A Performance Audit of
The Division Of
Facilities Construction And Management

Chapter I
Introduction

The Division of Facilities Construction and Management (DFCM) can become more productive by implementing the changes we recommend in this report. DFCM is responsible for managing the state's building program. The bulk of this responsibility entails evaluating the need for requested space and overseeing the design and construction of the buildings. As we note below, performing these tasks is difficult and can lead to conflicts between DFCM and state agencies. However, by implementing the recommendations made in this report, DFCM will insure that only needed space is constructed, will minimize the number of expensive change orders and will further improve their operations.

We recognize that DFCM serves a difficult role in state government. They are expected to work in cooperation with the requesting agency to accomplish the needs of state government. This role requires them to be a partner with the agency in identifying and solving building related problems. In this role they desire to build quality facilities that meet both current and future needs of the agencies. However, DFCM also has a responsibility to control building expenditures and to ensure that facilities are economically constructed. This role requires them to aggressively examine and verify agency needs. Consequently, DFCM is expected to be both advocate for and adversary of the agency.

We believe DFCM does a good job in directing the construction of quality facilities that meet various state agency needs. However, the bulk of this report is focused on DFCM's control or adversary function, which requires DFCM to verify agency needs and hold costs down. This report identifies a number of areas where DFCM can reduce construction related spending by tightening controls over both agencies and consultants.

Although this report identifies some important ways to fine tune the control process, we recognize that DFCM has kept agency projects within the project budget, which is an important control feature. 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 implement fully 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.

Some of the positions recommended in this report were positions previously reduced. The staff available to accomplish DFCM's mission has changed significantly over the years. In fiscal year 1987, DFCM staffing went from 52 to 33 people, a 37 percent reduction. Most reductions affected the inspectors who monitored building construction. Also eliminated was a change order specialist, with the specific responsibility to review change orders and determine if the state is paying a fair rate for change orders. These functions are now delegated to each project's consulting architect. Our report recommends bringing one of these functions back under DFCM's direct control and hiring an additional staff person to review change orders and pursue liquidated damages. Further, DFCM records show the number of projects has significantly increased from 287 in 1987 to 480 in 1992, a 67 percent increase, while total staff has only increased from 33 to 40, a 21 percent increase. Also, yearly expenditures for planning and construction have increased from $104 million dollars in fiscal year 1987 to $158 million dollars in fiscal year 1992. With projects increasing at a greater rate than staff, DFCM has had to delegate more of the control functions to consulting architects.

This audit resulted from a number of Legislative requests; we divided the requests into two categories: cost and operational controls, and other issues. Many of the requests addressed how well DFCM controls agency and consultant spending on state construction projects. Legislators also requested that our office review how effectively DFCM verifies agency space requests and controls the contingency fund and change order process, and how fairly DFCM selects consultants. These areas are discussed in the body of this report as are issues dealing with controls over leased space and delays that occur in the building process.

We received a number of other requests from legislators that were not reviewed either because our survey work did not identify significant concerns or there was not sufficient time to cover all concerns raised and report to the Legislature in the time frame requested. One legislator requested we examine land purchases to determine if DFCM paid a fair market price. We reviewed 15 of 16 recent land purchases with several real estate agents who felt the price paid by the state reflected fair market value. Also, concerns were raised regarding the purchase of furniture by state agencies and the purchase of furniture for the legislative remodeling project in 1990. Numerous reports of furniture breakdowns were received on this project. We reviewed many of the furniture complaints and have concluded the type of furniture was selected by a committee of legislators and staff independent of DFCM. Although equipment breakdowns have occurred, in our opinion most of the problems appear to have been resolved. Time did not allow us to do a detailed analysis of furniture purchases. One legislator also asked if DFCM is appropriately charging legal fees to the contingency fund and another asked us to determine if DFCM is losing staff to private consulting firms, which may compromise independence. We did not have time to do detailed work in these areas but our work does not indicate any significant problems. The remaining concerns are included in the body of this report.

Audit Scope and Objectives

This audit was conducted in response to a formal request from several state Legislators. As noted above, they were concerned about some key areas of DFCM management. This audit addresses these concerns and specifically looks at the following areas:

1. Determine whether agency space requests are needed.

2. Determine whether the contingency fund has adequate controls over the amount of money going into the fund and the amount expended for change orders.

3. Determine whether there is bias in the selection of consultants hired to design and construct state projects.

4. Determine whether delays occur in the design and construction of state projects and, if so, what can be done to control them.

5. Determine whether the state is cost effectively leasing space.

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Chapter II
Space Justification Will Improve Planning

Without adequate controls over the planning process, the state has spent over one million dollars for space in three sampled buildings 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 chapter identifies the importance of a systematic verification of agency space needs because the audit determined that private architects seldom verify or reduce agency space requests. Consequently, DFCM staff should verify space during the program phase. Space verification 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.

The building process typically begins with a request from the agency. Agencies fill out a Capitol Budget Request (CBRS), which is a computerized request that calculates the total cost of the facility by using the square footage requested. With legislative approval, DFCM hires a private architect who prepares a program. A program is a written document that includes the following three analyses: 1) a site analysis, which identifies the effect of the site on the program and the costs; 2) a cost analysis which identifies cost requirements; 3) a building analysis which analyzes the justification for space .

Although DFCM currently contracts the programming function to private consultants, much of the programming could be done in-house. The programming dollars depend upon the number of projects appropriated during a fiscal year. For example, the programming costs have varied from about $250,000 to $792,000 during the last five fiscal years. This chapter identifies significant savings that can be gained if future programming is completed in-house. However, since the programming workload fluctuates so significantly not all programming can be done with in-house staff. In addition, some programs need special expertise requiring outside consultants.

We believe that DFCM should develop a systematic approach which justifies space needs requested by state agencies. This report shows that when agencies request space, neither DFCM or consulting architects systematically verify this need. Consequently, some building space is underutilized. Our examination of three completed projects and five current programs showed DFCM does not consistently challenge agencies on space needs unless the building comes in over budget from the CBRS. During the course of this audit DFCM staff have increased questioning of agency needs. For example, DFCM staff challenged a recent Tax Commission building request for office and furnishings because DFCM staff found that offices

were too large and that existing rather than new furnishings could be used. As a result of DFCM's challenge the proposal has reduced from

240,000 to 206,000 square feet of construction and furnishings have been reduced which could save $5 million. We believe that DFCM staff should aggressively challenge agency space requests, as they have with this building.

The following discussion will deal with three areas of concern. The first area identifies examples of poor space utilization in three building projects completed by DFCM. The second area shows that DFCM's space utilization process is incomplete and can result in poor utilization. The third area identifies programs used in other states to control or verify space needs.

Some Buildings Have Underutilized Space

All three buildings sampled have examples of underutilized space. This is not to infer that the buildings themselves were unjustified, but rather that some of the space inside the buildings was not fully justified. A thorough space verification analysis in each case could have identified over one million dollars in savings through not building the unneeded space. We selected these three buildings (Provo Regional Center, USU's Agriculture Education Building, and South Salt Lake Employment Security Building) because they were recently built and represent the variety of buildings the state builds. Also, the Legislature requested we include one of the above in our sample. The following will now discuss in more detail each one of the buildings.

Provo Regional Center

In our opinion the Provo Regional Center has poorly utilized space. Comparing Provo's individual office spaces with another regional center as well as with space standards shows that Provo has as much as 40 percent more space per employee office. In addition, Provo has approximately 80 percent more common space. Had DFCM built the Provo Center using the other regional center as a standard, the construction savings would have been over $1.8 million, or had DFCM guidelines been used the savings would have been approximately $900,000. DFCM needs to evaluate where guidelines should be set.

The Provo Regional Center was built as a joint effort by the county and the state. The building is approximately 126,000 gross square feet, consisting mainly of office and cubical space. Our review was based on a comparison of the Provo Center with three other standards: 1) the Ogden Regional Center, which is similar to Provo; 2) DFCM space guidelines (DFCM has a set of guidelines on office sizes, but they are not uniformly followed and were developed over 20 years ago) ; and 3) other states' space standards.

The Provo Center has significantly more office space than the Ogden Center, DFCM guidelines, or other states' standards. We sampled approximately 300 offices and cubicles in the Provo and Ogden Centers, which represents over 50 percent of the total combined office

space. The results show that Provo offices were 40 percent larger than the comparable offices in Ogden, 40 percent larger than other states' average standards, and 18 percent larger than DFCM guidelines. For example, Arizona has a standard that allows directors of certain programs 168 square feet of office space, while Colorado allows 250, and DFCM's guidelines allow 252. However, some of the directors in the Provo Center have over 300 square foot offices. The following figure shows the comparison of six Provo offices with other comparable offices by employment position. The six offices represent about 10 percent of the total offices sampled.

Figure I

The above figure shows that offices in the Provo Regional Center are significantly larger in all comparisons. For instance, a program director in Ogden receives almost 54 percent of the space of a program director in Provo.

Though there is some confusion about how the size of office areas were determined, it is clear that if space standards similar to those of other states had been in place, smaller offices would have been built. We were unable to clearly determine why the Provo Regional Centers' offices were built larger than Ogden. DFCM said the design and construction of this building was handled by a developer and so DFCM had less control over what was built. However, if updated standards had been enforced, or had DFCM completed a space verification analysis, the difference in office space allocations would not have occurred.

Allocating less space for offices would have reduced the overall cost of the Provo Regional Center. Office space costs $78.00 per square foot for construction of the Provo Regional Center. If the same number of offices were built using the size of Ogden's offices, the building would have been 23,108 square feet smaller, which would have saved approximately $1.8 million dollars. We estimate savings between $1.8 million and $900,000 by using other state standards and DFCM's guidelines.

In addition to saving money by building smaller offices, we also believe additional savings are possible by through reducing common space. We define common space as space not assigned to individuals but rather shared; such as hallways, conference rooms, and break rooms. Our sample showed that Provo has as much as 80 percent more common space than Ogden. For example, the average hallway in Ogden is 5 feet wide compared to 9 feet in Provo. Although there are no standards available to determine common space size, there are probably even more savings available through reducing the size of the common areas.

We believe our comparison and calculation of savings for the Provo Regional Center are conservative. The Ogden Regional Center makes a good comparison because it houses approximately the same number of employees from the same agencies as Provo does. DFCM believes that Ogden may be too small in certain common areas such as restrooms, corridors and other common areas. However, a number of Ogden employees reported the facility was adequate and had no complaints. Nevertheless, even without reducing space allocated to the common areas, the savings are still significant. In addition to Ogden, had we followed DFCM's own space guidelines the savings would have been $900,000. Following other states' standards would have resulted in savings of $1.8 million.

To prevent this situation from happening again, DFCM must develop and adopt updated space standards. In addition, DFCM must enforce these standards, even if it means taking a stand against the agency. DFCM has recognized the need for space standards and has added it to their list of goals to be met by July 1993.

Because our work showed the need for space verification in the Provo Regional Center, we

analyzed two additional buildings to see if there was also unneeded space. However, due to time constraints, the final two buildings sampled represent a limited analysis. These analyses do identify a need for space verification, but they did not prove conclusively that space is underutilized.

Agriculture Education Building

Classroom space in the off-campus Agriculture Education Building at Utah State University is also underutilized. Our review indicates that four classrooms are being used approximately 40 percent of the time, which is 53 percent less than the minimum usage figure set by the Board of Regents, and 70 percent less than the California standard for classroom usage. Had DFCM used California standards the building would have had one less classroom and the remaining two would have been built smaller. Due to the amount of time available, we analyzed utilization of space comprising less than 10 percent of the total facility. However, the savings through a better configuration of space could total over $30,000.

The Agriculture Education Building is located approximately 1/2 mile north of the USU campus and is approximately 38,900 square feet, consisting mainly of lab, office, and classroom space. The building serves a dual purpose in providing an academic program as well as cooperative extension services. We reviewed three classrooms and one industry seminar room. The industry seminar room is used mainly for cooperative extension, but academic classes are scheduled there. Therefore, it is added as a classroom in our analysis. The Agriculture Education building does have another industry seminar room separate from the one we included in the review. However, we did not examine this room because scheduling information was not available for that room.

Department usage schedules along with 1992 spring and fall quarter class schedules, indicate that the four classrooms combined are being used an average of approximately 40 percent of possible classroom time. Our figures were based on the classrooms being available 8 hours a day, 40 hours a week. If classes were scheduled after 8 hours (night classes), these figures were added into the total usage as a bonus without increasing the total number of possible scheduling hours. We also calculated the capacity (how full each classroom was when in use) and found that classes are being run at less than 50 percent of capacity. The following figure shows the actual percent of usage for the classrooms at the Agriculture Education building in comparison to the standards set by Utah's Board of Regents and the state of California.

Table II

As shown in the figure above, not one of the Agriculture Education classrooms meets the standard set by either Utah's Board of Regents or the state of California. Also, California standards require a higher level of usage than the Board of Regents.

In determining what type of space was needed, the Department of Agriculture and DFCM visited two other agriculture buildings in Iowa and Illinois. According to USU officials, those classrooms were built based on previous classroom usage and potential growth. However, based on growth figures for the past six years, it would take the Agriculture Education Department a number of years to reach the standard for classroom usage set by the Board of Regents. The Board of Regents reviews classroom proposals based on a total University need. Therefore, because USU shows an overall need for classrooms, the Board of Regents approved the building even though the classrooms are located off campus and cannot easily be used by other departments.

The state could have considered one of two alternatives for this building. First, had the building followed the California standard on classroom usage using the number of classes

taught during spring and fall quarters of 1992 and the number of students enrolled there would have been one less classroom built, and the other two would have been smaller. Second, DFCM could have combined two or three classrooms into a larger one, using bi-fold doors when more than one is needed at a time. In either case the savings would have been over $30,000.

Employment Security Office

We believe some space in the South County Employment Security Office (Job Service) may also be underutilized. Our review of the data available for the orientation rooms, testing rooms, group rooms, and conference rooms shows that some space may be underutilized. Job Service officials indicated that some utilization is not formally scheduled and so this utilization may not appear in our analysis. They also said this facility was built to accommodate future growth. While there may be legitimate reasons for this underutilization, our concern with this building is that DFCM did not require adequate justification for all space being requested. Had DFCM required this information, a better utilized facility may have been constructed.

Our analysis shows that some of the space in this building may be underutilized. We reviewed utilization of three group rooms, three testing rooms, two conference rooms, three waiting areas, and two orientation rooms. These rooms represent approximately 30 percent of the building's total square footage which we felt was at risk for low utilization. Our analysis shows these areas are occupied between 18 and 65 percent of the hours available. In addition, when the rooms are in use they are generally less than half full. Because Job Service only had records for the month of June, we are unable to determine if the building is better utilized during the rest of the year. In addition, we were unable to find standards against which to compare Job Service's utilization. Consequently, we do not know for certain whether or not this building is being well utilized. The following figure shows the utilization of this building based on the records for June.

Figure III

As shown above, some of these rooms were not used very often. For example, conference rooms were only scheduled 31 hours out of a total 176 for the month of June which is 18 percent usage for the month. In addition, our data shows that through better planning, some of the rooms could possibly be eliminated. For example, our data on time and hours used indicates that a smaller conference room was in use 6 percent of the time (mostly in the afternoon), while a larger conference room, scheduled 28 percent of the time, was scheduled mostly in the morning.

Though this information does not conclusively show that the Job Service Building is underutilized, it does indicate that a better analysis may have resulted in the construction of a smaller, less expensive building. According to Job Service officials, this building was requested as a result of studies that determined there was significant growth in the south county area. Square footage figures were established based on projected client growth which indicated the need to enlarge areas that appeared inadequate. However, DFCM staff did not request justification for specific spaces nor is there a record that staff analyzed alternatives such as building one large conference room and using bi-fold doors when more than one room is needed at the same time. The data shown above indicate that had this information been requested, a smaller, better utilized building may have been constructed. For example, if the areas we sampled were reduced by only 15 percent, the state could have saved over $50,000 in construction costs. These examples demonstrate a need for better justification of space requests.

In addition to reviewing space utilization in these three buildings we also examined several current projects to determine if a space justification analysis was included in the planning process. As we show below, a space justification analysis was not included in these five projects also.

Space Justification Not Included in Planning Process

Not only did the three buildings in our sample not have a thorough space justification analysis, but an examination of five projects recently programmed also indicates such analysis is not being conducted. The planning process would be more effective if DFCM completed a space justification analysis. This analysis would consider if the requested space is justified based on existing needs, projected program growth, and by comparison to appropriate standards. The analysis should also identify alternative methods of providing this space and recommend the most cost beneficial alternatives. For a variety of reasons, DFCM's planning process lacks these key elements.

We reviewed five programs currently in process to determine if a space justification analysis was being completed by the private architects or DFCM. An examination of these

programs (a program is defined as a written document addressing such things as space needs, costs, and site analysis) identified no documentation or verification of existing and future space needs. The program work is contracted to a consulting architect. When we interviewed most of the architects involved in the five programs under review they indicated that it is not their job to challenge the space requests of the agency. They want to please the agency to get additional contract work. Consequently, if anyone is going to challenge the space requests of the agency it must be DFCM staff.

However, the DFCM planning process does not include a space justification analysis because it is budget and not needs driven. Our review of the three completed buildings and the five programs in process showed that DFCM planners challenge agency space requests when these requests exceed the budgeted amount (from the CBRS). When the requests exceed the budgeted amount, the planner usually will force the agency to cut elements from the request or provide additional money. However, if the program indicates the building will come in at or below budget, the planners do not challenge space requests.

In addition to not justifying agency space requests, DFCM also lacks current detailed space standards. DFCM has a set of guidelines, but as the comparison of Provo and Ogden Regional Centers demonstrates, these guidelines are not uniformly followed. Discussions with DFCM planners indicate guidelines are inconsistently applied because the planners are not certain if they are guidelines or standards. Also, it is not clear if they have been adopted officially with instructions to be applied. Further, they are too old, having been developed over twenty years ago. Well developed standards would help the DFCM planners and the agencies review space requests. DFCM officials recognize the need to upgrade and adopt good quality standards and have added this task to the list of goals to be met by June 30, 1993.

DFCM Can Benefit By Using Controls Developed In Other States

DFCM can benefit by adopting some facets of other states' planning programs. In addition, we believe DFCM's planning process can significantly improve by conducting thorough space justification analyses in-house rather than contracting these studies to outside architects. DFCM's planning process will be further enhanced by adopting standards on amount and size of offices/common areas allowed in state buildings. We found other states that have implemented or are in the process of implementing some or all of these steps. Staff in these states report that implementing these steps has significantly improved the planning process.

However, implementing all these steps will not be easy. While conducting space justification analyses in-house is a positive step, DFCM must also be willing to take hard stands against agencies if the agency is requesting more space than needed. Massachusetts said that when they first conducted these studies in-house and the studies identified space that was not justified, the planners and the agency often got into major disagreements. However,

Massachusetts staff also reported that if the planners persevered, eventually agencies stopped requesting unjustified space. Likewise, other states as well as Massachusetts have found that agencies resist space standards at first, but if the planning department is firm when requests for exceptions to standards are not justified and is flexible when appropriate, agencies eventually accept the space standards and request space sizes that conform to the standards.

Without legislative support, the planning process can be compromised. For instance, a needs study may identify an agency's request for too much space, but if the agency gets legislative approval anyway, the study has been wasted. If a thorough study shows the agency is requesting more space than needed, with Legislative support DFCM can trim back the requested space.

Massachusetts reports that conducting a space justification analysis in-house helps to get a more unbiased, thorough analysis of need. In addition, Minnesota is hiring five more planners in their planning department which will stop private architects from doing space justification analyses. Minnesota believes that by doing this they will get a better space justification analysis. Several years ago, Massachusetts changed from private to in-house

space studies. Staff in Massachusetts said they were not happy with the private space studies being done because they did not identify whether space was really needed. Massachusetts changed to in-house studies and reports success in really analyzing space needs.

If DFCM were to adopt an in-house approach, much of the work could be done with the same amount of money currently appropriated for programming. DFCM believes that five additional programmers could handle the workload provided there is no exceptional increase in the number of programs currently done. Also, some programs, such as prisons, could require the help of specialized consultants. Also, adjustments may need to be made based on future increases. DFCM could use the money already appropriated for private architects to do programming which was approximately $250,000 in fiscal year 1992. Hiring five planners would give Utah roughly the same dollar volume of programming per planner as Massachusetts.

Finally, besides the in-house space study, a number of states besides Massachusetts and Minnesota (Colorado, Washington, and California) have adopted detailed space standards. These standards help insure that state resources are used to build office and other spaces that meet the needs of the user without being excessive. In addition, these standards help ensure that each agency is treated fairly. For example, Colorado has space standards identifying all positions in state government and how many square feet each office or cubicle shall receive. In Colorado, a mid-level accountant receives a cubical totalling 100 square feet, a purchasing analyst receives an office that is 120 square feet and a deputy director of Corrections receives a 250 square foot office. As our comparisons with the Provo and Ogden Regional Centers show, Utah would benefit from fair and consistently applied space standards.

Recommendations:

1. We recommend that the Legislature authorize DFCM to hire approximately 3-5 additional employees in the planning division. Funding would be available by the Legislature reallocating part of the money normally appropriated for private architects to do the programming.
2. We recommend that DFCM use these new employees to verify space needs requested by the agencies and to complete other in-house programming functions.
3. We recommend that DFCM adopt more definitive space standards which meet the needs of the agencies without being excessive. Space standards will also help the agencies in formulating their space requests.

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Chapter III
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 design or construction. This fund receives money from each project as well as supplements from other sources. The amount of money 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 this 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 project contingencies. 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 contingency expenditures with revenue taken out of each project without receiving additional funding from other sources. In this chapter we identify better controls which will allow DFCM to reduce the amount expended for change orders so that the amount of revenue coming from each project for contingency will more nearly equal the amount expended in change orders We also recommend DFCM hire one additional staff person for change order review.

The contingency fund has grown to over $5 million as of May 1992 because the fund is being supplemented by money from other sources. These other sources are monies not included in the 4.5 to 9.5 percent which DFCM takes out of each project specifically for the contingency fund. These other funds are monies available because of bid savings, project administration, and project residual. Without these other sources, there would not be enough money to pay for change orders. We explain each of these sources in greater detail in the second section of this chapter.

This chapter shows first how the amount being expended for change orders can be reduced. By implementing the controls we recommend, the amount expended for change orders and the amount added to the contingency fund from each project can be more nearly equal. In the second part of this chapter we recommend that the Legislature and DFCM review the amount the fund is being supplemented and adjust this amount as appropriate.

While we recommend changes in the way the contingency fund and change order system are managed, these changes are more fine tuning than wholesale revamping. We believe there is a need for money to be held in a contingency reserve to meet unexpected changes. Also, for most projects the amount of money taken out of contingency for change orders is less than five percent which appears reasonable compared to other organizations. However,

to improve the system we recommend that DFCM implement better controls and incentives to help reduce change orders, particularly in those projects with a high percent of change orders.

Better Controls Over Change Orders Are Needed

The contingency fund needs tighter controls over what is expended for change orders since they are the major expense of the contingency fund. From July 1991 to May 1992 the state spent over $4 million in change orders. Change orders are very expensive because contractors typically charge more for overhead and profit on a change order than what they would charge if competitively bidding the work. In fact, on the five projects tested in this review, we estimate that if overhead and profit were limited to 10 percent as opposed to the 15 percent allowed, the state could have saved over $90,000 on change orders for these projects. We believe the savings would be significantly greater if the percent for change order overhead and profit were reduced to 10 percent for all projects. Also, because contractor labor charges had not been closely scrutinized, we identified instances where the contractor charged more for labor than what industry standards deem acceptable. We believe there are even greater potential savings if DFCM hires an additional staff person to review requests for change orders to determine if labor and materials costs are reasonable. Improved controls and a better management information system including incentives for consultants with fewer change orders will help reduce the number of change orders.

Though we are concerned about change orders, we recognize that many projects are very complex and change orders are required to adequately complete the project. However, change orders on some projects are very high. As the following table shows, the bulk of projects have few change orders. However, 46 out of 188 projects or 25 percent of the projects had change orders in excess of 10 percent of the construction contract of the project.

Figure IV

As shown above most projects had less than 10 percent in change orders. However, we are concerned with the remaining 25 percent which accounted for about $3.8 million or 79 percent of the total costs of change orders.

Though we are concerned about change orders, DFCM has made improvements in the change order system. On all closed projects since July 1991, the state averaged 7.96 percent of the construction budget in change orders. This is down from 1985 when a legislative audit reported that change orders were 8.1 percent for new construction and 10.6 percent for remodels (though we do not know precisely what the combined average of new and remodeling would be, the average of 8.1 and 10.6 percent is 9.35 percent). Also, as we noted in Chapter I, DFCM has had fewer staff since 1985 with which to analyze change orders.

Some fine tuning of the change order process could further reduce the amount of money spent on change orders. The next sections of this report demonstrate that change orders are expensive, identify some of the major causes of change orders, and show how change order costs can be reduced.

Change Orders Are Expensive

Change orders are not only the biggest expense of the contingency fund, accounting for over $4 million over the past two years, but they are the most costly way to get construction

work completed. Change orders are very expensive because the contractor can charge a premium for overhead and profit, as well as labor and materials. Besides being expensive, they are a drain on the project manager's already limited time. These factors make some change orders undesirable and they should, therefore, be minimized.

Contractors Charge A Premium For Overhead And Profit. Change orders are a more expensive way to get construction work completed because contractors can charge a premium for overhead and profit since the price to do change order work is not competitively bid. When contractors are competitively bidding a project, they have an incentive to keep overhead and profit to a minimum, otherwise they may not get the job. However, after they have a contract, contractors lose the incentive to keep overhead and profit charged as a result of change orders as low as possible. In addition, contractors often have a tight schedule to meet and change orders disrupt that schedule. Because contractors are not competitively bidding for the work represented by the change order, and because change orders are a disruption to contractors' schedules, contractors charge a premium for overhead and profit. In fact, several project coordinators told us that, in their opinion, contractors are currently keeping overhead and profit at between 5 and 7 percent when competitively bidding the work. However, when the work is done through change order, overhead and profit percent allowed is 15 percent.

The amount added for overhead and profit is high compared to some other organizations. On change orders submitted to DFCM, the general contractor adds 15 percent for overhead and profit. If the work was done by a subcontractor, the subcontractor also gets 15 percent. One private development firm in Salt Lake said they allow the contractors a maximum of 10 percent overhead and profit. If the subcontractor does the work, the general and the subcontractor must split the 10 percent overhead and profit. In Arizona, the state allows only 10 percent overhead and profit if the general contractor does the work. If the subcontractor does the work, the subcontractor gets 10 percent and the general contractor 5 percent. In Nevada, the maximum allowed for overhead and profit is 15 percent for the general contractor and the subcontractors' rate can be negotiated.

DFCM management stated that it tried to cut the overhead and profit figure several years ago, but contractors complained that it would hurt their businesses too much. The 15 percent determination was based on year-long negotiations with architects, engineers, contractors, and others to develop contracting documents and agreements. We believe DFCM needs to follow the example of other organizations in specifying a contractual percentage that is lower than the 15 percent currently allowed for both subcontractors and general contractors.

Contractors Can Charge A Premium For Labor And Materials. The contractor may also charge a premium for labor and materials. A cost estimator reviewed several change orders submitted to DFCM by the contractor on a particular job. The estimator documented savings in several cases where savings would have occurred if the contractor had used standard industry costs. For example, the contractor charged DFCM $35 per man hour for installation of an I-beam. The union rate for an ironworker to do this was $19.43 per hour. For 6 hours of work, the state paid about $93 too much for labor on this one small job. In another example, the contractor charged DFCM $30 per hour for a welder. The union rate for a

welder is likewise the same as for the ironworker at $19.43 per hour. For 2 hours of work, the state paid $20 too much for these 2 hours of labor. We believe one reason the contractor may be charging a premium for labor and materials is that there is no incentive to keep these costs low. Regardless of whether the general or the subcontractor does the work, the general contractor adds an additional 15 percent to the labor and materials costs for overhead and profit. Therefore, the more expensive the labor and materials costs are the greater is the general contractor's amount for overhead and profit.

Project Coordinators Have To Do Extra Work. DFCM's project coordinators should closely examine all of the costs associated with each change order, but many of them said they do not have the time. Presently, project coordinators oversee an average of about 30 projects per coordinator. This is high compared to other states which averaged anywhere from 3 to 20 projects per coordinator. Utah's coordinators do not have the time to do the in-depth analysis these change orders require. They pointed out that change orders take a great deal of time to process and that is time they do not have. The scope of our analysis did not cover the workload of coordinators.

This section shows that doing construction work through change orders is more expensive than doing the work as part of the normal construction process. Change orders, therefore, should be minimized. In the next section, we show that change orders are caused by a number of factors. An understanding of what causes change orders will help DFCM management control them.

Change Orders Have Multiple Causes

Because they are expensive, we examined in detail what causes change orders. We found that change orders are necessary in many projects and have a variety of causes. Some change order causes DFCM can control; others, DFCM cannot control. In the next section of this chapter we detail these steps to better control change orders. We believe that through following these recommendations, DFCM can reduce errors and omissions on projects as well as reduce scope changes.

Rarely does everything in any project work out perfectly so change orders are necessary . For instance, while digging the foundation for a building, the contractor might discover a higher water level than expected and so the project may require additional fill material or the architect might omit specifications for a particular type of door needed. Typically DFCM prepares a planning program before the design drawings are completed which is supposed to minimize many of these problems, but rarely are all problems discovered prior to construction. And while these drawings are reviewed by a variety of individuals errors may occur because there are so many things that must be included in the design of a building. Finally, DFCM may discover a more cost beneficial material or way to construct something, which will save money over the life of the building, but which requires more money to begin with. When these changes or errors are discovered during construction, they often require more work and

materials than the contractor had originally expected. These modifications are made through the change order process. Despite the variety of causes for change orders, we have categorized causes for change orders into three main groups--unforeseen, errors/omissions, scope. As we explain in the following section, we believe DFCM can do more to control errors/omissions and scope changes. However, by their very nature, unforeseen changes are very difficult to control.

To assess cause, we selected five projects that had high expenditures for change orders and reviewed most of the change orders on each project. The change order percentage calculated on these five projects, 12.8 percent, is higher than the percentage for all closed projects which we calculated at 7.96 percent. These five projects had higher than average percent of change orders. With the help of the project coordinators, we categorized change orders into these three categories--unforeseen, errors/omissions, scope. Our findings in this section are based on these five projects. The following table shows the results of our categorization.

Figure V

The above table shows that change orders cost $1,877,695 of $14,667,508 or 12.8 percent on these five projects. Below we discuss each of the causes for the high amount spent on change orders. Note that we are most concerned about the errors/omissions and scope categories. Errors/omissions and scope changes account for 66 percent of change orders.

Errors And Omissions. For the five projects examined this type of mistake accounted for 42 percent of the dollars spent on change orders. Errors and omissions are the most disconcerting because they represent mistakes by the architect. These are usually mistakes in which the architect included errors within the plan or omitted information from the plans, but the mistake was not discovered until construction began.

An omission is where the architect leaves information out of the plans. One example of an omission in Project C above is where the final plans did not provide heat to the garage area. With occupied space above the garage, the architect later felt that this area needed heating. To install two unit heaters cost an additional $2,935 for labor and material cost plus $440 for overhead and profit. However, had this work been completed as part of the normal bid process, it is likely the cost of completing this work would have been significantly less.

Errors occur when an item has been built or partly completed before the contractor or architect realizes it is incorrect. In some cases, the contractor might have to tear down what has been done and redo it. Both errors and omissions should occur infrequently in a project. An example of an error occurred in Project E. In this case, the architect specified the wrong types of pipes and tubes which did not stand up to the cold winter. The cold winter weather broke some of the pipes and the contractor had to repair them. This was an error by the architect. In a final example, in Project A a classroom door opened inward rather than outward as required by the building code. To remove the old door frame and install a new one cost the state $880 in labor costs alone, a figure that does not include the materials or overhead costs.

Scope Changes. About another 24 percent of the dollar amount in changes for our five projects were scope changes requested by the agency after the job had already been bid. Scope changes are modifications to the original contract agreement which increase the extent of work. Scope changes do not result from an error or an omission. For example, in Project B, the agency decided that it wanted a brick exterior for its building after construction had begun. Though the agency then contributed $35,000, another $55,000 was taken from the contingency to pay for this exterior. In another example, returning to Project C, the agency requested an additional door not originally shown in the construction drawings; this cost $923 for labor and materials and $138 for overhead and profit. On this same building, the agency added high security locks which were likewise not shown on the original plans at a cost of $1,735 for labor and materials and $260 for overhead and profit.

We believe constructing scope changes through change orders rather than through the normal construction process is significantly more expensive. Also, we believe there is an incentive for agencies to try to add more to their project than may be needed and get it paid for through the contingency fund as a scope change. Obviously, not all scope changes are unnecessary. Also, some scope changes for our sampled projects were paid for by the agency, not the contingency fund. However, private architects told us confidentially that agencies have told them to keep the project under budget when it is bid and then try to get extras through change orders. As we explain in the next section, DFCM needs to establish a consistent policy outlining when contingency funds will be used to pay for scope changes and when the agency must come up with money from other sources to pay for scope changes.

Unforeseen Conditions. About 34 percent of the dollar amount in change orders for the five projects we examined were caused by unknown conditions at the site. For example, in Project D, there was a wall from which the contractor removed the plaster and found unfinished surfaces from years ago. He had to repair those surfaces and adjust his plans to fit

which cost over $11,000. Most unknowns such as this cannot be avoided. Remodeling jobs usually have more unknown factors that cause change orders because there are more unknown variables. As happened often in Project D, the contractor would be working on a room and find electrical wires where there were not supposed to be any. At new sites, unknown conditions might involve an underground stream which, according to the studies, should not be there. Intensive site studies reduce unknown factors causing change orders, but it is impossible to eliminate most unforeseen changes.

This section has identified three causes for change orders. We believe there are a number of steps DFCM can take to reduce change orders caused by errors/omissions and scope. In the next section, we discuss these steps. However, DFCM may not be able to significantly reduce unforeseen change orders because by their nature they are very difficult to control.

Better Management Information and Controls Needed

In order to reduce the number of change orders, we identified several steps DFCM needs to take. We recommend that DFCM develop better management controls over the change order process. These controls include developing a better management information system and providing incentives for keeping change orders low. Each of these proposed steps is listed below.

A Better Management Information System Is Needed. DFCM needs a better management information system. DFCM is in the process of implementing a better management information system. In the current system, change orders are not labeled, categorized or tracked. To analyze the five projects, we had to closely examine each change order and then go back to the project coordinator to determine which category the change order should be in. If the change orders were properly categorized, the administration could track errors, omissions, and scope changes. Also, most information is accessible only by looking through various records kept in a number of different locations for each project. Some records are incomplete and difficult to find. For example, in the payment document for Project D, change orders 1, 2, and 3 did not include anything except a cover sheet. (Other change orders in this project contained justification letters or other information which might have been used to tell what caused the changes and who should be accountable for payment.)

With the ability to track errors and omissions, DFCM can provide an incentive to keep change orders at a minimum. DFCM needs a category on the architect selection criteria (see Chapter IV which addresses the specific criteria used to select architects) that ranks the level of errors and omissions on prior DFCM projects. Currently, project coordinators often have only a "gut feel" as to which architects and engineers have high error and omission rates. We believe that some architects have significantly higher errors and omissions than others. We sorted all change orders for contracts completed since July 1991, and found several

architectural firms with change orders consistently over 10 percent of the project budget. With a better management information system, the specific error and omission percent could be calculated for each architect and used as one criterion for architectural selection.

A good management information system should include the types of causes for change orders by category as we have described them above. California has a system that breaks change orders into these categories. DFCM's management is also developing a system to better track change orders. They are implementing the system as they receive more information.

Reduction In Overhead and Profit On Change Orders Is Needed. DFCM should modify their contracts to reduce the amount of overhead and profit allowed. As we explained previously, other states and a private firm explicitly state in their contract agreements how much the contractor may charge for overhead and profit.

In Utah, the contract explicitly states that for change orders up to $10,000, a mark-up for overhead and profit of 15 percent shall be applied. This mark-up changes to 10 percent if the items charged exceed $10,000. In our sample, individual charges in excess of $10,000 were rare. Most change orders we reviewed contained multiple tasks done by the contractor such as re-framing a wall, dropping a ceiling and extending walls. Though the total change order in this example may have exceeded $10,000, the charge for overhead and profit would still be 15 percent because none of the individual tasks cost more than $10,000. Also, our sample of five projects showed a number of incidents where both the sub-contractor and the general contractor received 15 percent for overhead and profit.

Some other western states do not allow as much for overhead and profit. In Arizona, the state allows only 10 percent overhead and profit if the general contractor does the work. If the subcontractor does the work, the subcontractor gets 10 percent and the general contractor 5 percent. In Nevada, the general contractor is allowed 15 percent for overhead and profit with the subcontractors' rate being negotiated. These states reported that the amounts allowed for overhead and profit are explicitly stated in the contractual agreements.

As we noted previously, one private development firm in Salt Lake said they allow the contractors a maximum of 10 percent overhead and profit. If the subcontractor does the work, the general and the subcontractor must split the 10 percent overhead and profit. We recommend that DFCM follow the example of other organizations and reduce the amount contractually allowed for overhead and profit on change orders.

Better Review Of Change Orders Needed. DFCM needs an additional staff person to review change orders and determine whether charges are reasonable. Project coordinators said they are responsible for too many projects to carefully review the reasonableness of charges in change orders, and as a result, this responsibility is left to the private architectural firm hired to design and supervise construction of the building. As we have previously seen, some charges paid by DFCM were excessive, showing that the change orders were not adequately reviewed.

Like other organizations, DFCM needs a person who can evaluate overhead, profit, labor and materials cost of a change order and determine how reasonable they are. Other states as well as a state agency in Utah have people who do this. Idaho has a construction inspector who reviews all change orders reviewing the mark up, the price and the number of hours required for the project. California not only has a general construction inspector, but mechanical and electrical inspectors who devote full time to reviewing change orders for reasonableness of changes. Finally, the University of Utah has an individual who performs a similar function. This person provided us with a number of examples where he discovered excessively high charges for change orders. We believe that an additional staff person at DFCM to review change orders would more than pay for his or her salary in reduced charges to the state.

Consistency Needed in Payment of Change Orders Involving Scope, Errors and Omissions. DFCM's practice appears inconsistent in paying for scope changes and errors and omissions. For example, project coordinators said DFCM does not pay the architect to redesign plans necessitated by omissions made on the part of the architect. However, in the case of Project D, the state paid for the architect to redesign plans to include things he had omitted to begin with. Also, we were told that if the architect makes an error, the state will only pay for the "value added" portion of the change order. The value added is that portion of the work that improves the building. For instance, if correcting the error requires the contractor to tear down a portion of a wall and install a window, DFCM will pay for the installation of the window but not for tearing down of the wall. However, as we pointed out on Project A, DFCM paid for both removal and replacement of a door that opened the wrong way.

Finally, DFCM policy states that contingency money is not to be used to pay for scope changes. However, as noted in Project B, the state paid over $50,000 from contingency for a scope change at USU. Also, we found that a number of scope changes were paid for by the contingency fund in Project D.

A consistent practice needs to be implemented by DFCM on how to define an error/omission and scope change, as well as how to decide who is responsible to pay for each of these, and whether an architect is paid for doing additional drawings for an error/omission. We recommend that at minimum the architect pay for the cost of redoing the drawings and bringing the construction site back to where it was before the error. Also, we recommend that DFCM establish formal guidelines on when a scope change is to be paid from the contingency fund. Project coordinators should then follow these guidelines.

Contingency Fund Is Being Supplemented

In addition to reviewing how change orders can be reduced, we also determined that the contingency fund is receiving too much additional funding. We believe that too much money is going into the contingency fund from other sources. Some of the money could better be

used to fund high priority projects or to reduce high cost leases as explained in Chapter VI. The contingency fund has grown from $1.5 million to $5.4 million since May 1990, primarily because it is being supplemented by other sources. These other sources are monies not included in the 4.5 to 9.5 percent coming from each project specifically to be held in reserve for contingencies. These other sources are monies available because of bid savings, project administration, and project residual. Without these other sources, there would not be enough money in the contingency fund to pay for all contingency expenses. In fact, based on the amount expended from the contingency fund on all projects closed since July 1991, the fund would have a deficit of $900,000. However, as mentioned in the previous section, implementing better controls over change orders will allow DFCM to reduce the amount of money from other sources supplementing the contingency fund.

The **Utah Code** (63-1-38.4) allows DFCM to take 2.5 percent of the budgeted construction estimate of each project and put the money into a statewide contingency fund. This money accounts for only 43 percent of the current contingency fund increases over the past two years. Design contingency, construction residual, bid savings, and project administration account for the remaining revenue going to the contingency fund. According to the Fiscal Analyst, the transfer of these funds into the contingency fund is in accordance with legislative direction. In addition to the 2.5 percent previously mentioned, for each project, an additional 2 to 7 percent of the construction estimate is taken out for design contingency. Any design contingency money not spent on the project prior to bid goes to the statewide contingency fund. In addition to design contingency, whatever is not spent on construction when the project is closed (construction residual) also goes into the contingency fund. Bid savings is another contributor to the contingency fund and is the positive difference between the amount budgeted for a project and the amount actually spent. It results from value engineering sessions (where the project plans are reviewed by a number of architects), favorable bidding climate and other factors. Finally, the contingency fund was supplemented on a one time basis by $1.2 million in project administration funds in October of 1990 as directed by the Legislature. At the beginning of fiscal year 1991, DFCM discontinued setting aside two percent of each project for "project administration" in the project administration fund. The $1.2 million in this fund was put into the contingency fund. The following figure summarizes the amount coming into the contingency fund from each of these sources.

Figure VI

The above figure shows that the contingency fund is being supplemented by sources in addition to the amount designated for contingency in each project's budget. In addition, the amount not used for change order expenditures held in reserve is currently quite high, as the following figure shows.

Figure VII

The above figure shows that the amount held in contingency reserve has grown from $1.5 million to a balance of over $5 million over the two year period of our analysis. We believe the amount held in reserve is too high; our analysis of all closed projects since July 1991, showed that the amount taken out for contingency covered all but $900,000 of total costs. A large portion of the amount now held in reserve could be taken out of the contingency fund and be used for other projects while still meeting contingency order needs. Even more could be taken out and used for other purposes if DFCM implements the controls over change orders recommended in the preceding section.

Also, even though the number of outstanding projects has increased, we believe that the amount taken out for statewide and design contingencies should cover most change orders without supplementation. DFCM's director said that the contingency has grown because of an increase in the number of projects in process of being built. However, over $1 million of the contingency fund comes from the one-time transfer of the previous project administration fund. Further, our analysis shows that over $3 million has come from bid savings over the past two years. Finally, we estimate that over $250,000 comes from construction residual. These additional source have nothing to do with the contingency amount held in reserve for future change orders.

Comparisons with other states likewise indicate that the amount taken out for contingency on each project should be adequate to cover change orders without the contingency fund receiving additional supplements. Staff in other western states reported taking out a percent for contingencies similar to Utah's. The following table summarizes the comparisons with other states.

Figure VIII

As shown above, the other western states contacted (Arizona, California, Idaho, Nevada,

and Washington) report they take out a percentage for contingency similar to Utah. Arizona, Nevada, and Washington take out a range of money for contingency as does Utah. However, in one aspect, Utah's contingency fund system is unique among the states we contacted. While other western states set aside a percent for contingency, the money does not go into a statewide fund. Rather, it stays with each project. In other words, if the money is not used for contingency it lapses to the state's general fund. Under this system, each project must be completed with the money appropriated for it. In these states, if a project starts to run over budget, the project must be cut back or supplemental funding must be sought. The agency cannot get a supplementation from a statewide contingency fund.

In addition to comparing Utah to other states on the amount taken out for contingency, we attempted to determine how much organizations in the private sector set aside for contingencies. We were unable to fairly and accurately compare the amounts withheld for contingencies by DFCM with organizations in the private sector. The private sector organizations we contacted build more "prototype" buildings than DFCM. Prototype buildings are buildings that all look the same because they have identical designs. With identical designs, it is reasonable to expect that change orders among prototype buildings would be lower than among non-prototype buildings. We also learned that change orders in the private sector may not be paid for through a formal change order system, making it difficult to determine how many or how much was paid for change orders. To accurately compare DFCM with the private sector would require an in-depth review of individual projects completed by the private sector.

Supplementing the contingency fund has drawbacks. First, money sitting in the contingency fund is not available for other purposes without Legislative intervention. However, DFCM management reported that some of the money has been appropriated out of the contingency fund. Between fiscal years 1988 and 1993, the Legislature appropriated over $4 million from the statewide contingency fund to other projects. Second, it may be illegal to supplement the fund beyond the 2.5 percent indicated in the **Utah Code. Utah Code** (63-1-38.4) states that DFCM shall set aside a contingency not to exceed 2.5 percent. DFCM takes 2.5 percent for statewide contingency and budgets another 2 to 7 percent for design contingency. While the legislation is specific on the statewide contingency amount, DFCM management says the code does not designate how much can be set aside for project-specific contingencies. This issue has been discussed by the Legislature, but is not yet resolved. DFCM says it needs the money to cover all of the expenditures for a project. We believe that the amount budgeted for all contingencies is consistent with what is being done in other states and, with adequate controls, funding from other sources is not needed.

Recommendations:

1. We recommend that DFCM enhance its management information system to monitor all change orders by project as well as identify their causes.

2. We recommend that DFCM use the information described in the previous recommendation in the selection of design consultants. The selection criterion should include the frequency and significance of the errors and omissions by the consultant in previous projects.

3. We recommend that the Legislature authorize DFCM to hire one additional person to review and control change order costs as well as delay issues.

4. We recommend that DFCM develop a specific policy on the use of contingency funds to pay for change orders involving scope, errors and omissions.

5. We recommend that the Legislature and DFCM consider separating the current contingency fund into two funds. One fund would consist of monies collected from individual projects for statewide contingency and design contingency and be used as described in the following recommendation. The other fund should consist of monies coming from bid savings as well as savings in project residual for funding other new projects.

6. We recommend that the Legislature and DFCM require that change orders be paid only out of monies collected from individual projects for contingency purposes. However, because this report shows that historically these monies have not been sufficient to cover all change order costs, we recommend the Legislature allow some reserves to be held in the contingency fund until DFCM can implement the recommendations of this report.

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Chapter IV
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 and construction-supervision services. We reviewed selections from 1991 and 1992 and found several instances where the selection of consultants could appear biased. In our opinion, DFCM should take steps to avoid even the appearance of bias. Most selections we reviewed did not appear biased. For those where there was the appearance of bias, it was more frequent among the agency panelists than among DFCM staff. However, through implementing some simple controls, the appearance of bias can be eliminated on even the few questionable selections identified in our sample. Though we did not show any instances where bias was proven, it is important to avoid bias because it can result in a less-qualified consultant being selected. This could cost the state more money than needed to construct a facility. In addition to reviewing the selection of consultants, we also found DFCM's current selection criteria 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.

In Some Instances, Consultant Selection Appears Biased

Sometimes the consultant selection process appears biased. Our sample of 42 selections in 1991 and 1992 showed that on five occasions agency panelists appeared to have pre-determined as a group and agreed upon which of the competing candidates they wanted to select before the selection process was complete. Consequently, in these instances the agency panelists voted as a block rather than independently screening and reviewing the consultants' presentations. Not only do there appear to be cases of potential agency bias, but on a different occasion a DFCM staff person, related to an individual employed by one of the firms competing for the job, voted as a member of the selection committee for his relative's firm. The following sections show first, how panelists representing the using agency have, at times, appeared biased; and second, how a DFCM staff person appeared biased in his selection because he voted for a firm where his relative is a principal.

Agencies Appear Biased in Some Selections

We identified five instances where agency panelists predetermined and agreed upon which candidates they wanted to select before all candidates made their presentations. Currently, when DFCM wants to design a project, DFCM solicits proposals from private architects and engineers. Those wanting to be considered for the job submit a proposal to a committee composed of both DFCM and occupying agency representatives. During this initial review, the committee reviews the proposals and rates the firms based on specific criteria: firm experience, firm capacity, past performance, individual experience, and prior business with the state. Based on these criteria, three to five candidates are then selected for interviews. Those candidates selected for the interviews then make presentations to the same committee. Immediately after the interviews are completed, each panelist scores the presentation and a consultant is awarded the contract based on those scores. Typically, an equal number of DFCM and agency representatives are on the selection panel. Consequently, if DFCM panelists vote independently but the agency panelists vote as a block, their votes would have a greater influence in the selection process.

In some instances, agency panelists appeared biased. Out of 23 projects in 1991, in 3 instances the agency panelists all voted the same scores for each candidate, as the following figure shows.

Figure IX

As shown above, because the candidates were all given the same scores, it appears agency panelists predetermined as a group which firms they would vote for before the presentations were actually made. Since the panelists do not leave the room or discuss who they are going to vote for, it appears that the vote was determined prior to the presentations. Therefore, DFCM should develop controls and take action to discourage even the appearance of bias.

In addition to the three instances in 1991 discussed above, we identified two other selections in 1992 where there was also an appearance of bias by an agency panelist. There were 2 instances out of 19 where the difference in scores between the first place and runner-up candidates was extremely high. In these instances the agency panelist in the first review scored the runner-up candidates very favorably as exceeding minimum qualifications. However, on the interviews the agency panelist rated the same firms as not meeting minimum qualifications. The scoring, therefore, had the appearance of bias because the criteria were the same but the agency scoring was inconsistent.

A possible explanation for why the agency panelist mentioned above made such significant scoring differences is that the panelist predetermined which firm he wanted to select before all the firms made their presentations. The firms are scored with either a 0, 2, 4 or 6 on most criteria upon which the firms are judged. The same criteria and scoring are used in both the initial review and the interviews. In the two instances referred to above, the scoring between the initial review and the interviews was inconsistent. On the first review, an agency panelist gave a particular firm a 4 on experience, meaning the firm had "considerable related experience;" a 4 on past performance meaning "above average performance;" and a 4 on capacity of firm meaning "adequate capacity." However, on the interviews the firm got a 0 on experience, meaning "no related experience;" a 0 on past performance meaning "substantial failure documented;" and a 0 on capacity of firm meaning "inadequate capacity." This change in scoring is very questionable since the firm's credentials obviously did not change between the initial review and the interviews. A likely explanation for why the agency panelist made such dramatic scoring differences is that the panelist decided who he wanted before the firms made their presentations and the firm he wanted was selected. It appears that inconsistent evaluations were made to help ensure that the firm he wanted was selected. Though this example may not prove bias, it is important to take steps to avoid even the appearance of bias.

Applying the controls used in other states will help eliminate the appearance of bias in agency voting as well as help resolve complaints by some architectural firms. Not only is there a requirement in the **Utah Code** that selection of consultants be based on "demonstrated competence and qualifications," but several private firms have complained about bias against them in the selection of consultants. These firms believe that DFCM is favoring a limited number of consultants and excluding others. While we did not identify widespread instances of bias, DFCM should avoid the appearance of bias as do other states. Like Utah, other states use published criteria for selection of contractors. However, staff in two states also indicate

they do more than Utah in controlling for bias. Implementing their practices can help Utah avoid the appearance of bias.

California has different sets of panelists on the first and second reviews. Having a greater number of individuals voting makes it more difficult for an agency to block vote. Also, by putting different individuals on each panel, the potential for wide discrepancies between the first and second reviews may be reduced.

Staff in Idaho report they eliminate agency votes if the agency voting appeared biased. Staff in Idaho said they had problems with agencies block voting. In one instance, the Director of Idaho Public Works disqualified agency votes because of block voting. Idaho staff claim agencies no longer vote as a block. By monitoring voting patterns closely, DFCM may likewise identify potentially biased voting. Eliminating agency votes if they appear biased, as Idaho reports doing, may also help eliminate future bias.

DFCM'S Selection on One Occasion May Also Appear Biased

Besides those instances where the agency appeared biased in its selection of consultants, one selection involving a DFCM staff person likewise could appear biased. In this instance, a DFCM employee voted as a panelist in a selection involving a relative. This employee gave his relative's firm the highest possible score. Though this individual produced data indicating he was not biased in favor of his relative, other states avoid even the appearance of bias by prohibiting a relative from being on the selection committee. We recommend DFCM adopt controls similar to those of other states and require panelists to disclose any conflicts of interest involving close relatives and then excuse themselves from the committee. Disclosing conflicts and excusing a related party from voting would have eliminated the appearance of bias, not only in this case, but in other potential conflicts. We were told that DFCM has at least two other employees with relatives in the architectural field. Though these two individuals did not vote in a selection that had the appearance of bias, this could happen in the future without adequate controls.

Selection Criterion Appears Inconsistent With The Utah Code

Finally, one criterion used by DFCM in selecting consultants appears inconsistent with the **Utah Code**. As noted earlier, the Code indicates that selecting architectural or engineering firms is to be based on demonstrated competence and qualifications. **Utah Code** (63-56-47) states, "It is the policy of this state to publicly announce all requirements for architect-engineer services and to negotiate contracts for architect-engineer services on the basis of demonstrated competence and qualification for the type of services required." However, we believe one criterion used by DFCM in selecting architects is inconsistent with this requirement. Our

discussions with an attorney from Legislative Research and General Counsel likewise indicates this criterion is inconsistent with a section of the **Utah Code.** This criterion penalizes architectural firms as their fees generated on state projects

increase over the past five years. The more business an architect has done with the state the lower the score, thus reducing his or her chance to successfully receive further state work. Consequently, this criterion reduces their chances to obtain more state business.

DFCM implemented this criterion in an effort to give those firms not receiving state business in the past a chance to obtain state projects. Small firms in particular benefit from this criterion.

With two exceptions, most western states do not have a selection criterion encouraging the state's business to be spread out. Of the six western states contacted (Arizona, California, Colorado, Idaho, Nevada, Washington), staff in four reported their state does not have a criterion encouraging business to be spread out among as many firms as possible. Rather, staff in these states report that their selection criteria are restricted to a firm's qualifications. However, two states (Idaho, Nevada) try to spread the work among as many firms as possible, as does Utah. Idaho has an explicit criterion whereby a favorable point is deducted for every $50,000 in state business received by an architectural firm within the past three years. Nevada has no formal policy, but like Utah, staff report they try to spread the work out for smaller projects. However, staff also said they rarely give larger jobs to someone without experience constructing state projects.

We believe the Legislature should decide whether or not DFCM 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. If the Legislature wants DFCM to maintain this selection criterion, it should amend the Code to reflect this. If not, DFCM should delete the criterion.

Recommendations:

1. We recommend that DFCM take appropriate action to control potential bias by agencies and DFCM panelist members in the selection of consultants.
2. We recommend that the Legislature examine potential inconsistencies between the **Utah Code** 63-56-47 (addressing demonstrated competence of consultants) and DFCM's current selection criteria which gives a lower ranking (reducing the chance of selection) to consultants who have done more state work within the last five years.

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Chapter V
Delays Need To Be Monitored And Controlled

DFCM officials have not 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. We believe DFCM could increase the number of times liquidated damages (penalties charged to the contractor for unjustified delays) are charged so that agencies don't 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 improving its information system to not only track delays, but using this information to more frequently collect liquidated damages and as one criterion in selecting consultants.

DFCM needs a better information system that not only monitors delays but identifies their causes. Currently, each project coordinator (DFCM's architect assigned to the project) has his or her own system to monitor the timeliness of each project. We found that the project coordinators keep track of how much is being paid out to the contractor versus how much of the project has been constructed, but the coordinators do not consistently track whether contractors are meeting deadlines. As we explain later in this chapter, a tracking system that, not only tracks the timeliness of all projects, but lists causes of delays is needed.

Because we could not track all delays and their causes, we selected a random sample of closed projects to determine if there are delays among projects. In this sample we tracked construction delays which are delays that extend the construction of a project. These delays are different from design delays which extend the design of a project. From this review, we believe there are a number of delays among DFCM projects. A random sample of 18 projects identified 9 projects or 50 percent that had construction delays. These nine projects went past their scheduled completion date by an average of 65 days. Further review showed that not one of the projects had time extensions in the file justifying the delay beyond the time deadlines established in contract. Without these time extensions, we could not determine whether the delays were caused by the architect, the contractor, the using agency, DFCM, or something else.

In addition to determining how many projects had construction delays, we also found there are costs associated with both construction and design delays. In the nine projects cited above, the liquidated damages due to construction delays could have been $38,400 if the delays were the responsibility of the contractor. In addition to the nine projects cited above, we also selected three more projects for review. These three projects were all large projects (exceeding $2 million each in project costs) compared to most of the smaller projects

(averaging about $175,000)in our random sample. We selected these additional three projects because we wanted to test delays among larger projects. We identified some extra costs associated with the delay in two of the projects. One agency purchased new furniture for the building but because the project was delayed, the agency spent an additional $9,445 to store the furniture until the building was ready for occupancy. Another agency spent an unexpected $2,800 in additional lease fees because they could not occupy the building when promised.

In addition to the costly delays on these three projects, we also identified other costs of design delays. These are some additional costs incurred when a project is delayed in the design phase. These delays can be very costly. For example, in 1991 building costs in Utah escalated 2.5 percent. We reviewed 12 major projects for which the construction contracts had been let in fiscal years 1991 and 1992 which totaled $38 million. On average, it took 12 months from time of design award to construction award. If design delays are not controlled, they can set the construction bid process back which, because of inflationary increases, this kind of delay can be costly. For example, if these projects were delayed by two months, according to the inflationary figures, costs increased by over $180,000. All delays need to be tracked and controlled to the extent possible to eliminate unnecessary costs.

There were also design delays on the three projects we reviewed in detail. When a building is designed, DFCM project coordinators and the consulting architects establish deadlines for completing different phases of the drawings. Whenever possible, it is important to stick to these deadlines and complete the projects in a timely manner to minimize inflationary increases when the building is bid for construction. On the projects mentioned above, there were some significant design delays. One project took over three months longer than planned to complete construction documents. After the design drawings were prepared on another project, the construction documents were completed over two months behind schedule. As we pointed out earlier, without a better management information system it is not possible to determine the causes for delays on these projects. However, these delays significantly increased the time it took to complete the project.

Though delays may be costly, multiple reviews that take a lot of time can actually benefit the state. To construct a major project requires several layers of review and evaluation. The using agency reviews the plans. The time they take in review can be beneficial in making sure the agency knows what it needs before construction. A thorough agency review thus helps avoid expensive change orders. DFCM's staff of architects and engineers review the project drawings; though not foolproof, this review helps to identify mistakes before construction. Finally, in addition to the project coordinators, other architects and engineers review design drawings before a building is constructed, specifically to determine the most cost effective construction. This review, called a value engineering session, helps identify where buildings can be made more cost effective. The sessions require extensive review by architects and engineers and may require significant redesign of the project. Although these reviews take time, we believe the time spent is justified.

More Can Be Done To Control Delays

Though some delays are outside of DFCM's control more can be done to control them. DFCM can systematically track delays and their causes. This information can be used as a criterion in selecting architectural consultants as well as assisting in collecting liquidated damages.

Some delays are for the most part outside DFCM's control. For example, there may be delays in getting legislative appropriation or delays in acquiring land. Currently, DFCM reports one project has been delayed almost a year because of difficulties in obtaining the land. Because DFCM is trying to locate a correctional facility, there have been many public hearings and debates, all of which have taken time.

However, DFCM can do more to control delays. First, DFCM can not only systematically track timeliness of projects, but also track whether delays are justified. This information is needed in order to collect liquidated damages and can also be explicitly used as one criterion for selection of architects in future projects. Second, DFCM can collect more in liquidated damages. Collecting liquidated damages regularly, as other organizations report doing, may encourage more timely construction in the future.

A first step DFCM can take to reduce delays is to identify the timeliness on each project and use this information to assess liquidated damages as well as make this information a part of the architectural selection criteria. Currently, when an architect wins the design contract he or she negotiates the amount of time needed to complete the project with DFCM. These deadlines are included as part of the agreement. If the consultant exceeds the time period there is often no modification in the architectural agreement justifying the time extension. Therefore, the cause of the delays and whether the consultant is designing the project on a timely basis are unknown. Also, this information is not an explicit part of the criteria used in future selections. The selection criteria asks for past performance and refers to cost and schedule performance. However, the information to assess past performance is generally supplied by the consultant. DFCM has not had the management information system available to not only track timeliness, but identify causes of delays.

We recommend that DFCM improve their information system to identify causes of delays and then use this information as part of the selection criteria. Staff in the California State Architect's Office said they track delays on state work and use this information as part of the criteria in selecting the particular consultant for future projects. We believe Utah could benefit by developing statistics on whether or not individual architects and contractors are completing projects in a timely manner. This information is also needed to assess liquidated damages, as we explain below.

Second, DFCM can do more to collect liquidated damages from construction contractors. DFCM does not collect liquidated damages very often. DFCM's construction agreements contain clauses that specify a monetary penalty (liquidated damages) if an unwarranted construction delay occurs. Besides our review of the 18 projects selected at random, we found other evidence that liquidated damages are not frequently collected. We asked project coordinators to tell us how many projects they have collected liquidated damages for since being employed by DFCM. We asked for the project coordinator's assessment, since DFCM's information system does not track liquidated damages. They identified only six projects for which DFCM had collected liquidated damages. DFCM management explained they do not typically collect liquidated damages unless they feel it is cost justified because collecting damages is very time consuming and requires documentation showing that the contractor caused the delays and that the state was damaged by the delay. They pointed to a recent case where they assessed the contractor over $80,000 in liquidated damages. The project coordinator and management had to go through many hours gathering evidence and attending a hearing. However, if DFCM had a system to track delays and document the cause of these delays, collecting liquidated damages may not be so time consuming. Also, if contractors understood that DFCM is serious about collecting liquidated damages, there may be fewer instances of delay.

However, DFCM management said they could do more to collect damages if they had an additional staff person. They are planning to ask the Legislature for an additional person to not only assist with change orders (see Chapter III), but to follow-up in collecting liquidated damages. We believe an additional person should more than pay for his or her salary by collecting more in liquidated damages and encouraging contractors to improve future timeliness.

A number of organizations report they collect liquidated damages regularly. Staff in California and Arizona said they collect liquidated damages when the contractor goes beyond the contract deadline without justification. They said the money is taken out of contractor's retainage (the amount withheld until the project is completed). Besides these states, a major developer in Salt Lake said his organization collects liquidated damages whenever the contractor is unjustifiably delayed.

Recommendations:

1. We recommend that DFCM enhance their information system to identify the reasons why architects and contractors fail to meet their time schedules.
2. We recommend that DFCM use the information generated by implementing the recommendation above as one criterion in selecting design consultants.
3. We recommend that DFCM use the information collected to assess liquidated damages when a contractor creates an unjustifiable delay.

Chapter VI
Better Lease Management 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. From a sample review of leases, we believe savings can be realized if DFCM utilized all state-owned space, sought lower lease rates by competitively bidding leases when they are up for renewal, and owned, rather than leased, space when cost effective. In this chapter, we identify a number of options available to both DFCM and the Legislature to improve lease management.

Though we are concerned about the state's leasing program, we believe the state is getting a good value for most leases. However, some leases are far more expensive than others. Out of 314 current leases reviewed, 78 were significantly more expensive (one standard deviation or more greater than the average) than the other leases. There may be some good reasons for these differences, such as differences in location, differences in services provided, etc.; however, by analyzing these expensive leases and developing strategies to reduce their costs, we believe the state can save money on many of these leases. For instance, the state currently spends $13.57 per square foot or over $1 million per year for office space at the Triad Center. Agencies housed in the Triad said they believe the space is more costly than they need. Though they have been in the space for over five years, they would like to move to less expensive quarters. DFCM and the agencies have analyzed the Triad Center and identified less expensive space. By reviewing all expensive leases such as has been done for the Triad lease on a systematic basis and then following-up prior to the lease expiring to obtain less expensive space, the state can save money. The following figure shows the distribution of leases throughout the state.

Figure X

As the above figure indicates, 25 percent of the leases cost over $9.00 per square foot per year compared to an average of $6.00 per square foot per year. However, this 25 percent represents over 50 percent of the total amount expended for leases. We believe DFCM could better manage the state's leasing program by evaluating how to reduce costs in the most expensive leases. Other states recognize lease management as a method to reduce costs. Emulating Arizona, California and Nevada for example, and fully utilizing all state-owned and leased space, will enable the state to reduce high cost leases.

With DFCM making certain vacancies in state-owned buildings are filled, leasees pay a fair rate for space and high-priced leases are converted to owned space with legislative approval, the state will save money. In the following sections we show how savings are possible in these areas.

Some Leasees Could Use State-Owned Space

There are vacancies in some state-owned buildings that could house agencies currently

leasing space. From our sample of seven state-owned buildings we found enough vacant space in three of the buildings to reduce lease payments by around $100,000 per year. The other four buildings did not have a significant amount of vacant space. DFCM needs to hire an additional person with the responsibility to, not only reduce lease costs, but help agencies fully utilize all state-owned space.

Three of the seven state-owned buildings we walked through had significant vacancies. These vacancies were not caused by the lag-time between someone quitting and the agency re-hiring someone to fill the position. Instead, in two instances vacant space had been held for over two years in hopes additional staff would be hired. In the third instance, a regional office had been moved to another part of the state, leaving a skeleton crew at the old site and vacant space.

DFCM does not have an individual with the specific responsibility to monitor vacancies in state-owned space. Staff responsible for leasing spend most of their time preparing leases for bid and evaluating leased space for suitability. A person is needed, in addition to the additional staff positions we have recommended in previous chapters, with the specific responsibility to monitor the utilization of state-owned space as well as leased space. Staff in other states (Arizona, California and Nevada) report that they have a current database of all occupants in state-owned space. They said they do not typically allow leasing until all state-owned space is occupied. For instance, in Nevada the request form for space specifically states, "New leased locations will only be considered when state owned offices are fully occupied and there is no vacancy in existing leased space." Staff in Nevada report that agencies have been moved to state-owned space out of leased space when state-owned space has become available.

In addition to determining vacancies in the above buildings, we also reviewed current leases in geographic areas surrounding state-owned space to see if there were agencies in leased space in the area that could potentially move to owned space. In all, we identified leases accounting for about $100,000 in lease payments in these cases for which state agencies could possibly be moved to state-owned space rather than continue to be housed in their leased space.

Rate Comparisons and Other Financing Options Are Needed

Besides reviewing vacancies, we also tried to determine ways that lease prices could be cut. Our review of the 78 high-priced leases showed several strategies that would help lower lease costs. One strategy is to compare and obtain market lease rates. We found instances where agencies do not go out for bid but rather renew if the agency feels the service adequately meets the agency's needs. For example, one agency said it is that agency's policy not to go out for bid but rather to renew the lease if service is adequate. This agency has significantly higher than average lease payments (17 percent higher) in general than other agencies for comparable space. We are concerned about this agency's leasing practices because it pays around $1/2

million in lease payments annually. Another strategy is to convert leases with high payments to owned space. This strategy requires legislative approval. If the Legislature wishes to use them, there are several types of funding
mechanisms that could be used. To effectively implement these strategies as well as develop other potential cost savings will require the services of the additional staff person mentioned in the previous section.

Rate Comparisons Needed

One way to save money on leases is to determine and obtain what the market currently charges for leases and not pay any more than market. For many leases, this may not be a problem as many leases have been competitively bid recently and the rental rates appear reasonable. However, we found some leases that were renewed over many years without a competitive bid or comparison with rental rates in the area. We believe this practice can cause higher lease payments. Our belief is based on several tests. First, for two leases, we were able to determine what other tenants were paying who were adjacent to the state's leases and had the same landlord. These tenants typically paid less per square foot than the state. We further contacted several real estate agents in the area who confirmed the state was paying a high rate for the leased space. The following figure compares the state with its neighboring tenants on two of the leases.

Figure XI

We believe the state is above market in these instances because leases have simply been renewed rather than re-bid. For instance, on one lease the rates went from $4.05 to $10.49 per square foot since 1984, a 270 percent increase. This lease was renewed three times

without a competitive bid. In the eight years the state has had this lease, the state has paid over $400,000 in lease payments. DFCM does not have authority over this agency's leases because they are under the State Office of State Education and leases through this office are excluded by Code from being under DFCM's control. Also, DFCM staff said leases under DFCM's control are likewise sometimes renewed without competitive bid because staff do not have time to determine market rates for all leases. We believe leases with the Office of Education should come under DFCM's control. Discussions with two real estate agents in the area and comparisons with lease rates on comparable buildings in comparable locations indicate the state is paying significantly more in lease payments for the location and type of space than current market conditions justify.

Finally, we compared what this agency (with a practice of not competitively bidding but rather renewing leases over a long period of time) is paying for leased space with what other state agencies in the area are paying for similar space. This agency is paying an average of 17 percent more per square foot than other tenants leasing the same kind of space, whether they were federal, state or private organizations.

We believe that DFCM should determine if the state is paying market rates on all leases. Another duty of the additional person hired should be to periodically review leases to determine if the state is paying market rates. However, to accomplish this function, DFCM needs to have more authority over leases. DFCM's statutory authority to lease, **Utah Code** 63-1-38.8, excludes Utah's State Office of Education as well as institutions of higher education. We do not know the extent of leasing in higher education, but we did identify over $1 million in the Office of Education leases. We recommend that DFCM be given authority over Utah's State Office of Education's leases.

Other Building/Financing Options Should Be Considered

A second strategy for reducing lease costs is to obtain space through owning rather than renting. This option requires legislative approval. If the Legislature wishes to give its approval, there are a number of financing options available. However, not all leases should be converted to owned space because there are advantages to leasing. Leasing is advantageous when leased space uniquely meets the needs of state agencies and/or is available at lower cost than building space. It is also advantageous when the state needs flexibility in re-locating because of changing demographics or changes in work force. Further, we recognize that funds are very limited and that not all leased space could or should be converted. However, DFCM staff should systematically review all leases and propose to the Legislature a program to reduce the number of high cost leases by, eliminating vacancies in state-owned buildings and bidding leases up for renewal, as well as by converting some high cost leases to owned spaces. It then becomes the Legislature's decision as to what to do.

Several studies indicate that owning, rather than leasing, can save the state money. To determine whether owning is more cost-beneficial requires a comparison of lease costs versus

projected building and maintenance costs. Making assumptions about building and leasing costs, studies identify when it is less costly to own rather than lease. We reviewed studies of leasing both in Utah and in other states that identified a point when it becomes more expensive to lease than to own. For instance, Colorado sent us copies of a study which

showed the state saving $1.2 million through owning rather than leasing a particular building. Studies in Utah show similar savings on some leases. DFCM should systematically review leases and determine what the savings would be, if any, depending on the lease.

In those spaces with significant savings, the Legislature has three options to eliminate the leases. First, the state could purchase the building using a lease-purchase arrangement. Under this option, lease payments are made to the lease holder and at the end of the lease, the building is owned by the state. Lease payments that are typically funded from an agency's operating budget are used to pay for the building. Second, the state could use money from contingency to fund purchase or construct buildings. As we point out in Chapter III, the amount in the contingency fund has grown to over $5 million in two years. The Legislature could use some of the money in the contingency fund to purchase or construct buildings for those in high-priced leases. Third, the Legislature could include these projects in the capital projects financed by general obligation or revenue bonds.

To be effective, DFCM must systematically evaluate leases in light of these options. Currently, DFCM will consider purchasing leased space if an agency proposes to do so. For instance, DFCM was interested in purchasing the American Stores building to house some agencies currently in expensive leases. Also, there is a current lease purchase proposal on a Human Services building which DFCM is studying right now. These proposals, however, are made sporadically. In our opinion, leases should be reviewed systematically.

Further, DFCM should not expect to have all leased space converted to owned space. DFCM's Finance Director stated that when DFCM has presented savings through owning to the Legislature in the past, the Legislature has not provided funding to build or buy. The Legislature receives many demands for limited funds. Just because one session may not be able to give funding for converting high-cost leases, does not mean another session will not fund building ownership options. In fact, Colorado considers leasing alternatives annually. Staff reviews leases and present proposals each session for doing away with high-cost leases. Staff said the Colorado Legislature typically funds the purchase of a couple of buildings to eliminate high-cost leases.

Recommendations:

1. We recommend that the Legislature appropriate funding for an additional person to increase the effort given to the oversight of leasing of office space.
2. We recommend that DFCM make certain lease rates are competitive with the relevant market, state-owned space is fully utilized and the Legislature is provided with information where lease/purchase options could greatly benefit the state.
3. We recommend that the **Utah Code** be amended to include the Utah State Office of Education among those agencies falling under DFCM's lease control

authority.

Agency Response

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