



# Audit Department

500 S Grand Central Pky Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120  
(702) 455-3269 • Fax (702) 455-3893

Jeremiah P. Carroll II, CPA, Director • Charles W. Kendall, CPA, Audit Manager



February 15, 2006

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

Dear Mr. Reilly:

Pursuant to Audit Department policy, we performed follow-up procedures on findings from the Clark County Leased Building Audit dated June 29, 2004. This follow-up letter should be read in conjunction with the original audit. The follow-up procedures performed included interviews with responsible parties and an examination of related documentation. This follow-up engagement does not represent a complete reexamination of leased buildings.

The auditor's role in follow-up reviews is to compile corrective actions taken from affected department/division management, assess whether these responses are adequate or not adequate to correct reported deficiencies, and relay those findings to management. It is the department management's responsibility to decide if any appropriate action should be taken in response to reported audit findings. It is also their responsibility to assume the risk by not correcting a reported condition because of cost or other consideration.

The results of our follow-up review showed that of the recommendations requiring follow-up attention from the Clark County Leased Building Audit, three recommendations have been implemented, one partially implemented, and three have not been implemented.

Although, RPM in conjunction with the Recorder's Office attempted to relocate to a suitable storage building, we observed that the new location does not provide a sufficiently controlled and stable environment or security for either the preservation or safeguarding of permanent historical documents. We recommend that a suitable storage be located.

The results of our procedures further found that payments had not been made since the inception for two leases we selected for examination. As of January 31, 2006, the County owed monthly lease payments of approximately \$60,500 on one lease and approximately \$8,900 on the second lease. An additional \$19,354 for tenant improvements was also owed on the second lease we examined. We additionally noted that lease payment increases and charges for common area maintenance and operating expenses are not always adequately reviewed prior to payment.

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Mr. Thom Reilly  
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A summary of the results of our examination is attached. The assistance and cooperation of the Real Property Management staff is recognized and appreciated.

Sincerely,

/s/ Jeremiah P. Carroll II

Jeremiah P. Carroll II, CPA  
Director of Audit

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**CLARK COUNTY  
LEASED BUILDING AUDIT  
FINDINGS, RECOMMENDATIONS, AND CORRECTIVE ACTION TAKEN**

Item #	Audit Finding	Recommendation	Fully Implemented	Partially Implemented	Alternate Means Employed	Not Implemented
<b>Unoccupied Leased Property</b>						
#1	A six-month period of vacancy and overlapping rental payments appears excessive when unoccupied space occurred when County employees were transitioned to the Atrium building and employees from state Child Welfare were integrated. We further noted that documentation to adequately support the decision to incur these costs was not available. Additionally, the decision was not made through the space leasing process as outlined in the administrative guidelines. Although the decision to incur these costs may have been necessary, without documentation, we are unable to lead to this conclusion. We feel that costs related to the overlapping rental payments could potentially have been minimized.	We recommend that the departments use the appropriate committees, as established by county management through administrative guidelines, to enable the committees to review changes in use of space and to continuously monitor remaining unoccupied property. Additionally, procedures for creating and retaining records of the decision-making process should be established in order to provide conclusive support for results, which may otherwise seem unwarranted.	X			
<b>Inappropriate Use of Space</b>						
#2	At the request of the Recorder's office, space was leased effective April 17, 2001, that was used to store documents. We questioned the use of the office building for document storage. We feel that the office space should not have been used as a storage facility. We further noted that the security in the building was not adequate to properly safeguard the Recorder's documents stored in the building.	As a result of our questioning the Recorder's use of office space, RPM had coordinated with the Recorder to transfer to another, more appropriate location, as of March 31, 2004 (the expiration date of the erroneous lease). Based on our subsequent events review, we noted that a BCC- approved lease that includes increasing space to accommodate growth was entered into on February 27, 2004. The newly leased space, at \$1.65 per square foot, provides tenant improvements for an environmentally controlled area, common area maintenance charges, and operating charges at a cost that is relatively less than was previously paid at \$2.21 per square foot.		X		

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<b>Space Planning Committee</b>						
#3	Discussions with RPM personnel disclosed that the SIR forms are not consistently submitted to RPM by county departments in accordance with county guidelines. When this occurs, RPM does not have the opportunity to participate in the leasing process, and the guideline becomes ineffective. As well, the goal of centralizing these types of functions in RPM is not accomplished. Additionally, RPM has not implemented procedures to maintain a copy of the form in the lease files as evidence that procedures, as established in county guidelines, were followed. The guideline has been ineffective at times, as approval for funding of leases by the Finance Department may occur prior to submitting a proposal for review to RPM or the Space Planning Committee.	We recommend that the guidance established by county management be followed by those involved in the process of leasing space, including affected departments, or that county management change the guidelines and consider the participation of the Long Range Planning Committee. Evidence that the guidance has been followed, such as a copy of the SIR form in the lease files and minutes of meetings, should be maintained. We further recommend that the lease process include procedures that preclude departments from negotiating leases without proper use and space planning, as established by county guidelines, and proper contract negotiations with the participation of RPM.	X			
<b>Lease Approvals</b>						
#4	We examined ten lease files and noted that one lease agreement amended to increase the leased space for use by the District Court was not approved by the District Attorney's Office. We further noted that leased space in another building for use by the District Attorney's Satellite Office continued to be occupied after the lease agreement expired. The nature of this error contributes to the problematic leasing process. The error also demonstrates how guidelines are not followed and how the exclusion of involvement of the Space Planning Committee and RPM can occur.	We recommend that all lease agreements and subsequent amendments be submitted in writing to the District Attorney's Office for approval and signature, using the same process established for all leases for approvals and signature, as prescribed by Clark County Guideline, No. 14. All lease agreements over \$25,000 should be submitted to the BCC for approval. We further support the Purchasing and Contracts Division's suggestion that RPM be included as part of the required approvals on purchase order requisitions.	X			

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<b>Lease Payment Increases</b>						
#5	Lease payment increases in accordance with lease provisions were erroneously adjusted for two of the ten lease agreements we examined. Although RPM has attempted to maintain the responsibility of calculating lease payment increases and notifying departments, procedures for these processes were implemented subsequent to the audit period. However, RPM is not able to determine whether these payments were made correctly or on a timely basis, as RPM does not have access to payment information. RPM is also not responsible for processing payments.	Since it is the intent of County management to centralize management of leases through RPM, we recommend that RPM fully implement procedures for calculating and informing departments of lease payment increases. RPM should also investigate the possibility of obtaining reports for lease payments made in order to properly calculate adjustments and increases.				X
<b>Common Area maintenance and Operating Charges</b>						
#6	Of the ten leases we examined, eight of these included terms where the County is responsible for some aspect of the maintenance and for payment of CAM and operating charges. However, we did not find sufficient evidence in the lease file that CAM and operating charges were adequately reviewed by RPM. We generally found that payment was made based on billed amounts.	We recommend that CAM and operating charges be either audited by the County or that these be audited by an external auditor. We further recommend that RPM maintain the central responsibility of reviewing the adjustment and notifying departments of the correct adjusted payment amount.				X

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<b>Late Payments</b>						
#7	<p>Lease payments are the responsibility of the County departments, and not RPM, with the exception of some leased property that is authorized for payment by the Budget Division of the Finance Department. We analyzed 144 lease payment transactions and determined that 33 percent of payments were late an average of 21 days with an average payment amount of \$7,000. Although some lease agreements contain provisions for late fees, we did not note any late fee charges.</p>	<p>We recommend that departments coordinate efforts with the Comptroller's Office to process lease payments in a timely manner.</p>				X