

# Digest Of A Performance Audit Of The Division Of Facilities Construction And Management

Our report gives recommendations that could benefit the operation of the Division of Facilities Construction and Management (DFCM) and state agencies. By implementing the recommendations made in this report, DFCM will help insure that only needed space is constructed, minimize the number of expensive change orders, and further improve operations.

Though we are recommending areas where significant improvement can be made, we also recognize that DFCM has done a good job in directing construction of quality facilities. DFCM has a very difficult role in state government. DFCM staff are expected to work cooperatively with agencies to build facilities that satisfy agency needs while at the same time aggressively challenging agency requests in order to control costs. DFCM's job is even more difficult because the number of staff has been reduced while the number of projects staff oversee have increased. However, despite these limitations DFCM has done a good job of keeping costs within the projected budget while still building quality facilities.

Although this report identifies some ways to fine tune the control process, we recognize that DFCM has kept agency projects within their budgets, which is an important control process. Also, many of DFCM's reviews (such as the value engineering review) are effective and should continue. If implemented, our recommendations can result in significant savings. However, since DFCM is lacking the human resources needed to fully implement the controls we recommend, we believe the Legislature should increase staff by between five and seven full-time positions. The report identifies how funding is already available for about five of these positions.

Our report focuses on DFCM's control function, which requires agencies to justify needs and provide for cost-effective buildings. DFCM has several important functions in this control area. One function is to make certain requested space is justified and the most cost beneficial design is selected. Another function is to control change order (additional work not covered by the bid) costs. A third function is to make certain projects are completed in a timely manner. Our report identifies controls needed in these areas and accordingly makes recommendations to DFCM and the Legislature. The following statements summarize the findings and recommendations of this report:

**Space Justification Will Improve Planning.** Without adequate controls over the planning process, on three sampled buildings the state has spent over one million dollars for space that is underutilized. Currently, requests for building space are not generally verified or compared against any predetermined space standards by either DFCM or a private architect. As a result, the state has built some facilities that are underutilized. This report identifies the importance of a systematic

verification of agency space requests. The audit determined that private architects seldom verify or reduce agency space requests, consequently, this verification of space should be done by DFCM staff during the program phase. This space verification work would require DFCM to hire between three and five additional employees. The money to fund these positions would be available by the Legislature reallocating part of the money normally appropriated for private architects to do the programming work.

**Contingency Fund Needs Better Controls.** Better controls are needed on both the revenues coming into the contingency fund and the expenditures going out of the fund. The contingency fund is money held in reserve for unforeseen problems in construction or design. This fund receives money from each project as well as supplements from other sources. The amount of money being expended from the contingency fund is in excess of the amount budgeted for contingencies. Without additional funding from these other sources, the fund would be approximately \$900,000 short. A small portion of the shortfall was caused by the elimination of the project administration fund. However, the money DFCM takes out of each project for the contingency fund is similar to what other states take out for contingencies from each project. In other states the amount taken out of each project for contingency must be sufficient to cover contingency expenditures. Therefore, comparisons with these other states indicate that DFCM should be able to meet expenditures with revenue taken out of each project without receiving additional money from other sources. In this report we identify better controls that will allow DFCM to reduce the amount expended for change orders. We also recommend DFCM hire one additional staff person for change order review. By implementing our recommendations, the amount of revenue coming from each project for contingency will more nearly equal the amount expended.

**Potential Bias Should Be Avoided In Selecting Consultants.** Better controls are needed to eliminate potential bias in the selection of architects and engineers. DFCM contracts with many architects and engineers to provide design/construction services. We reviewed selections from 1991 and 1992 and found several instances where the selection of consultants appears biased. In our opinion, DFCM should take steps to avoid even the appearance of bias. Most selections we reviewed did not appear biased. The appearance of bias was more frequent among agency panelists than among DFCM panelists. However, through implementing some simple controls the appearance of bias can be eliminated on even the few questionable selections identified in our sample. In addition to reviewing the selection of consultants, we also found that DFCM's current selection criterion which gives a lower ranking (reducing the chance of selection) to consultants who have done more state work within

the last five years appears inconsistent with the **Utah Code**. The Legislature should decide whether they want DFCM to continue this practice and if so, modify the **Utah Code** accordingly.

**Delays Need To Be Monitored and Controlled.** DFCM officials have not fully developed an information system that will both monitor delays and identify their causes. None of the projects we examined had time extensions in the files that justified or identified the causes of delay. Consequently, DFCM should collect liquidated damages (penalties charged to the contractor for unjustified delays) more often so agencies do not have to pay extra costs due to the delays. However, there are delays that DFCM does not have the power to control, such as the delays involved in acquiring land when both state and local governments are involved. Nevertheless, DFCM may be able to reduce delays by enhancing their information system to identify and track delays, using the information generated to more frequently collect liquidated damages and to select consultants.

**Better Lease Management Program Is Needed.** With more controls, an additional staff person and different financing arrangements, the state could save money on leases. Though we cannot precisely quantify the amount of savings possible, we believe there are substantial savings because of the large amount of money spent on leases. The state currently spends about \$19 million in lease payments per year. On a limited sample, we found savings through competitively bidding leased space, through fully utilizing state-owned space and through converting some expensive leased space to owned space.