCA team's primary functions are to develop facilities documents and to report findings and recommendations for future CIP projects.

The Division does not currently have a process to track whether project managers use FCA reports in developing CIP projects, or to compare the FCA projects to the CIP projects. However, based on discussions with staff, the Division is working on a way to track FCA report utilization in the CIP process. When FCA reports are not used in the CIP process, needed projects may be delayed and opportunities to achieve cost savings through economies of scale may be lost.

Recommendation

3. Develop policies and procedures to utilize and monitor the results of Division led state FCA reports in the development of the CIP projects.

Maintenance Cost Estimate Reporting Has Some Inaccuracies

Information reported biennially to the Legislature by the Division about the costs of recommended maintenance for state buildings has some inaccuracies. Specifically, the report included tens of millions of dollars in cost for projects already completed and outdated cost information. The Legislature, Office of the Governor, and State Public Works Board need accurate information when deciding the amount of funds required to keep state facilities in good condition.

The Division reports biennially to the Legislature on the estimated costs to maintain state buildings over the next 10 years. In 2023, it was reported to be about \$570 million. The amount is derived from Division assessments of state buildings and surveys of state agencies.

Cost Estimate Included Projects Already Completed

The Division's cost estimate provided to the Legislature in 2023 incorrectly included projects completed by agencies or the Division. We identified 732 projects marked as completed out of the 7,334 projects in the 2022 survey of state agencies whose construction costs were included in the recommended maintenance cost estimate provided in 2023. The total amount of completed projects incorrectly included in the estimate was about \$51 million.

In addition, the Division's completion of FCA projects is not adequately monitored. This has led to projects being completed through the CIP project process and remaining on the list of recommended maintenance. For example, the following was identified:

- From our sample of 20 maintenance projects that were Priority 1 over \$100,000, 5 closed projects were completed as CIP projects but were not removed from the 2023 list. One was completed in 2019, three in 2020, and one in 2022.
- From a sample of 20 maintenance projects that were Priority 1 under \$100,000, 2 closed projects were completed as CIP projects in 2020 but were not removed from the 2023 list.

The Division's procedures are inadequate because projects are only removed from the list of recommended projects upon the Division's next assessment. The Division averages 7 years between assessments. Timely updating the list would help improve the accuracy of the maintenance needs reported to the Legislature.

Project Cost Estimates Were Not Updated

The Division is not updating costs for recommended maintenance projects until the facilities are reassessed by Division staff. This understates the cost of recommended maintenance reported to the Legislature, Office of the Governor, and State Public Works Board. Specifically, for the estimate reported in 2023, none of the projects' cost estimates were adjusted for inflation since the costs were originally established. The Division's procedures do not address the need to adjust project cost estimates for inflation.

The average number of years between the last assessment and when the 2023 estimate was developed was about 5 years. Based on the Division's records for construction inflation, we estimate the cost of recommended maintenance was understated in 2023 by as much as \$220 million. This estimate was made based on a 5-year estimate. Lastly, this estimate excludes the completed projects mentioned earlier that were incorrectly included in the Division's estimate of recommended maintenance.

Recommendation

4. Establish policies and procedures to update the FCA database with current and reliable information in a timely manner, including the removal of completed projects and costs adjusted for inflation to improve the accuracy of information reported to the Legislature, Governor, and other agencies.

Project Estimation Record Keeping Can Be Improved

Based on a comparison of estimated costs in the Capital Improvement Program (CIP) to actual project costs, the Division has an effective process for estimating project costs. However, the Division needs to retain documentation of information it uses to develop cost estimates for projects included in the CIP, to allow for greater oversight and to enhance the accuracy of the process.

Documentation for CIP Cost Estimates Is Lacking

Our testing found the Division often did not retain documents to support the estimated project costs used in the CIP. In instances where it had documentation, there were frequently significant differences between the amounts in the documents and the CIP estimate. The lack of documentation of how estimates were developed makes it more difficult for the Division to evaluate and enhance its process for estimating costs on projects included in the CIP. This increases the risk of inaccurate cost estimates in the CIP submitted to the Legislature and the Office of the Governor.

Division personnel indicated project managers are supposed to develop project estimates primarily using cost information from recent similar projects, estimates from contractors, and an industry guide on construction costs.

We judgmentally selected 20 projects from the 2019 CIP, including the 10 largest projects, and found the following inadequacies:

- None of the 20 projects had documentation that an industry guide for estimating construction costs was used. The guide provides cost data for construction costs and is updated annually.

- Five of 20 projects had documentation of recent similar project costs that were used in developing cost estimates, or an explanation that there were not any comparable projects.
- Seven of 20 projects used estimates from contractors in developing cost estimates for the CIP. Furthermore, in three of seven projects where contractor estimates were retained, the contractors' estimates differed significantly from the amounts used in the CIP. The supporting differences ranged from about \$3 million to \$48 million. Some of these costs exceeded the estimates provided by contractors and some were underestimated. The supporting documentation did not provide sufficient information to explain these differences.

The inconsistent use and retention of documents used in developing CIP project cost estimates are due to inadequate written policies and procedures. During the development of the CIP, project managers choose whether or not to save documents to the Division's computer network drive. Project managers are not required to provide documents to support their project cost estimates. In addition, Division policies and procedures do not address the need to compare project estimates to actual costs after the project is completed to identify ways to improve CIP cost estimates.

The lack of documentation on how project estimates are developed can impair the Division's ability to provide oversight of the estimating process and refine the accuracy of the estimates.

Recommendation

5. Develop policies and procedures to formally document the process for developing CIP project cost estimates. Policy should include the retention of documents used in the process, oversight of project estimates, and comparison of project estimates to actual costs.

Appendix A

Excerpt From the Division’s Recommended Capital Improvement Program 2023 – 2025, Alternative Budgeting Method

State Public Works Division		Project Narrative		January 17, 2023	
Project No:	M02	Title:	Deferred Maintenance (Department of Health and Human Services)		
Description:	This project will address Department of Health and Human Services (DHHS) deferred maintenance at locations statewide.			Funding Summary	
Department:	DHHS	Division:	DHHS	State:	37,818,389
Agency:	DHHS	Project Mgr:	BJW	Agency:	0
				Federal:	0
				Other:	0
				Total:	37,818,389
Project Group:	Offices or Dorns	Building Area:	1,300,002	gsf	
Project Type:	Rehab	Months To Construction:	24		
Project Site:	Local	Const. Annual Inflation Rate:	8.50%		
Location:	Statewide	Total Inflation:	17.72%		
	2022	2024	Remarks		
Professional Services			All costs are estimated based upon 2022 information. During project implementation, funds will be shifted between categories as necessitated by actual costs. The total budget will not be exceeded.		
A/E Design & Supervision	2,687,683	3,082,291	2022 Project Cost Detail		
Surveys	15,000	16,200	Priority 1		
Soils Analysis	20,000	21,400	1 HVAC Replacement (DWTC) (21146)	2,436,896	
Materials Testing Services	91,256	105,047	2 Anti-Ligature Rehabilitation (RNPH) (7442)	6,979,378	
Structural Plan Check	11,259	12,077	3 Rooftop Unit Replacement (NNCAS) (19199)	881,242	
Mechanical Plan Check	33,284	35,643	4 Anti-Ligature Rehabilitation (Stein) (7438)	6,420,047	
Electrical Plan Check	46,244	49,496	5 Secured Area Door Replacement (Lakes) (23195)	4,028,448	
Civil Plan Check	7,299	7,838	6 Emergency Generator Replacement (SVYC) (23197)	1,534,390	
ADA Plan Check	21,569	23,127	7 Elevator Replacement (Stein) (23199)	1,707,670	
Fire Marshal Plan Check	15,333	16,406	8 Install Security Cameras (SNCAS) (21153)	1,443,909	
Code Compliance Plan Check	49,599	53,131	9 Security Fencing (DRC) (21126)	1,333,296	
Constructability Plan Check	0	0	10 Exhaust Fan Replacement (NYTC) (23211)	299,172	
CMAR Pre-Construction Services	0	0	11 HVAC and Hot Water Renovation (Lakes) (23226)	1,252,308	
PWD Project Mgmt & Inspection	1,722,448	1,722,448	12 Gymnasium Floor Replacement (NYTC) (7508)	1,509,929	
3rd Party Commissioning	75,920	86,921	13 Shower Room Renovation (Lakes) (23198)	949,735	
FF&E Design Fee	0	0	14 Upgrade Cameras and Access (SNAMHS) (23209)	2,440,829	
HCQC Review	148,699	170,245	Total Cost	33,217,249	
Architectural Evaluation	7,500	8,587	Priority 2		
Structural Evaluation	30,000	34,347	15 Flooring Replacement (NYTC) (7515)	1,000,462	
Subtotal	4,983,093	5,445,204	16 Patio Wall Caps (DWTC) (19194)	345,611	
Construction Costs			17 Perimeter Security Fence (SNCAS) (7123)	469,152	
Construction	25,466,614	29,199,876	18 Ceiling Replacement (NYTC) (23206)	1,693,276	
Construction Contingency	2,546,661	2,919,987	19 Youth Dorns Kitchen Replacement (NYTC) (23207)	920,306	
Green Building Equivalence	0	0	20 Electrical and Communications (SNAMHS) (7350)	4,588,326	
Utility/Off-Site Costs	0	0	21 Building 22 Electrical Upgrade (NNAMHS) (7352)	823,813	
Utility Connection Fees	0	0	22 Building 26 Kitchen Flooring (NNAMHS) (19191)	603,941	
Data/Telecom Wiring	20,840	23,860	23 Interior Lighting Upgrade (Lakes) (7652)	742,079	
Furnishings and Equipment	0	0	24 Exterior Insulation and Windows (CYC) (19248)	2,378,759	
Roof Maint. Agreement	0	0	Total Cost	13,565,725	
Local Government Requirements	10,000	11,449			
Hazardous Material Abatement	158,000	181,219			
Subtotal	28,202,115	32,336,391			
Miscellaneous					
Advertising	23,825	27,359			
Printing	8,216	9,435			
Temporary Facilities	0	0			
Agency Moving Costs	0	0			
Land Purchase	0	0			
Subtotal	32,041	36,794			
Total Project Cost	33,217,249	37,818,389			
			Note: This project narrative includes the estimated cost of the Priority 1 items (\$37.8 million – FY2024 cost estimate). If cost savings are generated from these Priority 1 projects, the narrative also includes Priority 2 projects (\$13.6 million – FY2022 cost estimate) to allow for timely use of available funds without the need to return to IFC for approval.		
Source: State Public Works Board Recommended Capital Improvement Program 2023 – 2025; 2023 Capital Improvement Program Summary List of Projects Governor Recommendations; Maintenance High Priority for 2023.					
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Appendix B

Audit Methodology

To gain an understanding of the State Public Works Division (Division), we interviewed staff, reviewed statutes and regulations, and examined policies and procedures relevant to its operations. We also reviewed financial information, prior audits, Legislative Committee minutes, and other information describing the Division's operations. In addition, we documented and assessed the Division's controls over the identification, completion, and reporting of construction projects.

Our audit included a review of the Division's internal controls significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objective of the entity. The scope of our work on controls related to the identification, completion, and reporting of construction projects at the Division included the following:

- Evaluate performance and enforce accountability; and exercise oversight responsibility (Control Environment);
- Design control activities; and implement control activities through policy (Control Activities);
- Use quality information; communicate internally; and communicate externally (Information and Communication); and
- Evaluate issues and remediate deficiencies (Monitoring).

Deficiencies and related recommendations to strengthen the Division's internal control systems are discussed in the body of this report. The design, implementation, and ongoing compliance with internal controls is the responsibility of agency management.

To determine if the Division was preparing reasonable Capital Improvement Program (CIP) cost estimates, we judgmentally selected a sample of 20 projects from a population of 89 projects. Ten of the projects identified as a representative sample of the various projects in our population based on project description from the 2019 CIP book and the other 10 had the highest dollar value. We then reviewed source documentation for recent similar projects, estimates from contractors, and an industry guide on construction costs. Then, we traced construction cost estimates to their source and reviewed the age of source documents. For completed projects, we then compared the cost estimates to actual costs to determine cost savings.

After establishing the amount of savings incurred, we proceeded to verify if project savings were reallocated timely. This was done by requesting and reviewing final invoices for completed projects and comparing project completion dates to the CIP expiration dates to determine the total number of months between the two sets of dates. Lastly, we reviewed Interim Finance Committee (IFC) meeting minutes to determine whether these projects were presented to IFC to have the savings reallocated to other projects.

To assess the reliability of project cost information provided, we judgmentally selected 2 projects from projects that had 10 or more payments. For the 2 projects selected, we tested 10 payments for each project by tracing information from the financial cost sheets in the state accounting system. We found that the information on the project cost reports from the Division was reliable.

We then reviewed IFC meeting minutes from August 2019 to June 2022 for CIP projects that were approved for additional funding. We tested these 20 projects to determine 1) their funding sources; 2) the statuses of projects with funds that were reallocated; and 3) whether the reallocation of funds was due to inaccurate cost

estimates. Furthermore, we had discussions with management regarding their estimating process.

To establish how the Division prioritized projects, we discussed with staff and management the process of how the Facility Condition Assessment (FCA) projects are prioritized and the communication occurring between the FCA and CIP groups. Additionally, we reviewed the FCA list and identified any project in our sample of 20 CIP projects that was also an FCA project. We then identified if these agencies had other FCA projects at the time that were a higher priority. We had discussions with management about how they ensure projects that need to be completed, but are not agency requested, get addressed.

Our testing of project prioritization continued by judgmentally selecting a sample of 20 FCA projects that were high priority with cost estimates over \$100,000. This was done by selecting projects based on the highest estimated cost from a population of 21 projects. In addition, we judgmentally selected a sample of 20 FCA projects that were high priority with cost estimates under \$100,000. This was also accomplished by selecting projects based on the highest estimated costs from a population of 48 projects. For completed projects, we determined the time from when the FCA report had been prepared to when the project had been completed.

To determine the accuracy and completeness of the recommended maintenance cost calculation, we had discussions with management about the purpose of the recommended maintenance cost and how it was developed. We also reviewed any guidance the FCA team followed when compiling this information.

Additionally, of the total population of 1,763 facilities, we randomly selected 20 facilities for our testing. Of the facilities selected, we took the FCA population of 68 projects and selected a random sample of 20 FCA projects that were over 1 cycle (7 years) since their last assessment. Then we reviewed and compared the cost information from the Division's database to the surveys sent out to agencies to determine if costs had been adjusted for inflation. We

also compared the recommended maintenance calculations from the originals reported to the Legislature in 2019, 2021, and 2023. Further, we discussed with management whether the sample of older assessments had cost estimates that were still relevant and accurate.

Next, we compared the building list to surveys conducted in 2020 and 2022 to determine which projects on the list were associated with buildings that were no longer state-owned. We then compared the 2020 and 2022 survey responses to the building list to check for buildings included in the recommended maintenance cost total. To assess the reliability of the building list provided by the Division, we took a random sample of 10 facilities from a list of 4,525 and compared facility locations to information in the Human Resources Data Warehouse.

We continued our testing by using the population of FCA projects from the 2022 survey and identifying the FCA projects that were surveyed in over one cycle (7 years) or older, as well as any projects marked as completed. Then we took the projects that had been identified as completed with construction costs equal to or over \$100,000 to determine whether the projects were completed by the Division. Then we took our sample of projects that had been marked as completed and calculated their total cost to determine the amount of recommended maintenance cost that was overstated in the 2023 recommended maintenance cost total. Additionally, we had discussions with management about why these projects had not been removed from the recommended maintenance cost estimate.

To further test the accuracy and completeness of the recommended maintenance cost calculation, we took a judgmental sample of 30 projects with survey dates older than 1 cycle that also had the highest construction costs from the FCA population. This was done to identify facilities with projects that had not been reviewed or resurveyed in over one cycle that were still included in the recommended maintenance cost calculation. Additionally, we used the inflation information provided to us from the Division to estimate the cost of recommended maintenance had the costs been inflated over 5 years. We also reviewed the

Division's FCA website for current FCA reports and searched for the facilities and projects to confirm whether these projects had been resurveyed after the dates mentioned on the survey.

Lastly, we had discussions with project managers to confirm projects were completed as well as with management regarding whether the updated surveys were being reviewed by the FCA team once it was updated by the agencies.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit work was conducted from April 2021 to May 2024. We paused our audit work in 2022 to complete other legislative priority audits. In accordance with Nevada Revised Statute 218G.230, we furnished a copy of our preliminary report to the Administrator of the Division. On November 21, 2024, we met with agency officials to discuss the results of the audit, and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 22.

Contributors to this report included:

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Appendix C

Response From the State Public Works Division

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Governor



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Director

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Wilfred J. Lewis, Jr.
Administrator

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December 2, 2024

Daniel L. Crossman
Legislative Auditor
Legislative Counsel Bureau – Audit Division
401 South Carson Street
Carson City, Nevada 89701

Re: Performance Audit, Department of Administration, State Public Works Division,
Project Identification, Cost Estimation, and Reporting (2024)
State Public Works Division Response

Dear Mr. Crossman,

Thank you for the opportunity to respond to the audit findings. The State Public Works Division (SPWD) found the Audit Division's recommendations insightful and SPWD has already started implementing the Audit Recommendations. Below is a list of the Audit Division's Recommendations and SPWD's responses.

Recommendation 1: Develop policies and procedures to timely identify project savings and to seek IFC approval to reallocate savings to other CIP projects.

Response: SPWD accepts this recommendation.

Currently, SPWD identifies project savings and seeks IFC approval as necessary to support the completion of CIP projects, although project savings are tracked informally. SPWD will develop formal policies and

procedures to identify savings in a timely manner, and to better support the reallocation of savings to other CIP projects.

Recommendation 2: Develop policies and procedures to include additional maintenance projects in the CIP portion of the State's Executive Budget so project savings can be reallocated to other maintenance projects without the need for IFC approval.

Response: SPWD accepts this recommendation.

SPWD's requested 2025 CIP includes a request to expand this method of funding maintenance projects. The 2023 CIP included this maintenance funding approach for the Department of Health & Human Services and the Department of Administration. The State Public Works Board 2025 CIP recommendation expanded this maintenance funding approach to the Department of Corrections. SPWD will also develop formal policies and procedures formalizing the implementation and expansion of this approach.

Recommendation 3: Develop policies and procedures to utilize and monitor the results of Division led state building inspection reports in the development of the CIP projects.

Response: SPWD accepts this recommendation.

SPWD has begun implementing a formal policy enabling the use of Facility Condition Assessment (FCA) reports in the development of CIP projects.

Recommendation 4: Establish policies and procedures to update the FCA database with current and reliable information in a timely manner, including the removal of completed projects and costs adjusted for inflation to improve the accuracy of information reported to the Legislature, Governor, and other Agencies

Response: SPWD accepts this recommendation.

SPWD's current FCA effort is supported by three full-time employees (FTEs). SPWD recognizes the importance and necessity for increasing the frequency of FCA database updates and to support that effort has requested two additional FTEs in the 2025 budget. SPWD will also implement policies and procedures that formalize the FCA updates.

Recommendation 5: Develop policies and procedures to formally document the process for developing CIP project cost estimates. Policy should include the retention of documents used in the process, oversight

of project estimates, and comparison of project estimates to actual costs to identify opportunities to improve CIP cost estimates

Response: SPWD accepts this recommendation.

SPWD will implement formal policies and procedures implementing the formal documentation of CIP cost estimates.

Please do not hesitate to contact me with any questions.

Sincerely,

 For

Wilfred J. Lewis, Jr.
SPWD Administrator

State Public Works Division's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop policies and procedures to timely identify project savings and to seek IFC approval to reallocate savings to other CIP projects	<u>X</u>	<u> </u>
2. Develop policies and procedures to include additional maintenance projects in the CIP portion of the State's Executive Budget so project savings can be reallocated to other maintenance projects without the need for IFC approval	<u>X</u>	<u> </u>
3. Develop policies and procedures to utilize and monitor the results of Division led state FCA reports in the development of the CIP projects	<u>X</u>	<u> </u>
4. Establish policies and procedures to update the FCA database with current and reliable information in a timely manner, including the removal of completed projects and costs adjusted for inflation to improve the accuracy of information reported to the Legislature, Governor, and other agencies.....	<u>X</u>	<u> </u>
5. Develop policies and procedures to formally document the process for developing CIP project cost estimates. Policy should include the retention of documents used in the process, oversight of project estimates, and comparison of project estimates to actual costs	<u>X</u>	<u> </u>
TOTALS	<u>5</u>	<u> </u>