Table of Contents

An Audit Report on Management Controls at the General Services Commission

August 1997

Key Points of Report

Executive Summary 1

Overall Assessment 3

Failure to Correct Long-Standing Problems Indicates Ineffective Oversight and a Lack of Accountability 4

Operations Routinely Violate Statutes, Policies, and Sound Business Practices 9

State Rules and Sound Business Practices Have Been Frequently Bypassed in the Procurement of Construction Services 10

Agency Management Has Failed to Maintain Fees as Required by Statute 13

Merit Increases Have Been Awarded Without Current Evaluations, and Reclassifications Have Not Complied With Statutory Requirements 13

The Commissioners, Executive Management, and Agency Staff Do Not Have Adequate Information for Decision Making 16

Lack of Intra-Agency Coordination and Communication Put the Agency at Risk of Making Decisions Based on Inaccurate Information 17

Agency Management Has Not Established Validated and Consistent Methodologies for Some Procurement and Pricing Decisions 19

Table of Contents, concluded

Information Systems Do Not Provide Adequate and Timely Information Needed to Monitor Agency Performance 22

Improvements Are Needed in Some Key Processes to Ensure Efficient and Cost-Effective Delivery of Goods and Services 23

Recent Efforts to Improve Project Management of Construction and Architect/Engineer Services Should Be Enhanced 24

Enhance Tracking and Use of Vendor Performance Information 26

Appendices

1 - Objective, Scope, and Methodology 29

2 - Summary of Previous Audit Findings 34

Key Points of Report

An Audit Report on Management Controls at the General Services Commission

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Overall Conclusion

The Commissioners and Executive Management of the General Services Commission (Agency) have not provided sufficient direction, support, and oversight to ensure that long-standing operational problems have been corrected. An overall lack of accountability has resulted in routine circumvention of statutory requirements, pricing and procurement decisions based on incomplete and inconsistent information, and practices that limit the effectiveness and efficiency of services provided to external agencies. The Agency serves and supports over 700 state entities by providing a wide range of services.

Key Facts and Findings

- Despite the fact that many of the weaknesses discussed in this report have been repeatedly identified as problem areas, implementation of improvements remains primarily crisis-driven. The seriousness and repetitive nature of these issues indicates that the Agency's efforts to improve operations have been incomplete and have not sufficiently addressed the root causes of the problems. The Commissioners and Executive Management must provide sufficient direction and oversight to ensure accountability for changes.

- The Agency has routinely ignored or circumvented statutory requirements, agency policies, and sound business practices governing many of the services it provides. Regular override of sound practices in the procurement of construction services limits the Agency's ability to spend tax dollars wisely.

- The Commissioners and Agency management often do not have the appropriate information for decision-making. Lack of intra-agency coordination, consistent and validated methodologies, and adequate information systems has resulted in procurement and pricing decisions based on inconsistent and incomplete information.

- In its role as a support agency, the General Services Commission should be more aggressive and proactive in providing good customer service, as well as improving the economy and efficiency of the various services it provides. Inadequate management of construction and architect/engineer service contracts has resulted in project delays, price escalations, and strained relations between the Agency and the entities it serves. Additionally, the State continues to do business with poorly performing vendors because the Agency does not consistently use information on past vendor performance in the procurement process.

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THE STATE OF TEXAS STATE AUDITOR

Office of the State Auditor

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This audit was conducted in accordance with Government Code, Section 321.0133.

Executive Summary

The lack of sufficient direction, support, and oversight from both the Commissioners and Executive Management of the General Services Commission (Agency) has resulted in:

- Routine circumvention of statutory requirements
- Pricing and procurement decisions based on incomplete and inconsistent information
- Practices that limit the effectiveness and efficiency of services provided to external agencies

The majority of these problems have been previously identified by either the State Auditor's Office, the Agency's Office of Internal Audit, or the Comptroller of Public Accounts. The repetitive nature of these issues indicates that the Agency's efforts to improve operations have been incomplete and have not sufficiently addressed the root causes of the problems.

The General Services Commission served and supported over 700 state entities in fiscal year 1996 by providing a wide range of services, such as:

- Managing new construction projects and facility improvements for projects with estimated total costs of over $460 million
- Procuring and/or overseeing agency procurement of supplies, materials, services, and equipment totaling over $789 million
- Obtaining lease space and managing over 1,441 leases with an annual cost of approximately $112 million

Failure to Correct Long-Standing Problems Indicates Ineffective Oversight and a Lack of Accountability

Both the Commissioners and Executive Management actively acknowledge the need for improvements in operations. However, problems persist because management and staff have not been held accountable for actively identifying solutions and fully implementing prior recommendations to improve operations.

Without accountability and changes in management's operating style and philosophy, long-standing problems will continue. The Agency's ability to adequately resolve historical problems has been hindered by the following:

- Sufficient and timely action has not been taken to correct known problems.
- Lack of support and accountability have stalled agency initiatives to improve operations.
- Organizational changes have not been adequately planned or evaluated.

In order to truly resolve the weaknesses cited in this report, the Agency must begin to look beyond the immediate problems for causes and solutions. To make comprehensive changes to its operations, the Agency must implement corrective actions that will not only address existing problems, but will also provide reasonable assurance that the same mistakes are not repeated in the future. Making isolated changes to independent functions will not provide assurance that the root causes of pervasive problems have been identified and corrected.

Operations Routinely Violate Statutes, Agency Policies, and Sound Business Practices

Management and staff have routinely disregarded or circumvented statutes, policies, and sound business practices. When statutory and agency requirements are ignored, the Agency risks exposure to inappropriate transactions, noncompetitive pricing, and legal liability. While the deviations range from minor infractions to intentional override of established policies, the extensive pattern of noncompliance raises questions concerning the Agency's ability to effectively and efficiently provide services. The examples in this report highlight compliance problems in the following areas:

- Procurement of various construction services
- Analysis of rates and fees charged to external agencies for services
- Merit raises and reclassification of Agency personnel

The Commissioners, Executive Management, and Agency Staff Do Not Have Sufficient Information for Decision Making

The Commissioners, Executive Management, and Agency staff all indicated that they do not have adequate information to make decisions. The Commissioners need complete and accurate information when making procurement decisions on the public's behalf. Likewise, Agency management needs reliable, timely information to carry out operations.

Improvements Are Needed in Some Key Processes to Ensure Efficient and Cost Effective Delivery of Goods and Services

In its role as a support agency, the General Services Commission should be more aggressive and proactive in improving the economy and efficiency of the various services it provides. Specifically:

- Project management of construction services continues to be ineffective.
- The State continues to do business with poorly performing vendors because the Agency does not consistently use information on past vendor performance in the procurement process.

Overall Assessment

The Commissioners and Executive Management of the General Services Commission (Agency) have not provided sufficient direction, support, and oversight to ensure that long-standing problems have been corrected. As a result, in some cases, management and staff have not been held accountable for improving operations. Sections 1 through 4 of this report highlight problems resulting from this lack of accountability, including:

- Circumvention and override of policies and sound business practices intended to protect the State's interests

- Lack of intra-agency coordination, consistent and validated methodologies, and adequate information systems

- Inability to ensure efficient and cost effective delivery of some goods and services

The weaknesses included in this report have been repeatedly identified in both internal and external reports, such as:

- *A Review of Management Controls at the General Services Commission*, SAO Report No. 92-079, March 1992

- Reviews by the Agency's Office of Internal Audit of the Design, Construction and Leasing Division and other related divisions; 1995, 1996, and 1997

- The Comptroller of Public Accounts' Review of Procurement Practices, December 1994

This history of problems has created significant risks and challenges to the Agency's ability to effectively and efficiently provide goods and services to the State. The General Services Commission served and supported over 700 state entities in fiscal year 1996 by providing a wide range of services, such as:

- Managing new construction projects and facility improvements for projects with estimated total costs of over $460 million

- Procuring and/or overseeing agency procurement of supplies, materials, services, and equipment totaling over $789 million

- Obtaining lease space and managing over 1,441 leases with an annual cost of approximately $112 million

Section 1:

Failure to Correct Long-Standing Problems Indicates Ineffective Oversight and a Lack of Accountability

Both the Commissioners and Executive Management actively acknowledge the need for improvements in the General Services Commission's (Agency) operations. However, problems persist because management and staff have not been held accountable for actively identifying solutions and fully implementing prior recommendations to improve operations. Identification and implementation of corrective actions have been primarily piecemeal and crisis-driven.

Agency efforts have resulted in improvements to some individual processes. For example:

- The process for soliciting bids from vendors was streamlined, resulting in a projected savings of $33,000 for the first year. This suggestion was submitted by the Central Procurement staff, and was approved for an award by the Texas Incentive and Productivity Commission.
- In the Design, Construction and Leasing Division, a full-time, schedule-monitoring position has been recently created to better manage planning and construction schedules.
- Formal rules were adopted in June 1997 to establish an agencywide system for handling complaints from consumers, service recipients, and contractors.
- A process improvement initiative in the Executive Business Administration Division resulted in the implementation of an electronic purchasing system, credit card purchasing system, and internal training program.

Although the effectiveness of the changes listed above have not been evaluated, these efforts indicate that the Agency has attempted to address some of the problems.

Despite the improvements to individual processes listed above, the overall Agency culture and operating environment have not changed. As a result, larger-scale, agencywide weaknesses have not improved. The seriousness of the issues included in this report indicate weaknesses in the Agency's overall control environment. Without accountability and changes in management's operating style and philosophy, the long-standing problems will continue.

We found that several overriding weaknesses hinder the Agency's ability to adequately resolve historical problems:

- **Sufficient and timely action has not been taken to correct known problems.** The majority of the overriding, cross-cutting weaknesses cited in this report have been repeatedly identified by either the State Auditor's Office, the Agency's Office of Internal Audit, or the Comptroller of Public Accounts. (See Appendix 2). Cross-cutting weaknesses are deficiencies which are pervasive across organizational lines, and represent the underlying, or root causes for identified problems.

Problems have persisted because management and staff have not been held accountable for ensuring that appropriate corrective actions have been implemented in a timely manner. The repetitive nature of operational problems indicates that the Commissioners and Executive Management have not fully recognized the seriousness and extent of the weaknesses in the Agency's control environment. As a result, attempts to improve operations have been incomplete and have not sufficiently addressed the root causes of the problems.

For example, four Agency internal audit reports issued between February 1995 and March 1997 indicate serious weaknesses in the Agency's management of construction projects and related services. However, many of the Office of Internal Audit's recommendations are not yet fully implemented. As a result, we found that serious weaknesses still exist in the Design, Construction and Leasing Division. (See Sections 2-A and 4-A for additional discussion.)

Furthermore, the pattern of weaknesses cited in previous Agency internal audit reports has not been used to identify and address cross-cutting weaknesses within the Agency. Eleven out of the 13 internal audit reports issued between fiscal years 1995 and 1997 identified problems related to various divisions' and sections' compliance with Agency policies and state requirements. Yet, we found disregard and circumvention of policies and state requirements are still common across the Agency.

- **Lack of support and accountability have stalled Agency initiatives.** Executive Management recognizes the need for improvements. However, programs and initiatives initiated by the Agency to improve operations have stalled without effecting substantial change. Discussions with Executive Management in October 1996 indicated that the most recent initiative to improve Agency operations was making significant progress towards change. However, as of the end of May 1997, no major changes in operations had resulted from the recommendations of the initiative teams, and team meetings had stopped.

The Agency's most recent initiative resulted from an August 1996 management retreat. At the retreat, executive and division managers identified the four most significant goals as:

- Improve level and quality of customer service. (Customer Service Team)

- Develop more proactive versus reactive strategies. (Strategic Planning Team)

- Improve inter-departmental communications and relationships. (Information Sharing Team)

- Create effective results from the 75th Legislature. (Legislative Team)

Four teams were formed to address the goals and develop recommendations to improve operations. The Legislative Team developed and implemented a plan that resulted in Agency management and staff actively monitoring and participating in the 75th legislative session. However, review of the other three initiative teams' status reports submitted in December 1996 indicated that the teams focused mainly on barriers rather than possible solutions to improving operations. For example, the Customer Service Team focused on the Agency's inability to provide rewards and compensation to its employees as the barrier to providing quality customer service.

Similarly, a Total Quality Management process initiated in 1995 has not resulted in significant changes in agency operations. According to staff, a lack of communication with Executive Management and between project teams caused frustration and disenchantment among employees. For example, Executive Management did not communicate the budget constraints and other management priorities, resulting in the rejection of team recommendations which were not within the parameters desired by Executive Management.

Significant changes will not occur until all initiatives to improve operations, such as those mentioned above, are fully supported and emphasized by both the Commissioners and Executive Management.

- **Organizational changes have not always been adequately planned or evaluated.** Management has reacted to problems with personnel and in operations by making organizational changes that have not always been sufficiently planned or evaluated. For example, the Facilities Planning function has been reorganized twice over the last six months, and three times in the last two and one half years (see Table 1).

Table 1

Time Frame	Facility Construction and Space Management Organizational Change
Prior to February 1995	Planning (Space Management) under Design, Construction and Leasing
February 1995	Planning separated from Design, Construction and Leasing
December 1996	Planning put under Design, Construction and Leasing again
June 1997	Planning separated from Design, Construction and Leasing

Additionally, some organizational changes have resulted in staff members receiving assignments beyond their area of expertise. For example, the Facilities Design and Construction Division is responsible for planning and administering major construction projects for the Agency. However, when this division failed to plan for a $4.7 million space consolidation project in a timely manner, Executive Management charged the Facilities Planning Division with executing this project, even though the Planning Division's staff was not trained or experienced in project management. As a result, the procurement method used by the Planning Division omitted critical controls designed to protect the State's interests. This omission exposed the State to risks such as being overcharged on change orders and legal liabilities if the contractor defaulted. (See Section 2-A for additional details.)

Recommendation:

In order to truly resolve the weaknesses cited in this report, the Agency must begin to look beyond the immediate problems for causes and solutions. To make comprehensive changes to its operations, the Agency must implement corrective actions that will not only address existing problems, but will also provide reasonable assurance that the same mistakes are not repeated in the future. Making isolated changes to independent functions will not provide assurance that the root causes of pervasive problems have been identified and corrected.

- From the Commissioners down, the General Services Commission must develop a clear chain of agencywide accountability to ensure that appropriate improvements are made to operations. Responsibility for implementing changes should be assigned, and those responsible should be held accountable.

  - The Commissioners must be held accountable for setting policy and ensuring that the Agency is meeting its mandate or mission. The Commissioners play a major role in defining expectations and should confirm expectations through oversight activities. They should be objective, capable, inquisitive, and have a working knowledge of the Agency and its environment.

    Pursuant to the oversight role, the Commissioners should make sure that Executive Management establishes and maintains controls to ensure the best use of state resources, but should not involve themselves in day-to-day management decisions. The Commissioners should ensure that Executive Management takes the appropriate actions to implement the recommendations to improve operations.

  - Executive Management must be held accountable for implementing policy set by the Commissioners. In doing so, Executive Management must assign responsibility, authority, and accountability to division management and staff to ensure that necessary changes are actually implemented, and take appropriate personnel actions when staff members do not fulfill their responsibilities.

- Division management should be held accountable for the operations of the department or program. Division managers should have a clear understanding of their roles, responsibilities, and authority.

• The General Services Commission should develop a more comprehensive and structured process for addressing problem areas across organizational lines. As a starting point, the Commissioners and Executive Management should use internal and external audit reports as a tool to assess the nature and extent of problems on an agencywide basis.

  Proposed improvements must be carefully planned and evaluated to ensure that the changes address the root causes of problems, not just the symptoms or effects of the problem. The basic framework should include the following steps:

  - Develop and prioritize strategies for establishing and implementing a system of management controls that will provide reasonable assurance that the Agency's goals are achieved, its assets are safeguarded, its management decisions are based on reliable data, and it is complying with state statues and agency rules.

  - Evaluate and identify alternative methods to achieve objectives. Formal reorganization is only one of many options for changing the way an entity operates. Cross-functional teams can also be used to align similar functions occurring within different divisions. Formal reorganizations, when they are necessary, should be fully analyzed, planned, and carefully implemented. A formal analysis of the costs and benefits associated with the proposed changes should be considered.

  - Develop task-specific work plans for those changes that are identified as highest priority. Development of the work plan should include identification of tasks and determination of resource needs.

  - Establish milestones and specific dates for implementation of necessary changes. Consistently monitor results to ensure that changes have actually improved operations. Take appropriate action when progress is not made towards milestones.

  - Monitor, report on, and adjust implementation of these plans on a regular basis. Alter plans, strategies, and the design of the new management control systems as needed.

<u>Management's Response</u>:

Management concurs with the audit recommendation that key processes controlling internal accountability and oversight measures need improvement.

- *Executive management has initiated the process of assessing the root causes of agency-wide problems.*

- *Executive management will develop and prioritize strategies for establishing and implementing a system of management controls which will provide assurance that the agency's goals will be achieved, its assets safeguarded, and it is complying with state statutes and its own rules.*

- *Executive management will review internal and external audit reports to help identify the nature and extent of the problems. In addition, an agency needs analysis will be performed by February 1, 1998 (See Management Response 3-C). Implementation of the needs analysis findings will ensure management decisions are based on the appropriate data.*

The planning process will begin with the development and implementation of a Master Schedule which will include milestones and specific dates for implementation. The Master Schedule will be completed by February 1, 1998. Some of the specific actions executive management is taking to ensure accountability at all levels are the development, implementation, and/or monitoring of:

Commission Procedures
Agency Rules
Agency Operating Procedures
Division Action Plans
Division Internal Procedures
Employee Performance Evaluations

(See also Management Response 4-A)

Section 2:

Operations Routinely Violate Statutes, Policies, and Sound Business Practices

Management and staff have routinely disregarded or circumvented statutes, polices, and sound business practices. Some functional areas completely lacked policies. When state and Agency requirements and sound business practices are ignored, the Agency risks exposure to inappropriate transactions, noncompetitive pricing, and legal liability.

Agency internal audit reports issued over the last two years have pointed out instances of circumvention and/or noncompliance with Agency policies and/or state requirements in the following divisions:

- Telecommunications
- Fiscal
- Support Services
- Design, Construction and Leasing
- Environmental Programs
- Facilities Planning
- Inspections

Likewise, we identified numerous situations where the Agency has ignored policies, procedures, and sound business practices across divisional lines. The examples in this report highlight compliance problems in the following areas:

- Procurement of various construction services
- Analysis of rates and fees charged to external agencies for services
- Merit raises and reclassification of Agency personnel

While the deviations range from minor infractions to intentional override of established policies, the extensive pattern of noncompliance raises questions concerning the Agency's ability to effectively and efficiently provide services. For example, the Agency is responsible for statewide facility planning and space allocation. State statute prohibits the Agency from allocating usable office space to a state agency that exceeds an average of 153 square feet per employee for each site. However, the General Services Commission itself is not in compliance with the requirement as it currently occupies an average of 175 square feet per employee.

Section 2-A:

State Rules and Sound Business Practices Have Been Frequently Bypassed in the Procurement of Construction Services

Procurement of construction services has routinely disregarded statutes, policies, and sound business practices. Management and staff's override of procurement requirements compromises the objectivity of the contractor selection process and limits the Agency's ability to spend tax dollars wisely. As of June 1997, the Design, Construction and Leasing Division had 55 projects in progress valued at over $224 million. In addition, the 75th Legislature just authorized over $121 million in new projects that will be subject to the Agency's oversight during the next biennium.

Examples of the widespread weaknesses identified in the procurement of construction services include:

- **Procurement process for raw land did not follow sound business practices.** Current state statutes and Commission rules do not contain specific requirements for the procurement of raw land. As a result, inconsistencies in the process used to procure land for a $21.4 million new construction project raised questions both internally and externally regarding the integrity of the selection procedure. Our review of the transaction indicated that:

  - Objectivity of the selection process may have been impaired by extensive negotiations prior to the final Request For Proposal (RFP) process.

  - Competition was restricted by limiting the pool of respondents in the final competitive selection process to properties located within a specifically defined geographical area of town.

  - The lack of an established procurement methodology based on best business practices resulted in delays and decisions based on incomplete information.

  The Commissioners allowed the procurement to move in and out of the competitive process over a period of 28 months. In November 1994, the Agency issued a Request For Proposal (RFP) for buildings, but then considered unsolicited offers for 18 months before finally canceling the initial RFP in October 1996. In November 1996, the Agency finally issued a second RFP, after receiving legislative direction that a new RFP process would be in the best interests of the State. This is supported by the fact that the price of the raw land selected decreased almost 50 percent from the non-competitive negotiations to the second RFP process.

  The objectivity of the final selection process may still have been compromised by the extensive negotiations held with property owners prior to the issuance of the second RFP. Furthermore, the extremely tight geographical limitation in the final RFP restricted competition so severely that it prevented the Agency from obtaining alternative property at a lower price by eliminating other viable properties from consideration. As a result, the State may not have received the best value.

- **Procurement requirements for professional services have been bypassed by both staff and management.** In December 1995, Agency staff authorized the commitment of work by architectural design firms for two space consolidation projects without going through the required qualification and selection process. When Executive Management became aware of the situation it ordered work already in progress to be halted while an emergency selection process was started.

In the subsequent emergency selection process, proposals were evaluated by a technical selection committee in accordance with Agency requirements. The top four firms, ranked in order of qualification, were recommended to Executive Management. Although one of the firms initially contracted with was ranked first, Executive Management directed staff to select the fifth- ranked firm for one of the two projects. The base contract awarded to the fifth- ranked firm was for more than $130,000. This firm subsequently delivered a poor quality set of plans and specifications, filled with errors and omissions, that contributed to the scope of work increasing 43 percent, or over $393,000. In addition, the Agency had to pay over $11,000 to the firms initially selected for work performed without a contract.

Additionally, we were unable to determine compliance with the architect/engineer selection process in 14 of the 16 contract files reviewed because of the lack of supporting documentation. The construction projects affected by these contracts totaled over $11 million. The lack of documentation in the architect/engineer selection process was also cited as a problem in an April 1996 Agency internal audit report. It is critical that the selection process be thoroughly documented to avoid any appearance of favoritism.

- **Statutory procurement requirements were violated when additional charges for construction services were added to a purchase order.** Staff bypassed the competitive bid process when it increased a $128,000 demolition contract by $670,000 for new construction and renovation on the project.

  Purchasing rules are very specific and narrow in scope about how work can be added to an existing purchase order. Statutory requirements were violated because the additional work should have been procured through a competitive bidding process, not added to an existing purchase order.

- **Statutory requirements designed to protect the State's interests have sometimes been ignored.** One contractor was not required to furnish performance and payment bonds although construction services payments totaled over $848,000. State statute requires contractors to furnish the State payment bonds on all public construction projects valued over $25,000. Performance bonds are required for all projects over $100,000. Bonds provide protection for the State in the event that the contractor defaults or does not pay all of its subcontractors and/or material suppliers.

A new Director was hired for the Design, Construction and Leasing Division in November 1996 to reorganize and ensure adequate contract administration controls are in place to manage construction projects. However, the Director has been consumed with crisis management in addressing the lasting implications of previous management's long-standing, deep-rooted problems, and has had little time to focus on implementing a new system of management controls.

Section 2-B:

Agency Management Has Failed to Maintain Fees as Required by Statute

Some fees charged to external agencies and the public for various goods and services have not been regularly evaluated and adjusted in accordance with statutory requirements. Without regular analysis, the Agency cannot determine if external customers are overcharged or undercharged for services, and does not have sufficient information to use in the budget process. Approximately 32 percent of the Agency's budget is financed from revenues received from providing goods and services, primarily to other state agencies. The Agency operates eight full cost-recovery functions which collected over $65 million in fiscal year 1996. These functions are spread throughout many different divisions within the Agency. In addition to these full cost-recovery areas, the Agency also collects revenue through interagency contracts, publications, and other miscellaneous products.

Rates for three of the six full cost-recovery functions tested had not been reviewed for at least two years. For example, the State Surplus Division has not analyzed its rates since 1987. The State Surplus Division managed over $7 million in sales of surplus property during fiscal year 1996. Review of state surplus property files indicated that the fees collected from purchasers on 24 of the 30 (80 percent) sealed bid sales did not even recover postage and paper costs, much less other administrative costs associated with the sale such as salaries. This also violates an additional statutory requirement which requires that the fee charged to purchasers of state surplus property be sufficient to recover the costs associated with the sale.

Furthermore, our review of sealed bid sales transactions indicated that only approximately 3 percent of the original property acquisition price was obtained from the bids in the sample. The Agency asserts that sales of state surplus property at public auctions is cost-effective and makes up for the losses covered by the sealed bid process. However, this should not prevent the Agency from considering alternatives to the sealed bid process for the more cost effective disposal of state surplus property.

Section 2-C:

Merit Increases Have Been Awarded Without Current Evaluations, and Reclassifications Have Not Complied With Statutory Requirements

Agency personnel from various divisions circumvented existing policy that prohibits merit raises from occurring without performance evaluations. Review of personnel files indicated that 37 employees received merit raises during fiscal year 1996, even though their performance had not been evaluated for at least two years. The Agency spent over $20 million on salaries during fiscal year 1996, and paid over $100,000 in merit funds to employees during this time frame.

Additionally, 14 out of 18 (78 percent) reclassification files reviewed did not meet statutory requirements. State statute requires formal classification audits or program reorganizations to support a reclassification. The justifications cited in many of the files were more in line with the requirements of a promotion. As Agency rules require promotions to be posted, it appears that reclassifications may have been used to avoid posting the jobs. Approximately 15 percent of the Agency's 869 FTEs were reclassified during fiscal year 1996.

State statute permits merit raises to be given to "classified employees whose job performance and productivity is consistently above that normally expected or required." By failing to link compensation decisions to job performance, management cannot ensure that only employees who have demonstrated the necessary qualifications and skills have been rewarded. Circumvention of the Agency's policy also affects employee morale and the ability of managers to hold employees accountable.

Recommendation:

The importance of adhering to statutory requirements and established policies and procedures must be emphasized to all management and employees. Management should establish monitoring and enforcement procedures to ensure that all potential instances of noncompliance are prevented or detected. To address the specific examples cited in this report section, management should:

- Comply with all state and Agency requirements for procurement of goods and services at all times. Consult the Legal Division whenever there is a question regarding the procurement of construction services.

  Develop requirements for the purchase of raw land that are based on sound business practices. As new policies are developed, each step of the process should be thoroughly documented and communicated agencywide. Contract files should be periodically audited for compliance with applicable requirements, and any deviations should be dealt with immediately.

- Evaluate rates and fees regularly in compliance with applicable regulations. Fees should be evaluated more frequently in areas with unpredictable costs. Rates and fees should be adjusted based upon these reviews.

  Identify and evaluate other options for the disposal of state surplus property.

- Ensure that merit raises are not given to employees without current evaluations and that reclassifications follow statutory requirements.

Management's Response:

2-A: *Management concurs with the audit recommendation that it should comply with all state agency requirements for procurement of goods, construction services, and the purchase of raw land.*

Procedures will be developed based on sound business practices for future purchases of raw land. These procedures will be developed by a cross-divisional team made up of staff from Legal, Project Management, Executive, Facilities Planning, and Fiscal. The procedures will be completed by November 1, 1997. To ensure compliance with the procedures, contract files will include a checklist documenting each appropriate division's review of the purchase.

The action plan to provide assurance that these recommendations are implemented will include:

- *Strict adherence to all existing purchasing policies and procedures for the procurement of construction goods and services;*

- *Purchasing training for staff with purchasing authority;*

- *GSC Central Procurement staff's involvement in the review of all construction project bid specifications;*

- *Appropriate non-compliance employee performance penalties when staff violate purchasing procedures; and*

- *Procedures for the purchase of raw land based on sound business practices. The procedures will be documented, and contract files reviewed and audited for compliance. The Legal Division will be included in the procurement of construction services process.*

2-B: *Management concurs with the audit recommendation that the agency should regularly evaluate rates and fees to ensure compliance with applicable regulations. According to Article IX, Section 71 of the current General Appropriations Act, all rates and fees charged by the GSC must undergo a formal annual review. GSC's Fiscal Management Division (FMD) will develop and publish procedures by October 1, 1997, to be utilized in the annual rates and fees review. Adjustments to rates and fees will be made when rate reviews indicate they are needed.*

In addition to developing procedures to facilitate the annual review of rates and fees, the FMD will continue to produce quarterly financial reports, prepared in accordance with Generally Accepted Accounting Principles for all full cost recovery operations. The quarterly financial data provides management with specific revenue and expenditure history enabling continuous rate and fee monitoring. The rates will be *adjusted when it is readily apparent from the operating statements that revenues exceed or fall below expenditures for the applicable period.*

Management also concurs that options for disposing of state surplus property need to be identified and evaluated. The agency will identify and evaluate other options for the disposal of state surplus property in fiscal year 1998. Identification will include survey of other states and governmental organizations to identify best practices. The agency will identify practices that are within current statutory authority that appear to optimize the disposal process. The practice will be tested to determine its viability. The agency will draft proposed legislation for the next legislative session if options are identified that require statutory change to implement.

2-C: *Management concurs with the recommendation that GSC must ensure that merit raises are not given to employees without current evaluations and that reclassifications follow statutory requirements. The Human Resources Office (HRO) has implemented a procedure to monitor all merit requests. The HRO will continue to review requests for merit increases by checking the personnel files for current evaluations. In order for an employee to be eligible for a merit increase, the employee's evaluation must have an overall rating of "5" or above on the evaluation instrument, which indicates that the employee is consistently performing in an above-average manner. The HRO will not approve merit requests that do not meet this criteria. The HRO will work to develop procedures to address requests for multiple merit increases that follow statutory requirements and ensure agency-wide consistency. This procedure will be drafted for executive approval by October 1, 1997.*

To ensure that all reclassifications are processed in accordance with statute, the HRO developed and implemented a procedure and a job audit instrument that is attached to a full job description for each position being reclassified. The HRO Director audits the position, signs the instrument, and provides the rationale for the reclassification before payroll processing. The job description, audit instrument, and Personnel Action Form are placed in the reclassified employee's permanent file. The HRO will review the current policy on reclassifications to determine if further modifications should be made to enhance its effectiveness by March 1, 1998.

Section 3:

The Commissioners, Executive Management, and Agency Staff Do Not Have Adequate Information for Decision Making

The Commissioners, Executive Management, and Agency staff have all indicated that they do not have adequate information to make decisions. The lack of quality information stems from both nonautomated issues such as the lack of intra-agency coordination and the use of inconsistent methodologies in procurement and pricing decisions, as well as inadequate automated systems. The Commissioners need complete and accurate information when making procurement decisions on the public's behalf. Likewise, Agency management and staff need reliable, timely information to carry out operations.

The Agency has not performed a comprehensive needs analysis to ensure decision makers have adequate information. While the Agency has made strides in automation in recent years, automating inefficient processes will not improve the way the Agency manages and uses its information. Development of effective information systems cannot occur without cooperation and coordination within and across divisional lines.

Section 3-A:

Lack of Intra-Agency Coordination and Communication Puts the Agency at Risk of Making Decisions Based on Inaccurate Information

The need for improvement in intra-agency communication and coordination has been a recurring issue at the Agency for many years. Communication and coordination issues identified in 1992 by the State Auditor's Office have not been adequately addressed. As a result, problems such as divisions operating as independent entities with little coordination of effort and inefficiencies due to a lack of clarity in roles/responsibilities, policies, and procedures persist. Because decisions made in one division of the Agency often impact the operations of another division, it is critical that information be communicated and coordinated within the Agency.

Although problems in this area have been repeatedly identified, Agency staff and Executive Management still refer to a need for improved communication and coordination across the Agency. An Agency information-sharing group, which was formed to provide recommendations on how to improve information sharing and interdepartmental communications, concluded in December 1996 that:

> Despite its critical importance, information often is not communicated to those who need it at GSC. For example, Executive Management has repeatedly been caught unaware of significant actions such as contract commitments and revisions, vendor payment delays, authorization of work contrary to purchasing policies, and construction delays.

Our review identified instances where the lack of communication and coordination has created the need for corrective actions or reversal of key management decisions. For example:

- A major communication breakdown occurred in December 1996 when payments of $163,618 were made to the contractor on a construction project. The Fiscal Division, unaware that the Internal Purchasing Division had canceled a purchase requisition, paid the contractor. The requisition was for extra work ordered by the project manager and was canceled by the Internal

Purchasing Division because it did not meet the criteria for adding work to an existing purchase order.

- Agency staff had to reverse its recommendation to the Commissioners on a key procurement decision in March 1997 after significant legal problems were discovered with the properties initially recommended as the site for a $21.4 million construction project. The legal barriers were not identified until after final recommendations had been made to acquire the problem properties because the Legal Division was not included in the ongoing selection process. If the legal problems had not been detected in time for staff to reverse its recommendation, the Agency may have incurred additional costs at the taxpayers' expense to remedy the legal problems.

Recommendation:

Divisions must communicate with each other when their work overlaps or is mutually dependent. Standard policies and procedures should require the Legal Division to be a part of the procurement team, and actively involved from the beginning of the procurement process. Contract files should contain checklists which document the legal review to ensure compliance. Purchase agreements for real estate and space leases should never be executed by the Agency before the Legal Division has reviewed the documents. In addition, all real estate purchase agreements should be required to be executed by the Executive Director.

Management's Response:

Management concurs with the audit comment that a lack of intra-agency coordination and communication puts the Commission at risk of making decisions based on inaccurate information. Management will develop a policy by September 1, 1997, which focuses on interdepartmental communication. The policy will require the inclusion of every division/program involved in a new or approaching project at the earliest possible time. The operating procedures of each division/program will be required to include the communication/notification that must be followed before a project can begin. This communication component should ensure that every division/program impacted, or involved in any project or process, is provided information that will enable them to properly plan and provide necessary input.

The Executive Director has instituted bi-monthly directors' meetings to provide divisions with a formal means of sharing information. The Commission has initiated a needs analysis of the capabilities for sharing information. This analysis will assist the Commission in assessing existing processes and determining opportunities for implementing change and advanced technologies. The needs analysis will be completed by February 1, 1998.

Management also concurs with the audit recommendation to develop standard policies and procedures to require the Legal Division be part of the procurement process. The practice will be formalized with the adoption of written policy and procedures by October 1, 1997. Management will ensure that all real estate purchase agreements are only executed by the Executive Director. A written policy for this procedure will be developed by September 1, 1997.

Section 3-B:

Agency Management Has Not Established Validated and Consistent Methodologies for Some Procurement and Pricing Decisions

Agency management has not established consistent, validated criteria and methodologies to calculate items such as the rates charged to external parties for services or the cost-benefits of leasing versus new construction. Decisions based on inconsistent or incomplete methodologies may result in ineffective uses of state funds. For example, the Agency is responsible for determining whether the State should invest in a facility rather than lease, or buy a facility rather than build. If the information the Agency uses to make this decision is based on a flawed or inconsistent methodology, the taxpayers may have to bear the burden of additional, unanticipated costs.

Specific problems identified include:

- **The Agency cannot agree on a consistent buy, build, or lease methodology.** The Agency lacks consistent and validated criteria to use in making critical buy, build, or lease decisions. This has resulted in a situation where from one analysis to the next, different cost elements may be included and different assumptions about costs may be used. For example, in a recent procurement for a $21.4 million construction project, staff and management each used different underlying assumptions to calculate the project's break-even point, or "payback period." The differences in the methodologies resulted in a two-year difference in the time frame needed for the State to break even and realize a positive cash flow from the construction of the state building. The Agency presented Commissioners with the results that reflected the most favorable situation, without reconciling the differences in the methodologies used to perform the analysis.

  Key factors frequently used in this type of analysis, such as a sensitivity analysis and the costs to administer the bonds, were not included in either the staff's or management's methodologies. It is imperative that the Agency establish a methodology accepted by the commercial real estate industry to enhance cost-effective decisions. This is critical to the Agency's growing role in consideration of buying, building, or leasing commercial space for state agencies.

- **Significant variations were noted in the calculations of rates for a number of organizational areas.** The Agency has not developed a consistent, comprehensive rate-setting methodology to calculate rates and charges billed to other agencies and external parties for services and goods. The lack of an established methodology results in each division interpreting costs and setting rates without considering the efficiency of its operations. As discussed in Section 2-B, the Agency operates eight full cost-recovery functions which collected over $65 million in fiscal year 1996.

  For example, the Director of the Central Store Division and the Business Machine Repair Division is paid evenly out of both the Central Store's and the Business Machine Repair's revenues. However, the Director's total salary is allocated to Business Machine Repair when calculating the rates charged for the two services. As a result, the true cost of Business Machine Repair's services is not reflected in its rates, and the Central Store's customers may be absorbing the costs of any inefficiencies in the business machine repair area. Business Machine Repair charged external agencies over $1 million for services in fiscal year 1996.

- **The advantages of volume buying have not been calculated in the past.** Prior to March 1997, the Agency had not developed formal criteria or defined procedures used to identify cost benefits of open-market versus term-contract methods of procurement. Fiscal year 1996 term-contract expenditures were $214 million. One of the advantages of term contracts is that they take advantage of volume buying to obtain lower prices. Without this type of evaluation, the Agency had no assurance that the State was taking full advantage of volume buying to obtain lower prices.

  The Central Procurement Division established a policy in March 1997 that sets forth minimum requirements, including a cost savings analysis, to be used to determine if a term contract is in the best interests of the State.

<u>Recommendation</u>:

The Agency needs to enhance its expertise in crucial methodologies, such as rate setting and cost-benefit analysis, by either acquiring the expertise in-house or contracting out for the services.

Specifically, the Agency should:

- Obtain a third-party review and establish a valid lease-versus-buy methodology. Consider obtaining the services of a professional financial analyst and/or professional real estate analyst to validate the methodology.

- Adopt a consistent rate setting methodology across the cost-recovery areas. In addition, the Agency should either provide training to those areas that manage a full cost-recovery area or consider establishing a separate cost-recovery function to ensure consistency across organizational lines. A consistently applied methodology will help the Agency analyze which areas are inefficient and need extra attention.

- Continue to refine criteria to use in the development of new term contracts and develop a system to track the necessary data. Evaluations should be routinely made in order to determine the anticipated benefits associated with volume buying.

Management's Response:

Management concurs with the audit recommendation to obtain a third party review and establish a valid and consistent buy versus build versus lease methodology. This review will be established by June 1, 1998.

Management also concurs with the audit recommendation that a consistent rate setting methodology across all cost recovery areas is needed. The Commission operates a diverse population of cost recovery activities. Some of these activities such as Print Shop and Central Store have specific operational guidelines. Within these limitations, the Fiscal Management Division will develop a rate setting methodology by October 1, 1997, to be used by all cost recovery operations. In developing a consistent rate calculation methodology, guidelines from the State Auditor's Office, the Council on Competitive Government, State Comptroller Accounting Policies, and Federal Circulars will be used as references. The methodology developed will provide the basic framework for consistent rate calculations while incorporating the flexibility necessary to accommodate the Commission's diverse activities. The methodology will be incorporated into the rate setting procedures developed for Section 2-B. Training will be provided to staff beginning no later than November 1, 1997.

Management further concurs that the agency's volume buying practices need strengthening. The Central Procurement Division established a policy which was effective in March 1997, to ensure term contracts are created in the best interest of the state. The policy requires purchasers to consistently evaluate the products and services they manage, conduct a cost savings analysis, assess customer needs, review past and future usage projections, and solicit information from the vendor community. These requirements, coupled with Division Director's approval of the solicitation prior to advertisement, ensure term contracts are in the best interest of the customer.

Section 3-C:

Information Systems Do Not Provide Adequate and Timely Information Needed to Monitor Agency Performance

Management also had difficulty accessing critical information to monitor performance and cost-effectiveness of Agency operations. The Agency primarily relies on outdated mainframe software products. Duplicative, secondary information systems have been developed as a means to compensate for deficiencies in the mainframe systems. Even with the duplicate systems, management does not always have sufficient information to make decisions and monitor performance. Currently, 91 separate systems are maintained by the Automation Division.

Prior to June 1997, the Agency did not have a viable Automation Steering Committee to coordinate technical issues. As a result, duplication of efforts, inefficiencies in operations, and increased workload have occurred within the Agency. For example:

- The Business Services Division receives hard copies of expenditure information that cannot be tied back to voucher detail information. Staff members must manually pull vouchers to obtain the financial detail needed.

- The Central Store Division receives monthly summary reports on expenditures from the Fiscal Division. However, automated information needed to track daily billings and purchases is not available. As a result, billing and purchase transactions cannot be reviewed efficiently on a daily basis to identify discrepancies and errors in transactions.

- The Facility Planning and Space Allocation Division receives monthly billing reports but cannot efficiently determine the source of revenue collected from internal billings. For example, an agency move will include services for maintenance, clean-up, wiring, and inspection. Currently, agencies receive five different bills from the Facility Planning and Space Allocation Division because there is no comprehensive billing procedures or automated system in place.

<u>Recommendation</u>:

The Agency should perform a comprehensive needs analysis to identify what information is currently available and the level of redundancies that exist in current information systems. It is crucial that information used in making key procurement and pricing decisions and for other monitoring purposes be accurate and timely.

The Steering Committee should be responsible for planning, coordinating, and allocating information resources. The Steering Committee should also provide long-term goals and monitor the costs for system implementation. The goal of the Steering Committee should be to guide the development and implementation of information systems that support the goals, programs, and services of the Agency, and to assess new and innovative ways to benefit the State. The Steering Committee should focus on changes needed to address the current duplication of effort and other inefficiencies which currently exist rather than focusing on the independent needs of divisions.

Management's Response:

Management concurs with the audit recommendation that current agency information systems do not provide adequate and timely information needed to monitor agency performance. As a means of addressing this issue, GSC will perform a comprehensive needs analysis to identify information currently available and the level of redundancies that exist in current information systems. The needs analysis will be completed by March 1, 1998. The information will then be used by the Information Resources Steering Committee to identify ways to leverage the availability of information throughout the agency, to Executive Management, and Commissioners. The Steering Committee will use the information to prioritize projects to maximize agency benefit.

The Steering Committee will be responsible for planning, coordinating, and allocating information resources. The committee will develop long-term goals and obtain executive management concurrence by November 1, 1997. Processes and procedures to increase effectiveness and efficiency in the area of information resources will be developed by March 1, 1998. The committee will also identify areas where systems can be designed and implemented to reduce duplication and increase accuracy and timeliness of data. The needs analysis will identify current duplication of effort, other inefficiencies, and opportunities for process improvement.

Section 4:

Improvements Are Needed in Some Key Processes to Ensure Efficient and Cost-Effective Delivery of Goods and Services

In its role as a support agency, the General Services Commission (Agency) should be more aggressive and proactive in providing good customer service as well as improving the economy and efficiency of the various services it provides. Previous reports by the Agency's Office of Internal Audit and others indicate a clear dissatisfaction with the Agency's passive approach. Some of the management issues cited in Sections 1 through 3 of this report also impact the Agency's ability to develop and implement strategies that promote the best use of public funds. Specifically, we noted the need for improvements in the project management of construction projects and the tracking of past vendor performance.

Section 4-A:

Recent Efforts to Improve Project Management of Construction and Architect/Engineer Services Should Be Enhanced

Inadequate management of construction and architect/engineer service contracts has resulted in project delays, price escalations, and strained relations between the Agency and the state entities it serves. The Agency billed over $1 million for project management and inspection services during fiscal year 1996. Both Executive Management and division management have recently taken steps intended to correct these problems. However, it is too early to determine the effectiveness of the changes, especially since division management responsibilities within the Design, Construction and Leasing Division were changed significantly in the June 1997 reorganization.

In its oversight role of construction projects for other state agencies, the Agency must be able to ensure that contract deliverables are provided on a timely basis and are of sufficient quality to meet the expectations of the contracting agency. Schedule delays and excessive change orders all translate to increased costs for the taxpayer.

Repeated Agency internal audit findings over the last two years point to serious weaknesses in the management of construction projects such as project scheduling and monitoring, divisional leadership, monitoring customer service, and general lack of support for the project management function. Weaknesses in the inspection function have also been reported by the Agency's Office of Internal Audit, in particular a lack of adequate staff training. Many of the recommendations made by the Agency's Office of Internal Audit are still not fully implemented. As a result, we found the following problems still persist:

- **Delays in completing or getting projects started have been caused by the Agency's failure to develop, monitor, and effectively manage schedules.** The project schedule for the Texas School for the Deaf has been increased because the General Services Commission did not have a formal schedule monitoring process in place for this project. Change orders accounted for 18 months of the delay, while rain days accounted for 10 months. These delays have also caused a customer relations strain, as the Texas School for the Deaf had to cancel its 1995 summer school classes because of the delays.

- **Prices have escalated due to inadequate analysis or review of change orders.** We noted instances where change orders were not submitted in enough detail and contract provisions requiring review of change orders by external parties were not enforced. For example, on one project, $670,000 of work was added to the original $128,000 purchase order without the benefit of a cost breakdown associated with the changes.

- **Customer relations have been strained by the General Services Commission's lack of responsiveness.** The Department of Public Safety was so displeased with the General Services Commission's services that it has tried to obtain authority to administer its own construction contracts rather than deal with the General Services Commission. The General Services Commission is currently responsible for over $11 million in construction contracts for the Department of Public Safety.

On one $1.8 million Department of Public Safety project the contractor has notified the Department and the General Services Commission that it is filing a claim for monetary damages. The contractor alleges it has suffered because of the architect's incompetence and the General Services Commission's mismanagement of the project. The newly installed ceiling has caved in and the contractor refuses to complete the project until the General Services Commission makes payment for disputed extras.

The contractor has requested arbitration as allowed under the contract provisions. The General Services Commission contracts with the Center for Dispute Resolution for arbitration cases. However, when the contractor inquired about the proceedings, the Center for Dispute Resolution representative told him that the General Services Commission's contract with the Center had lapsed in 1995, so the Center could not help at this point.

Recommendation:

To increase the effectiveness and efficiency of the project management function, the General Services Commission (Agency) should:

- Ensure that all previous recommendations made by the Agency's Office of Internal Audit are fully implemented.
- Ensure that the schedule-monitoring position is filled as soon as possible.
- Perform periodic reviews of project managers' monitoring activities. Consider peer reviews for such activities as schedule monitoring, change order analysis and review, and architect/engineer contract management.
- Solicit and obtain written feedback from client agencies on how it manages projects. Each project should be evaluated. Customer relations should be closely monitored, and the Design, Construction and Leasing Division should set internal performance measures to evaluate how well it is meeting its own performance standards.

Management's Response:

Management concurs with each of the recommended actions listed in this section of the audit report. A specific action plan will be developed to implement each item. Some of the major components that will be included in the action plan are as follows:

- *Review of all past internal and external audit report recommendations concerning the project management function. A determination of the current status regarding validity and/or feasibility for the non-implemented recommendations will be completed by November 1, 1997. Recommendations found to be valid and feasible will be implemented in two phases. The first phase will include the recommendations that can be immediately implemented. The second phase will include the recommendations that require detailed planning, and will be implemented in accordance with the Master Schedule.*
- *Implementation of periodic peer reviews of project management activities. The system will be devised and fully implemented by January 1, 1998.*
- *Development and implementation of a written customer service feedback instrument for construction projects by October 1, 1997.*
- *The agency has complied with the audit recommendation to fill the construction project scheduler position as of June 1997.*

Section 4-B:

Enhance Tracking and Use of Vendor Performance Information

The Agency has not developed adequate guidelines on what constitutes poor vendor performance and how it can and should be dealt with. As a result, the Agency continues to do business with poorly performing vendors. The Central Procurement Division managed over $789 million in delegated and nondelegated purchases during fiscal year 1996.

Purchasing goods from poorly performing vendors can be costly to the State in both terms of actual dollar costs as well as lost efficiencies. When agencies do not receive goods ordered in a timely manner or do not receive quality goods, they may not be able to provide services efficiently and effectively. Ten percent (12 out of 116) of the awards in our open-market sample were made to vendors with performance problems noted in the Agency's Vendor Performance Tracking System (VPTS). These vendors received over $100 million between January 1995 and February 1997.

Although the Agency has developed a system designed to track vendor performance, the information in the VPTS is not consistently used in the procurement process. Current statutes require all awards to be made to the bidder submitting the lowest and best bid conforming to specifications. However, it appears that purchasers emphasize selection of the lowest bid that meets specifications in order to protect against potential vendor protests. As a result, even vendors with multiple citations in the VPTS continue to receive awards as long as they submit the lowest bid.

Several of the vendors who received awards in our sample had multiple problems noted in the VPTS. For example, one vendor has received over 406 awards totaling $49 million between January 1995 and February 1997 despite multiple entries for late delivery and failure to meet specifications noted in the VPTS. For the files reviewed for this vendor, the cumulative difference between the next lowest bid was only 1.5 percent higher than the awarded price. In one case, the next lowest bid was only $6 higher (total award price was $86,092) than the low bid.

The Agency has managed a vendor complaint system for over 15 years. It appears that the system initially resulted from legislation enacted in the 66th Legislative Session (effective September 1, 1979) requiring the Agency to consider factors other than price. The current Vendor Performance Tracking System was renamed and enhanced to address recommendations in the Comptroller of Public Accounts' review of procurement practices in 1994. However, the VPTS does not currently provide an effective means to track and evaluate vendor performance. The requirements in Senate Bill 1752, passed during the 75th Legislative Session (effective September 1, 1997), have provided the Agency with a clear means for managing poorly performing vendors through a debarment program.

The challenge in implementing an effective vendor performance tracking system is the lack of data available from external agencies regarding vendor performance on delegated purchases. If external agencies do not file complaints when they experience problems with vendors or provide feedback on good vendors, the Agency will not have comprehensive information to track and evaluate vendor performance.

<u>Recommendation</u>:

- Develop policies and procedures that provide specific criteria regarding at what point complaints against vendors should be addressed. The policies and procedures should ensure that performance is tracked in a fair, equitable, and prompt manner. Without standard policies, the Agency cannot be sure that sanctions are uniformly administered.

  The National Association of State Purchasing Officials recommends that the following factors should be considered when deciding the severity of action to be taken against a problem vendor:

  - Number of complaints compared with volume of goods or services provided.

  - Nature and seriousness of complaints

- Vendor's cooperation in rectifying problem situations

The Agency should consider the following options for tracking and evaluating vendor performance:

- Disbar vendors from future contract awards for specified lengths of times.

- Compare delinquent contract schedules to schedules completed on time.

- Compute quality ratings based on the number of units delivered compared to the number of units delivered defective.

- Compute delivery ratings based on the number of units delivered versus the number of units delivered late.

• Develop/implement an automated system to track and report complete and accurate data on vendor's past performance from both the General Services Commission and external agencies. The Agency should determine the cost benefits of developing a new system as compared with enhancing the current Vendor Performance Tracking System.

Management's Response:

Management concurs with the audit recommendation to develop policies and procedures for addressing complaints against vendors. The agency has established a working group to investigate options for an equitable and effective vendor management and performance tracking system. The group is also working to develop appropriate rules to implement such a process. This vendor performance management process will permit performance data collection and tracking; fair adjudication of state agency and vendor concerns; and uniformly administered sanctions if necessary. This program will be implemented by March 1, 1998.

Appendix 1:

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the existing management control systems at the General Services Commission (Agency) and to identify both strengths and opportunities for improvement. We evaluated these control systems to determine whether they provide reasonable assurance that the Agency's objectives will be accomplished. The evaluation was based on the control systems in place as of May 1997.

Management controls are the policies, procedures, and processes used to carry out an organization's objectives. They should provide reasonable assurance that:

- Goals are met.
- Assets are safeguarded and efficiently used.
- Reliable data are reported.
- Laws and regulations are complied with.

Scope

The scope of this audit included consideration of the Agency's overall management systems: policy management, information management, resource management, and performance management. This review included management controls relevant to all divisions within the Agency.

In addition, based on a risk assessment, we reviewed specific processes and controls within the Design, Construction and Leasing Division and the Executive Business Administration Division.

Consideration of the Agency's policy management system included review of:

- Processes used to create, monitor, and adjust Agency plans

- Documents related to the development of strategic, operating, and work plans

- Department requests for legislative appropriations, general appropriations, and operating budgets

- Processes, controls, and reports used to plan, create, administer, control, monitor, report on, and adjust the Agency's budgets

- Processes used to develop, document, communicate, review, and enforce policies and procedures

- Previous audit reports, both internal and external, with issues related to the policy management system

- Status of Agency initiatives to improve operations

Consideration of the Commission's information management systems included review of:

- Processes used to identify, collect, classify, evaluate, maintain, and update information

- Existing management reports and the determination of current and future information needs

- Availability, timeliness, accuracy, and communication of information needed to support the Agency's mission, goals, and objectives

- Previous audit reports, both internal and external, with issues related to the information management systems

Consideration of the Agency's resource management system included review of:

- Compliance with human resource management plans, policies, and procedures

- Processes used to establish rates and fees for cost-recovery services

- Compliance with statutory requirements for cost-recovery functions

- Procedures used to process vendor payments

- Compliance with internal procurement statutory requirements, policies, and procedures

- Previous audit reports, both internal and external, with issues related to the resource management systems

Consideration of the Agency's performance management system included a review of:

- Processes and reports used to identify, track, and use performance measures

- Processes used to track and monitor customer satisfaction, including processes used to identify and resolve customer complaints

- Previous audit reports, both internal and external, with issues related to the performance management systems

Specific processes and controls reviewed in the Design, Construction and Leasing Division included:

- Process used to plan for space-consolidation and construction projects
- Compliance with statutory procurement requirements for architect/engineer and construction services
- Process used to monitor architect/engineer and construction service contracts
- Methodology used to analyze project costs associated with buy, build, or lease decisions
- Process used to procure raw land
- Compliance with statutory requirements and Agency policies for the procurement of leased space
- Process used to track and monitor state agency leases

Specific processes and controls reviewed in the Executive Business Administration Division (includes Central Purchasing and Business Services) included:

- Compliance with statutory procurement requirements and Agency rules and procedures used to award open-market, term, and schedule contracts
- Process used to track and monitor vendor performance, including consideration of past performance in the vendor selection process
- Process used to maintain Certified Master Bidders List (CMBL)
- Compliance with inspection policies and procedures
- Review of historically underutilized business/CMBL application processing and management of data on the Internet
- Compliance with statutory requirements and Agency rules used to designated vendors as Qualified Information System Vendors (catalogue procurement system)

Methodology

The audit methodology consisted of gaining an understanding of how each process or control system was supposed to work. Tests were then performed to gather evidence in determining whether these systems were operating as described. Finally, the results were evaluated against established criteria to determine system adequacy and identify opportunities for improvement.

An understanding of the control systems was gained through review of various Agency documents and interviews with and surveys of Agency personnel. Systems were tested by comparison of the intended and the actual processes through review of documents and files, interviews, observation, analytical review, and transaction testing.

The following criteria were used to evaluate the control systems':

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- State Auditor's Office Project Manual System: The Methodology
- Agency plans, policies, and procedures
- Other standards and criteria developed through secondary research sources both prior to and during fieldwork

Other Information

Fieldwork was conducted from November 1996 through May 1997. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- General Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

The audit work was performed by the following members of the State Auditor's staff:

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Appendix 2:

Summary of Previous Audit Findings

The majority of the overriding cross-cutting weaknesses identified in this report have been repeatedly identified by either the State Auditor's Office, the Agency's Office of Internal Audit, or the Comptroller of Public Accounts. This appendix lists the previous audit reports which included the same major issue areas as those included in the text of this report. The purpose of this appendix is to provide a context for the repetitive nature of the weaknesses identified in this report. Details of the issues can be found in each of the referenced reports.

Previous Audit Findings Regarding Ineffective Oversight and Lack of Accountability

State Auditor's Office

Review of the Management Controls at the General Services Commission (SAO Report No. 92-079, March 1992)

General Services Commission's Office of Internal Audit

- *Special Audit of Design and Construction Division* (#96-3), April 1996
- *Program Control Assessment of the Facilities Planning and Space Management Program* (#97-1), April 1997
- *Inspections Section Program Control Assessment* (#97-2), March 1997

Previous Audit Findings Regarding the Agency's Compliance With State Statutes, Policies, and Sound Business Practices

State Auditor's Office

Review of the Management Controls At the General Services Commission, SAO Report No. 92-079, March 1992

General Services Commission's Office of Internal Audit

- *Management Control Audit of the Design, Construction and Leasing Division* (#95-2), February 1995
- *Management Control Audit of the Telecommunications Program* (#95-3), July 1995

- *Management Control Audit of the Fiscal Management Program* (#95-4), October 1995

- *Program Control Assessment-Support Services Program* (#96-1), January 1996

- *Program Control Assessment for the Central Purchasing Program and Bid Services Section* (#96-2), February 1996

- *Special Audit of Design and Construction Division* (#96-3), April 1996

- *Leasing Division Program Control Assessment* (#96-4), May 1996

- *Environmental Programs Section-Program Control Assessment* (#96-5), July 1996

- *Program Control Assessment of the Facilities Planning and Space Management Program* (#97-1), April 1997

- *Inspections Section Program Control Assessment* (#97-2), March 1997

- *Follow up to Fiscal Management Division Internal Audit Report* (#97-3), May 1997

Comptroller of Public Accounts

1994 Review of Statewide Procurement Practices, December 1994

Previous Audit Findings Regarding the Agency's Lack of Information for Decision Making

State Auditor's Office

Review of the Management Controls At the General Services Commission, SAO Report No. 92-079, March 1992

General Services Commission's Office of Internal Audit

- *Review of the Building Maintenance Division* (#95-1), December 1994

- *Management Control Audit of the Design, Construction and Leasing Division* (#95-2), February 1995

- *Management Control Audit of the Telecommunications Program* (#95-3), July 1995

- *Program Control Assessment- Support Services Program* (#96-1), January 1996

- *Special Audit of Design and Construction Division* (#96-3), April 1996

- *Leasing Division Program Control Assessment* (#96-4), May 1996

- *Environmental Programs Section-Program Control Assessment* (#96-5), July 1996

- *Program Control Assessment of the Facilities Planning and Space Management Program* (#97-1), April 1997

- *Inspections Section Program Control Assessment* (#97-2), March 1997

Comptroller of Public Accounts

1994 Review of Statewide Procurement Practices, December 1994

Previous Audit Findings Regarding Efficiency and Cost Effectiveness Issues

State Auditor's Office

Review of the Management Controls At the General Services Commission, SAO Report No. 92-079, March 1992

General Services Commission's Office of Internal Audit

- *Review of the Building Maintenance Division* (#95-1), December 1994

- *Program Control Assessment for the Central Purchasing Program and Bid Services Section* (#96-2), February 1996

- *Special Audit of Design and Construction Division* (#96-3)**,** April 1996

- *Environmental Programs Section-Program Control Assessment* (#96-5), July 1996

- *Program Control Assessment of the Facilities Planning and Space Management Program* (#97-1), April 1997

- *Inspections Section Program Control Assessment* (#97-2), March 1997

Comptroller of Public Accounts

1994 Review of Statewide Procurement Practices, December 1994

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