



AUDIT DEPARTMENT

**REGIONAL JUSTICE CENTER
MAINTENANCE & OPERATIONS FUND**

for the period July 1, 2009, through June 30, 2010

JEREMIAH P. CARROLL II, CPA
Audit Director



Audit Department

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January 31, 2011

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

We have completed our performance audit of the Regional Justice Center (RJC) Maintenance & Operations (M&O) Fund for the period July 1, 2009, through June 30, 2010.

The objectives of our audit were to determine whether (1) billings to the City of Las Vegas and State of Nevada for their share of RJC M&O costs were reasonable and proper, and (2) whether M&O costs assigned to the RJC M&O fund were reasonable and proper.

We found that some policy and procedure adjustments are necessary in order to assure billings to the City of Las Vegas (City) and State of Nevada (State) are reasonable and proper. First, from FY 2006 to FY 2010, over \$2 million in payments from the State that were intended to offset the cost of constructing the Supreme Court space at the RJC have been included in M&O cost share calculations. These payments are not M&O related and their inclusion in M&O cost share calculations understated the City and State's proportionate share of M&O costs. Second, Clark County holds a fund balance on behalf of the City to provide flexibility should the City's share of costs exceed the City's budgeted share of costs. However, at over \$678,000, or over 43 percent of the City's average annual share of costs, we question whether this fund balance is greater than necessary. A target fund balance held on behalf of the City has not been established.

Overall, M&O costs assigned to the RJC M&O fund were reasonable and proper. However, RPM's work order system does not account for crossover if RPM staff assigned to the RJC complete work orders outside of the RJC, and staff not assigned to the RJC complete work at the RJC. The total cost impact to the RJC M&O fund from the crossovers is minimal relative to the size of annual costs. However, the potential for large or time consuming projects, and associated staff costs, to be assigned to the wrong fund exists.

A draft report was provided to Finance and Real Property Management for comment. Their response is included as part of the audit report. We appreciate the cooperation and assistance provided by staff from these offices throughout the course of our audit.

Sincerely,

/s/ Jeremiah P. Carroll II

Jeremiah P. Carroll II, CPA
Audit Director

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	2
RESULTS IN BRIEF	3
DETAIL OF FINDINGS	4
Policies & Procedures for Cost Share Determinations	4
<i>State Payments to Offset Financing and Construction Costs</i>	<i>4</i>
<i>Fund Balance Held on Behalf of the City</i>	<i>5</i>
RPM Work Orders	6
<i>Work Order System Does Not Account for Staff Crossover</i>	<i>6</i>
APPENDIX – Management Response	8

**REGIONAL JUSTICE CENTER
MAINTENANCE & OPERATIONS FUND
for the period July 1, 2009, to June 30, 2010**

BACKGROUND

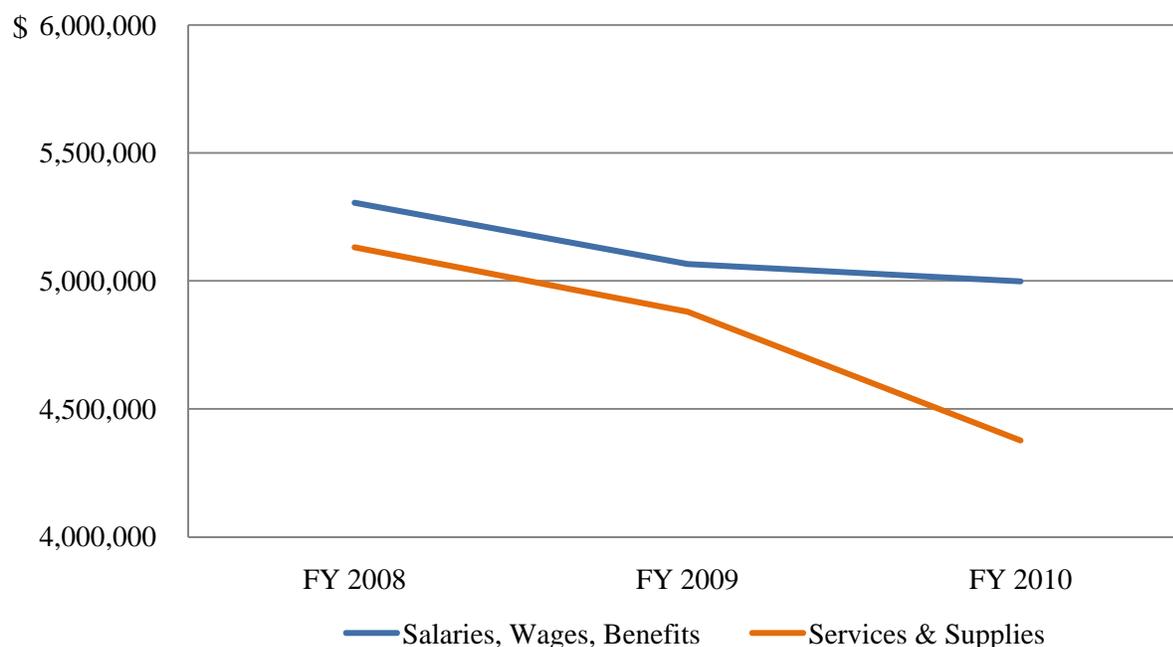
The Regional Justice Center (RJC) located at 200 E. Lewis Avenue in the City of Las Vegas (City) serves as the primary hub for criminal and civil judicial matters in greater Clark County. Overall, in addition to dedicated detention and holding areas, the RJC accommodates space for the:

- Nevada Supreme Court
- Eighth Judicial District Court (Clark County)
- Las Vegas Township Justice Court (Clark County)
- Las Vegas Municipal Court (City of Las Vegas)
- Clark County District Attorney Criminal Division
- Clark County Clerk

Clark County provides a range of ongoing maintenance and operations (M&O) staff and services for the facility. In general, Administrative Marshalls provide security on the main level and common areas in the facility (other Marshalls are dedicated to courtrooms and are not considered M&O staff). Real Property Management (RPM) staff keep the common areas clean and building-wide infrastructure, including plumbing, HVAC, and electrical in good repair. District Court staff provides for building-wide audio-visual support, badging services, and answer questions for all RJC visitors at information kiosks. Costs for these staff and services are included as RJC M&O costs along with other costs for related supplies and building utilities.

As outlined in lease agreements, the City, and the State of Nevada (State) share in the ongoing M&O costs for the facility. The City share of M&O costs has been set at 16.77%, and the Nevada Supreme Court share through fiscal year (FY) 2010 has been set at 2%. The City's share is based on the 16.77% of allocable private space (non-common area) that the City occupies. The Nevada Supreme Court occupies 3.34% of allocable private space and shares in 2% of M&O costs. However, per the lease agreement, this share is scheduled to increase to 3% beginning in FY 2011. Revenues or other income that the RJC generates, such as metered parking revenue or fees for employee badges, are to be offset against M&O costs for each entity according to these same ratios. As outlined in figure 1 below, total M&O costs have declined significantly from FY 2008 through FY 2010, in line with the County's cost control measures.

Figure 1: Regional Justice Center Maintenance & Operations (M&O) Costs



The Clark County Department of Finance (Finance) is responsible for budgeting and accounting for RJC M&O. In FY 2006, when the RJC opened, the County established an internal service fund to account for the revenues, other income, and costs associated with RJC M&O. In general, budget estimates for RJC M&O are developed annually in accordance with the normal County budget process. This process is based on iterative conversations with RPM and District Court staff regarding M&O needs and available resources. The results of the budgeting process are reflected in preliminary, final, and amended budget documents. Through this process, Finance will also estimate the City and State share of RJC M&O costs. The results of these estimates are communicated to the City and the State respectively prior to the beginning of the forthcoming FY. The City and State are billed quarterly for their estimated share of M&O cost over the course of the FY. After the County's financial statements are presented to the Board of County Commissioners (BCC), Finance will reconcile the estimated costs and actual costs for RJC M&O in the prior FY. Once this reconciliation is completed, the next quarterly billing amount in the current FY will reflect an adjustment to actual costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether:

- Billings to the City of Las Vegas and State of Nevada for their share of RJC M&O costs were reasonable and proper.
- M&O costs assigned to the RJC M&O fund were reasonable and proper.

To achieve our objectives, we examined data and documentation, and interviewed officials from the Comptroller's Office, RPM, and the District Court. We examined revenues and other income posted to the RJC M&O fund to determine if the revenue was appropriately assigned to the RJC M&O fund. We recalculated the amounts due from the City and State based on established formulas, as well as actual expenses and actual revenues and other income assigned to the RJC M&O fund in the accounting system. We compared these amounts to actual receipts from the City and State. We agreed this accounting data to RJC M&O fund data published in Comprehensive Annual Financial Reports (CAFRs) for FY 2006 through FY 2009, and preliminary FY 2010 CAFR data. In addition, we judgmentally selected, on a sample basis, \$569,220 in FY 2010 M&O services and supplies expenditures (13 percent of FY 2010 services and supplies expenditures) for detailed testing. We generally selected this sample from expense accounts that showed an increase from FY 2009 to FY 2010, despite the overall decline in RJC M&O costs during that period. As part of our testing, we made a determination on whether the expenditure was reasonably and properly assigned as an RJC M&O expense. Finally, we examined personnel whose salary, wages, and benefits were assigned to the RJC M&O fund to determine whether these persons were appropriately assigned to the fund. Our procedures covered the period July 1, 2009, to June 30, 2010 and our last day of fieldwork was December 6, 2010.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Overall, we found that some policy and procedure adjustments are necessary in order to assure billings to the City and State for their share of RJC M&O costs are reasonable and proper. First, certain payments received from the State should not be included when calculating the State and City share of RJC M&O costs. These payments are intended to offset the County's cost of financing and constructing the Nevada Supreme Court space at the RJC; they are not M&O related. From FY 2006 to FY 2010, over \$2 million in these payments have been included in cost share calculations, with the effect of understating the City and State's proportionate share of costs. Second, Clark County holds a fund balance on behalf of the City to provide flexibility should the City share of costs exceed the City's budgeted share of costs. However, at over \$678,000, or over 43 percent of the City's average annual share of costs, we question whether this fund balance is greater than necessary. A target fund balance held on behalf of the City has not been established.

We found that, overall, M&O costs assigned to the RJC M&O fund were reasonable and proper. However, RPM's work order system does not account for crossover if RPM staff assigned to the RJC complete work orders outside of the RJC, and staff not assigned to the RJC complete work at the RJC. The total cost impact to the RJC M&O fund from the crossovers is minimal relative



to the size of annual costs. However, the potential for large or time consuming projects, and associated staff costs, to be assigned to the wrong fund exists.

DETAIL OF FINDINGS

Policies & Procedures for Cost Share Determinations

From FY 2006 through FY 2010, under the procedures in place for determining cost shares and administering intergovernmental billings over that period, Clark County received over \$1 million more than the estimated cost share from the City and State for their share of M&O costs. This amount is shown as the unadjusted balance held on behalf of the City and State in figure 2 below. The great majority of this amount was received from the City. However, as discussed in the following paragraphs, the unadjusted balance shown in figure 2 is significantly overstated.

Figure 2: Unadjusted Balance Held on Behalf of City & State

FY 2006 Through FY 2010 (a)	CITY (16.77%)	STATE (2%)
Total M&O Fund Expenses (b)	\$ 44,406,630	\$ 44,406,630
<i>Share of Total Expenses</i>	7,446,992	888,133
Interest Income	590,999	590,999
Other Fund Income	3,336,090	3,336,090
<i>Share of Interest & Other Income</i>	658,573	78,542
<i>Share of M&O Costs</i>		
<i>(share of expenses less share of income)</i>	6,788,419	809,591
M&O Payments Received by County	7,813,816	860,081
<i>Balance Held on Behalf of City & State</i>		
<i>(payments received less share of M&O costs)</i>	1,025,397	50,490

(a) FY 2010 accounting data as of November 3, 2010, prior to issuance of the FY 2010 CAFR.

(b) Not including depreciation expense, including FY 2007 & 2008 capital outlays.

State Payments to Offset Financing and Construction Costs

The balances shown in figure 2 above are significantly overstated because \$2,070,656 in payments received from the State should not have been used to offset the City and State share of M&O costs. These payments were for the purpose of offsetting the County's cost to finance and construct the Supreme Court space at the RJC; they are not M&O related. As a result of removing this income from cost sharing formulas as an offset against costs, the County has actually received \$678,000 more than was due from the City and State for their share of RJC



M&O costs. Figure 3 below shows the balance held on behalf of the City and State after the State payments are adjusted out of the cost sharing calculation. Substantially lower balances are held on behalf of the City and State.

Figure 3: Adjusted Balance Held on Behalf of City & State

FY 2006 Through FY 2010 (a)	CITY (16.77%)	STATE (2%)
Total M&O Fund Expenses (b)	\$ 44,406,630	\$ 44,406,630
<i>Share of Total Expenses</i>	7,446,992	888,133
Interest Income	590,999	590,999
Other Fund Income	1,265,434	1,265,434
<i>Share of Interest & Other Income</i>	311,324	37,129
<i>Share of M&O Costs</i>		
<i>(share of expenses less share of income)</i>	7,135,668	851,004
M&O Payments Received by County	7,813,816	860,081
<i>Balance Held on Behalf of City & State</i>		
<i>(payments received less share of M&O costs)</i>	678,148	9,077

(a) FY 2010 accounting data as of November 3, 2010, prior to issuance of the FY 2010 CAFR.

(b) Not including depreciation expense, including FY 2007 & 2008 capital outlays.

As these State payments are intended to offset costs incurred by the County for the financing and construction of Supreme Court space at the RJC, these payments are not M&O-related. We recommend these monthly payments no longer be included in intergovernmental cost sharing calculations. In addition, these payments are scheduled to continue on a monthly basis into 2022; we recommend that Finance determine whether these payments should be accounted for outside of the RJC M&O fund.

Fund Balance Held on Behalf of the City

As a result of removing these State payments from cost share calculations, the County held over \$678,000 on behalf of the City in RJC M&O fund balance at the end of FY 2010. According to Finance, which administered intergovernmental billings through FY 2010, a fund balance is intentional because flexibility is required. Finance has assured the City that their annual RJC M&O costs will never exceed the budgeted estimate provided by Finance at the beginning of the year. Therefore, the fund balance is available in the event that the City's actual M&O cost share exceeds what the County has received for the year.



The fund balance held on behalf of the City represents a significant amount, over 43 percent of the City's average annual share of M&O costs. In addition, a target fund balance has not been formalized with the City. We question whether the fund balance held on behalf of the City as of the end of FY 2010 is higher than necessary. Finance officials generally agreed that the current fund balance is likely too high and stated that the fund balance would be appropriately targeted at a lower amount.

We recommend Finance officials coordinate with the City to determine an agreed-upon target for fund balance and implement steps to achieve this target.

RPM Work Orders

RPM utilizes a work order control system to (1) receive requests for various maintenance, repair, and operations tasks at County facilities, including the RJC, (2) create and assign staff to the work order, (3) track progress on completion of the work order, and (4) estimate staff costs associated with the work order. In general, work orders can range from multi-day electrical or plumbing repairs to removing dangerous ice patches or spilled liquids that are called in by departments. Staff is generally assigned to various work orders according to their skill sets. However, the system provides discretion and flexibility for staff assignments should emergencies or staff or skill shortages occur in one facility or another.

Work Order System Does Not Account for Staff Crossover

RPM's work order system does not account for crossover if RPM staff that are assigned to the RJC complete work orders outside of the RJC, and staff not assigned to the RJC complete work at the RJC. Based on downloadable reports from the work order system, we tabulated over 2,400 FY 2010 work orders that involved RJC-assigned staff or occurred at the RJC (see figure 4 below).

Figure 4: FY 2010 RJC-Related Work Orders

<u>Staff Assignment</u>	<u>Work Order Location</u>	<u>Count</u>
RJC Staff	RJC	1,896
Non-RJC Staff	RJC	527
RJC Staff	Not at the RJC	43

We examined data and documentation for ten work orders in each of the three categories above. As figure 5 below shows, we confirmed several instances where such crossover occurred. Estimated staff costs included in the table are developed by RPM, typically at RPM's standard estimate labor rate of \$45 per hour. We did not evaluate the appropriateness of RPM's standard estimate labor rate.

Figure 5: Examples of Work Order Location and Staff Funding Source Crossover

RPM Work Order		Staff Assignment			Labor Cost Fund Assignment	
Number	Location	Position	Hours	Est. Amt.	Actual	Proper
<i>Non-RJC funded staff working at the RJC</i>						
40106563	Regional Justice Center	Facility Maint. Tech	4	\$ 180	1010	6840
40125799	Regional Justice Center	Facility Maint. Tech	8	540	1010	6840
40124316	Regional Justice Center	Electrician & Facility Maint. Tech	38	1,710	1010	6840
40134169	Regional Justice Center	Facility Maint. Tech	3	135	1010	6840
40114266	Regional Justice Center	Maint. & Ops Supervisor	0.5	34	1010	6840
40109423	Regional Justice Center	Facility Maint. Tech & Skilled Trades Worker	122.5	7,919	1010	6840
40134887	Regional Justice Center	Locksmith	2.5	123	1010	6840
40134023	Regional Justice Center	Plumber	24	1,080	1010	6840
40122162	Regional Justice Center	Skilled Trades Worker	8	360	1010	6840
40118145	Regional Justice Center	Skilled Trades Worker	1	45	1010	6840
40113198	Regional Justice Center	Skilled Trades Worker	4.5	203	1010	6840
<i>RJC funded staff working offsite</i>						
40123508	Clark Place Building	Skilled Trades Worker	2	90	6840	1010
40118754	Clark Place Garage	Facility Maint. Tech	1	45	6840	1010
40116778	County Parking Garage	Skilled Trades Worker	1	45	6840	1010
40105089	Old Courthouse	Skilled Trades Worker	2	113	6840	1010
40137096	Phoenix Building	Facility Maint. Tech	1	45	6840	1010
40124586	309 S. Third St.	Facility Maint. Tech	2.5	169	6840	1010

The total cost impact to the RJC M&O fund from the crossovers is minimal relative to the size of annual costs. However, the potential for large or time consuming projects, and associated staff costs, to be assigned to the wrong fund exists. Therefore, we recommend RPM develop procedures to (1) periodically examine work order data to determine whether crossovers resulted in significant costs assigned to the wrong fund, and (2) at least annually coordinate with Finance to determine if City and State M&O cost shares need to be adjusted accordingly.

APPENDIX – Management Response

MEMORANDUM
DEPARTMENT OF REAL PROPERTY MANAGEMENT

CAREL CARTER
Director

TO: Jeremiah P. Carroll II, CPA
George Stevens, Chief Financial Officer

FROM: Carel Carter, Director *Carel*

SUBJECT: Regional Justice Center Maintenance & Operations Fund Audit

DATE: January 21, 2011

This memo is Real Property Management's (RPM) written response to the Regional Justice Center (RJC) Maintenance & Operations Fund Audit dated December 9, 2010.

RPM Work Orders – Page 7

RPM will develop a procedure to periodically examine work order data to determine whether crossovers resulted in significant costs assigned to the wrong fund and will provide the information to Finance.

If you have any questions regarding these comments, please feel free to contact me at your convenience.

CC: Thomas Pickrell, Facilities Manager
File

MEMORANDUM

DEPARTMENT OF FINANCE

GEORGE W. STEVENS
Chief Financial Officer

YOLANDA KING
Director of Budget & Financial Planning

TO: Jeremiah P. Carroll II, Audit Director

FROM: Yolanda King, Director of Budget & Financial Planning 

SUBJECT: Regional Justice Center Maintenance & Operations Fund Audit

DATE: January 25, 2011

We respectfully offer the following in response to the Regional Justice Center (RJC) Maintenance & Operations (M&O) Fund Audit:

Finding: State Payments to Offset Financing and Construction Costs

Clark County has been receiving monthly lease payments from the State Supreme Court under an interlocal agreement dated July 6, 1999. We agree in that a portion of the Supreme Court's payment should have been applied to the RJC debt service. As such, an adjustment to record the Supreme Court's portion of their payment dedicated for debt payments has been made to appropriate debt service fund. As for payments received in prior years since 2006 in the amount of \$2,109,132, an adjustment will be made during the budget process to transfer the cash from the RJC Fund 6840 to the appropriate debt service fund. In addition, the cost sharing calculations have been restated to reflect the correct jurisdictional balances.

Finding: Fund Balance held on behalf of the City

In Fiscal Year 2006, the Clark County Finance Department worked with the City of Las Vegas (City) to develop a payment methodology that would insulate the City from any unexpected significant budget increases arising from the RJC operations. It was agreed that the City would pay the budgeted amount quarterly. Upon completion of the County's financial statements, a reconciliation of actual payments and actual costs is performed. If the City overpaid, one of the quarterly payments in the preceding year would be reduced accordingly. Conversely, if the City underpaid, the underpayment would be reflected in the budgeted amount for the following fiscal year. Given the timing of when overpayments or underpayments adjustment occur, it is necessary for the County to maintain a reasonable cash balance. However, as suggested we will coordinate with the City to determine what the appropriate cash balance held on behalf of the City should be.

cc: George W. Stevens, CFO
David Dobrzynski, Manager of Accounting Services