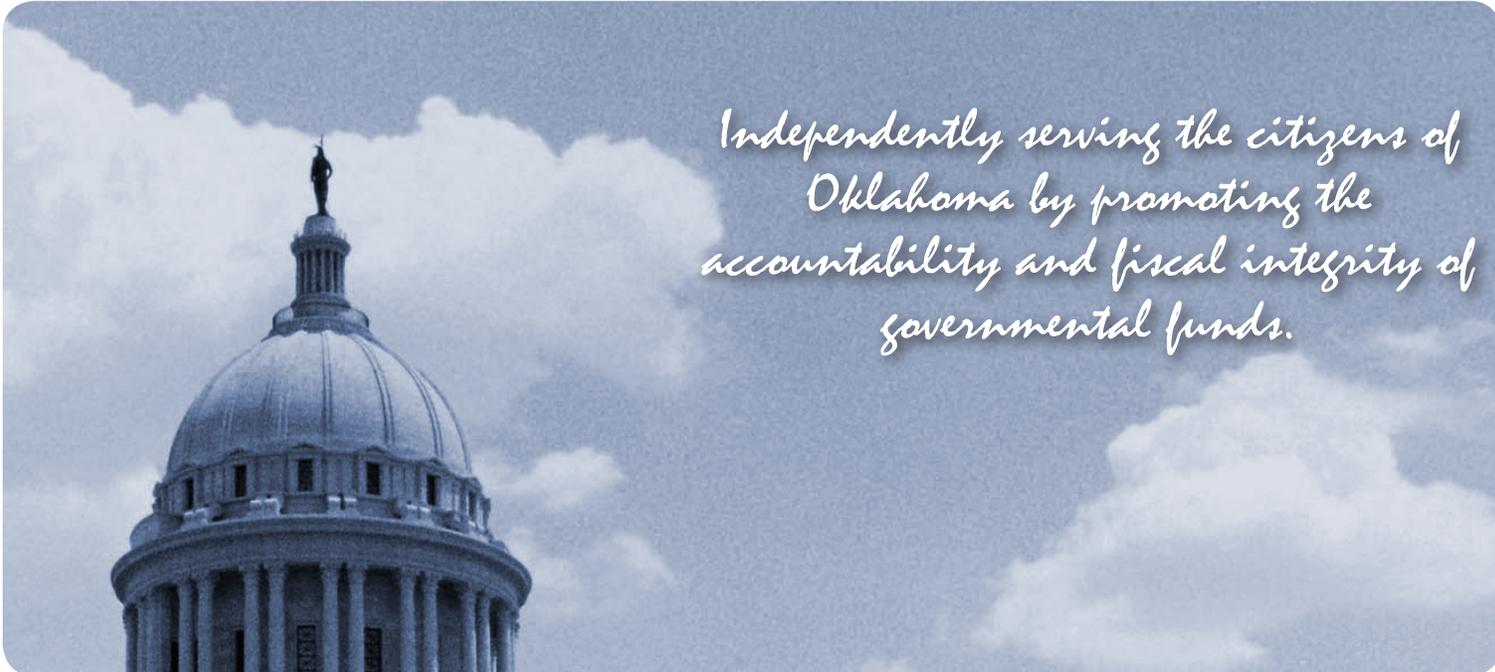


PERFORMANCE AUDIT

DEPARTMENT OF CENTRAL SERVICES

For the period July 1, 2010 through December 31, 2011



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Department of Central Services**

**For the Period
July 1, 2010 through December 31, 2011**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

April 11, 2012

TO THE CITIZENS OF OKLAHOMA:

Our audit findings suggest that Oklahoma's capital asset management structure is highly decentralized, inconsistent, underfunded and has essentially failed the citizens, who deserve better. The short-sightedness of legislative leadership and lack of commitment to address capital asset needs has resulted in deteriorating buildings, government service disruptions and increased risk to the public health. The absence of planning and inadequate funding for what could have been routine maintenance expenditures has now escalated into millions. If you don't change the oil in your car, what do you expect to happen?

Decision makers have left the management of the state's vast asset portfolio to the discretion of numerous and varied agencies, board, commissions, institutions of higher education, and trusts. The recently consolidated Department of Central Services (DCS) manages only 17 of the approximately 30 buildings within the State Capitol Complex, yet has the statutory charge of construction, maintenance, and operation of *all buildings owned or occupied by the state*. Our recommendations include developing and implementing uniform maintenance and operational standards to ensure sufficient asset preservation of all state-owned and leased facilities.

We found inconsistencies in Oklahoma's capital asset management policy. For example, legislation was passed last session requiring DCS to publish a comprehensive report detailing state-owned properties. Ironically, the legislature removed a similar responsibility from DCS statutory directives in 2006. This report recommends the establishment of an integrated inventory database to promote best practices in managing state assets and development of a statewide master plan to ensure a long-term vision of how the state's capital asset needs will be addressed.

Efforts to construct a Capital Improvement Plan (CIP) have proven ineffectual. We found no evidence linking the FY 11 CIP funding recommendations to actual legislative appropriations and no annual CIP was issued for FY 09 or FY 10. Our recommendations include demonstrating greater legislative commitment and increasing agency accountability through the appropriations process.

The challenge will be in gaining legislative leaderships' recognition of the full cost of asset ownership while demonstrating the necessary commitment to preserve current assets and effectively plan for future needs. Recent public attention has been given to only two specific buildings, the State Capitol and the Medical Examiner's Office. The sole financing option being considered at this time is the issuance of bonds. This is an example of a reactive approach which does not consider available creative financing options that could generate sufficient funds to meet capital outlay needs. Our audit considers investment in real property by state entities using state resources, which could be structured to attract public pension plan investments or public private partnerships which could promote corporate investment in state assets. With adequate financial resources on hand and effective planning, the state could choose from more cost effective investment options to meet immediate and future capital needs, potentially saving millions in interest and other debt issuance costs.

Maintenance projects are given priority only when conditions pose an emergency or serious threat to the public's health and safety, but state assets are integral to the services delivered to the citizens of Oklahoma. How they are managed impacts the state's ability to meet its goals and objectives. High quality capital asset management helps to ensure that scarce resources are directed to areas of the highest priority. Greater integration of asset, service, and financial planning will lead to more effective use of resources, greater transparency in the decision making process, and new and more efficient ways of providing service. Taxpayers and service users will be the real beneficiaries.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Purpose

With the passage of HB 2140, the State Government Administrative Process Consolidation and Reorganization Reform Act of 2011, five state agencies, including the Department of Central Services (DCS), were consolidated under the control of the Office of State Finance (OSF).

This audit was conducted at OSF's request in accordance with 74 O.S. § 213.2.B.

Objective

To evaluate DCS's programs, and as applicable, provide recommendations for cost savings or elimination of overlapping duties.

Audit Scope and Methodology

The audit period covered July 1, 2010 through December 31, 2011, unless otherwise noted in the body of the report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24.A.1 et seq.), and shall be open to any person for inspection and copying.

DCS is comprised of eight divisions:

- Operations (Finance, Human Resources, Information Services, Legislative Operations, Procurement, and Auditing)
- Central Printing and Interagency Mail
- Central Purchasing
- Construction and Properties
- Office of Facilities Management
- Fleet Management
- Property Reutilization
- Risk Management

Department of Central Services Performance Audit

To obtain a preliminary understanding of DCS's duties and responsibilities, discussions were held with key personnel and applicable laws and rules were reviewed. Since HB 2140 requires OSF to assume all executive level responsibilities for each consolidated agency, the Operations division was excluded from this evaluation.

Based on the initial information obtained and revenue source analysis, we evaluated each division and determined the Construction and Properties (CAP) and Office of Facilities Management (OFM) divisions had the most opportunity for realizing increased efficiencies.

At the discretion of OSF, the remaining divisions could be reviewed in the future.

As CAP and OFM's main responsibilities include managing the state's capital assets, we conducted interviews with personnel in these divisions to assess the current capital asset management process.



State Capitol

A statutory review was conducted to determine if other state entities are involved in the state's capital asset management process. We met with the State Bond Advisor, who serves as staff for the Long-Range Capital Planning Commission, to discuss the process for preparing the Capital Improvement Plan.

Examples of practices used by other states in their capital asset management programs were also obtained to assist in evaluating DCS's capital asset management process.

The states selected were based on recognition of their program, or aspects of, in *Governing* magazine's *Measuring Performance - The State Management Report Card for 2008* (March 2008 issue) or the General Services Administration's *Real Property Management in State Governments - Best Practices Guide* (March 2003), or having been recognized by the National Association of State Facilities Administrators (NASFA) with an Innovation Award (or Honorable Mention).

**Potential Topics
For Further Study**

As part of the evaluation process, we identified other aspects of DCS's operations that have potential for further study. These topics are not the subject of recommendations in this report but have the potential to improve DCS's and Oklahoma's programs and operations.

- Evaluation of DCS's ability to fully recover operating costs and capital outlay for programs, such as CAP, Fleet Management and Inter-Agency Mail.
- Assessment of state agencies excluded from DCS's authority and resulting impact on the state's ability to capitalize on economies of scale. For example, the Department of Human Services has a separate print shop and construction division while Higher Education is excluded from the Central Purchasing Act.
- Evaluation of staffing needs as well as current employees' level of training and expertise to provide specialized services, such as capital budgeting analysis, insurance assessments, and real estate planning.
- Assessment of the need for a statewide strategic planning process.
- Review of DCS's capital asset management practices one year after report issuance, to determine the status of audit recommendations.

Acronyms
(in alphabetical order)

This section defines commonly used acronyms in the report.

CAP - Construction and Properties

CIP - Capital Improvement Plan

DCS - Department of Central Services

GSA - General Services Administration

LRCPC - Long-range Capital Planning Commission

OFM - Office of Facilities Management

OSF - Office of State Finance

SLO - State Leasing Office

Department of Central Services
Performance Audit

Terms

(in alphabetical order)

Capital asset management - a systematic management effort to ensure that all entity decisions and initiatives regarding capital assets are planned and executed to maximize the functionality and financial value of the capital asset portfolio.

Capital budgeting - a process of determining needs for acquiring, constructing, improving, or purchasing capital assets.

Capital improvement - any building or infrastructure project that will be owned by the state and built with direct appropriations or with the proceeds of state issued bonds or paid from revenue sources other than general revenue at a cost of twenty-five thousand dollars or more and has a useful life of at least five years.¹

Capital Improvement Plan - a prioritized listing of capital projects selected for funding for the next five to ten years.

Deferred maintenance - preventive maintenance activities that have been delayed due to lack of funding.

Facilities management - the integration and alignment of non-core services, including those relating to the grounds, required to operate and maintain an entity and fully support an entity's programs and services.

Life cycle cost - the cost for rehabilitation, repair or replacement of an asset.

Master Plan - a guide that should provide a long-term vision for the state to ensure its future capital asset needs will be met.

Preventive maintenance - a program in which wear, tear, and change are anticipated and continuous corrective action is taken to ensure peak efficiency and minimize deterioration.

Space planning - ensures space allocation for state owned and leased space to promote practical, efficient, careful, conservative and optimum use and conservation of space.

¹ 62 O.S. § 45.3.F.

State Capitol Complex - the property and buildings of the State of Oklahoma bordered by 28th Street on the north, southbound Lincoln Boulevard on the west, 18th Street on the south, and northbound Lincoln Boulevard on the east. See Appendix C for a map of the complex.

State Capitol Park - the area at 23rd and Lincoln which houses the M.C. Connors Building, Oliver Hodge Building, Sequoyah Building, Will Rogers Building, and the State Capitol.

Strategic Plan - determines the direction and defines the mission of an entity.

Using agency - a state agency, board, or commission that requires service for design and/or construction.

Department of Central Services Performance Audit

Responsibilities

The OFM division manages and maintains state-owned facilities and grounds within the Capitol Complex and the Kerr-Edmondson buildings in Tulsa.

OFM consists of three sections:

- Facilities Services – maintains, renovates, and improves the building and grounds of 17 state facilities within the Capitol Complex as well as the Kerr-Edmondson buildings in Tulsa. Buildings range in age from one to 100 years. A full listing of the buildings managed by OFM can be found in Appendix B.

The total space managed by OFM is approximately 2.3 million square feet, valued at \$676 million. OFM also maintains approximately 150 landscaped acres within the State Capitol Park, Governor’s Mansion grounds, and at the Kerr-Edmondson buildings.²



State Capitol

- Energy Management – provides energy accounting services, manages building energy profiles through the Environmental Protection Agency (EPA) Energy Star Program, and maintains the OFM Sustainability Plan. Energy management also collaborates with the facilities services division during the planning and management of construction projects, when requested by using agencies, to establish efficiency standards for equipment, processes, and buildings.
- Finance Management – performs budgeting and accounting functions specific to state-owned facilities.

The CAP division serves as the contracting authority for building design and construction services for all state agencies.

CAP is divided into four sections:

² Department of Central Services – Office of Facilities Management Tenant Manual, Edition 1.0, January 2011.

- Projects – administers the Competitive Bidding Act of 1974 and subsequent project management in compliance with 61 O.S. § 204.
- Central Operations – provides administrative support to the Projects section.
- Programs and Services – operates the non-mandatory procurement programs offered to state agencies, such as the Indefinite Delivery/Indefinite Quantity (IDIQ) program, On-Call program, and Roof Asset Management Program.
- Planning and Real Estate Management – provides state agencies with real estate services related to buying and selling real property and granting easements and surface leases on state land to non-state entities. This section also maintains the real property inventory database for state-owned land. The State Leasing Office (SLO)³, assigns all space in state-owned and non-state-owned facilities, authorizes the amount of space to be acquired and executes all leasing contracts.

The LRCPC was created in 1992 by 62 O.S. § 901 to develop a multi-year capital improvement plan for all state agencies, authorities, and trusts. Through the identification and ranking of capital projects requests, the LRCPC is to provide the governor and legislature with information necessary to make informed decisions concerning the expenditure of limited state funds. The State Bond Advisor serves as staff for the LRCPC.⁴ The LRCPC is made up of twelve members. The President Pro Tempore of the Senate, the Speaker of the House of Representatives and the Governor each appoint four members. Two appointees are members of the Senate, two are members of the House of Representatives, and eight are from the public at large.

**Statutory
Requirements**

This section provides information on statutory requirements related to state agencies' responsibilities for capital asset management.

- 61 O.S. § 204 requires the CAP division to maintain a comprehensive master plan for utilization and construction of buildings for state agencies, capital improvements, and utilization of land owned by this state.

³ In November 2011 state leasing was transferred from OFM to CAP. This report presents state leasing as a function of CAP.

⁴ Oklahoma Department of Libraries – *Oklahoma Agencies, Boards, and Commissions* (ABC), September 2011.

Department of Central Services Performance Audit

- 62 O.S. § 901 creates and directs the LRCPC to develop annually a multi-year capital improvement plan for all state agencies, authorities, and trusts.
- 62 O.S. § 45.3 requires departments, boards, commissions, and other entities within the executive branch, including higher education to create a strategic plan.
- 74 O.S. § 61.7 (HB 1438) requires the director of DCS to publish an annual comprehensive report detailing state-owned properties by December 31 of each year. This report also should list the five percent most underutilized state-owned properties.



Senate Chamber

- 74 O.S. § 63.B charges DCS with the responsibility of construction, repair, maintenance, insurance and operation of all buildings owned, used or occupied by, or on behalf of the state, including buildings owned by the Oklahoma Capitol Improvement Authority.
- 74 O.S. § 63.C authorizes the director of DCS to purchase all material and perform all other duties necessary in the construction, repair, and maintenance of all buildings under the agency's management or control; directs DCS to execute all necessary contracts by or on behalf of the state for any buildings or rooms rented for the use of the state or any of the officers thereof; and states DCS shall have charge of the arrangement and allotment of space in such buildings among the different state officers.

**Introduction to
Capital Asset
Management**

To provide a necessary framework for short- and long-term capital asset planning and to maintain a desired level of service at the lowest life cycle cost, best practices indicate an entity should:

- **Know its assets** – know what assets are owned and leased, as well as the location, value, useful life, and condition of these assets
- **Manage its facilities** – maintain, upgrade, and operate facilities cost-effectively
- **Evaluate its needs** – evaluate short- and long-term needs and identify them in a way that separates needs from wants
- **Provide funding** – establish funding mechanisms and strategies for ongoing asset preservation



Department of Central Services Performance Audit

Does DCS know the state's assets?

Knowledge of the location, value, useful life, and condition of owned and leased capital assets is the foundation of capital asset management. Without this knowledge, the other aspects of capital asset management cannot function effectively. Complete, accurate, and sufficient information is essential to the planning and managing process.

In 2006, the Legislature removed the statutory requirement directing CAP to develop a comprehensive inventory.

When the CAP division was originally created in 1984, primary responsibilities included developing a comprehensive inventory of state-owned real property. CAP personnel indicated that despite multiple attempts made since 1991, the current inventory listing is incomplete. In 2006, the Legislature removed the statutory requirement directing CAP to develop a comprehensive inventory.

Additional statutory provisions, mandated in 1991, require state governmental entities to submit a copy of complete inventories to the LRCPC. However, according to the State Bond Advisor, inventory information is not being provided.

Passage of HB 1438 in 2011 made strides toward renewing CAP's state inventory authority. This legislation re-assigns DCS with the responsibility of publishing a comprehensive report detailing state-owned properties. In order for DCS to compile the data, state agencies, boards, commissions and public trusts must comply with rules issued by DCS.

As of December 2011, CAP intends to use various sources in compiling the statewide inventory, such as county records, state agency surveys, and review of risk management records. Additional procedures and sources may be added as the process evolves. CAP also plans to develop rules related to the collection of the inventory data.

A comparison found that Oklahoma's approach of preparing an annual inventory listing using information from agencies, boards, and commissions is consistent with the inventory requirements of other states. For example, Washington state statutes require the Office of Financial Management to prepare an annual inventory using information provided by all agencies, departments, boards, commissions, and institutions.

Washington state statutes require the annual inventory to contain state-owned and leased facilities. This provision is inconsistent with Oklahoma's practice of requiring only an inventory of state-owned properties. Although not legislatively mandated, SLO maintains two separate databases of leased space in state-owned and non-state-owned facilities.

Because DCS personnel have acknowledged that the state-owned inventory is incomplete, no procedures were performed by the State Auditor's Office to validate the inventory databases.

Other states have achieved cost savings by implementing a comprehensive inventory, and centralizing the development of standards and practices, thereby improving strategic management of statewide assets. For example, after implementing the Building, Land, and Lease Inventory of Property (BLLIP) in 2007, Georgia's State Properties Commission saved \$22 million through the sale of surplus property.⁵

Does DCS manage the state's facilities?

Proper facility operations and maintenance management is an essential component of capital asset management. Facilities management is the integration and alignment of non-core services, including those relating to the grounds, required to operate and maintain an entity and fully support an entity's programs and services. Facilities management should provide ongoing and reliable service to support the entity's programs and services and seek improvement on a continual basis.

Statutes assign to DCS the responsibility of maintaining and operating all state buildings owned, used or occupied by, or on behalf of, the state including buildings owned by the Oklahoma Capital Improvement Authority. Even though the statute requires DCS to maintain and operate all state buildings owned, used or occupied by, or on behalf of the state, DCS maintains and operates only 17 of the approximately 30 buildings located within the State Capitol Complex.

DCS maintains and operates only 17 of the approximately 30 buildings located within the State Capital Complex.

⁵ Georgia State Properties Commission 2007 NASFA Innovation Award Application.



OSF Data Center

Exclusive to the State Capitol Complex, OFM management indicated that the responsibility of operating and maintaining the facilities is actually at the discretion of the agency controlling the building construction resources or maintenance funds. For example, the OSF Data Center and the Oklahoma History Center, two of the more recently constructed buildings within the State Capitol Complex, are not maintained and operated by OFM.

Other buildings were designed and constructed without involving OFM in the planning process, causing maintenance inefficiencies in buildings which OFM is then expected to manage. OFM management provided examples of decisions made by using agencies during the construction process that resulted in subsequent maintenance inefficiencies in three separate buildings:

- Light fixtures were installed in locations that will require OFM to construct special scaffolding to reach and replace the bulbs.
- After a premium leak proof roof was constructed, a cooling unit was installed requiring the drilling of holes in the roof. This installation compromised the leak proof roof.
- A cooling system that requires 24-hour operation was installed when only one area of the building requires constant cooling. As a result, OFM management indicated a need for a \$200,000 appropriation to purchase a suitable cooling system.

Inconsistent and non-standardized maintenance practices increase the risk of ineffective preservation of capital assets. Beginning in 2008, OFM was restructured to create consistent and standardized maintenance practices for the DCS-managed buildings:

- Central Maintenance – Staff and inventories from individual buildings were consolidated and placed at one location under a centralized management structure to more efficiently deploy staff resources and maintenance inventory.

- Energy Management – A Sustainability Plan was created to minimize environmental impact of the buildings and realize cost savings or cost avoidance. The Sustainability Plan includes a recycling program and participation in the EPA’s Energy Star program.
- Building Operations – A program was designed to minimize utility costs through predicatively controlling buildings’ temperature, humidity, and pressure. An automated system is used to generate real-time energy reports allowing for more efficient management of utility costs.
- Financial Management – An accounting and budgeting division specific to maintenance and operation of the buildings was established to improve accountability. The division calculates the actual operating costs per square foot to maintain each building.

For the DCS-managed buildings, standardized maintenance practices have been established, but state-wide practices have not been instituted.

A best practice for facilities management, emphasized by the GSA, is the establishment of a system for facility assessment and preventive maintenance. This practice allows for a proactive rather than reactive maintenance program.

Michigan and Missouri were acknowledged for preventive maintenance programs. Both states use computer systems to coordinate numerous maintenance functions. Similarly, OFM has implemented an automated maintenance system to improve overall maintenance accountability through the tracking of staff time, tenant requests, project status, and inventory use.



Oklahoma History Center

Utah was recognized for the Capital Facilities Assessment program. This program identifies needed repairs for state-owned facilities older than five years to prevent them from falling into disrepair. Once the assessment is completed all information is entered into a master database. OFM’s building managers conduct routine and ongoing facilities assessments. Necessary repairs noted during these assessments are recorded in the maintenance system.

Utah and Missouri have systems in place to regularly gather feedback from client agencies to improve service delivery. DCS does not have a system to assess customer satisfaction for OFM's managed buildings or for leased space in non-state-owned buildings. Tenant feedback is essential to provide ongoing and reliable service.

The GSA acknowledges two best management leasing practices. The first, a centralization of leasing functions, allows one leasing division to manage most requests for state agencies. Like many other states, Oklahoma has implemented this practice. The second practice, competitive bidding of leases, has not been adopted. Instead DCS establishes a lease rate ceiling. SLO personnel indicated that the rate ceiling had not been adjusted since 1990, and was based on the prevailing rate for moderate quality office space at that time. If a state agency wishes to lease space that exceeds the rate ceiling it must be granted an exemption from SLO.

Using a lease rate ceiling established over 20 years ago could increase the difficulty of locating appropriate office space and the risk that work environments are substandard or could be poorly maintained.

Using a lease rate ceiling established over 20 years ago could increase the difficulty of locating appropriate office space and the risk that work environments are substandard or could be poorly maintained. Occupancy of uninhabitable facilities increases the risk of state program inefficiency, loss in productivity, and potential program ineffectiveness.⁶

Does DCS have a method to evaluate its needs?

A critical component of capital asset management includes a systematic method to evaluate short- and long-term needs. Such a system should provide a logical approach to decision making to promote cost-effective maintenance, upgrading, and operation of capital assets.

The strategic plans, master plan, and capital improvement plan (CIP), constitute a process designed to systematically and efficiently acquire, fund, and manage capital assets.

⁶ Loftness V., V. Hartkopf, and B. Gurtekin. 2003. "Linking Energy to Health and Productivity in the Built Environment: Evaluating the Cost-Benefits of High Performance Building and Community Design for sustainability, Health, and Productivity." Center for Building Performance and Diagnostics, Carnegie Mellon. 2003 Greenbuild Conference.

Strategic Plan

A strategic plan defines the entity's mission and outlines possible courses of action to achieve desired results. The strategic plan should form the basis for identifying capital requirements. Statutes require each executive branch entity to prepare an annual strategic plan.

Master Plan

A master plan provides a long-term vision for an entity to ensure its future asset needs will be met, and should flow naturally from the strategic plans.

The original state statutes creating CAP directed the division to prepare a statewide master plan using information provided by the individual using agencies. In 1998, legislation was passed lessening CAP's responsibilities to only *maintain* a master plan.

State agencies are not statutorily required to provide DCS with strategic plans or inventory listings. Without access to this relevant information, maintaining a master plan is not possible. Discussions with CAP personnel confirmed a master plan is not maintained.

In reviewing other states' legislative requirements for master plans, we noted that the level of detail varied. For example, the Texas state statutes requires the Texas Facilities Commission (TFC) to provide a list of completed improvements and repairs along with an itemized account of receipts and expenditures, a list of the property under TFC's control, the condition of the property, and an estimate of needed improvements and repairs. Other Texas statutes require building and construction cost information for state-owned buildings, specific details of what the long-range plan must contain, and a biennial report on the state's office space needs and projects requested by state agencies. All of these statutory requirements are addressed in TFC's Master Plan.



State Banking Building

The State of Washington legislative requirements are less detailed, requiring the Office of Financial Management, with assistance from the Department of Enterprise Services, to develop a six-year facility plan every two years. The plan includes state agency space requirements and other data pertinent to cost-effective facility planning.

These examples illustrate that space management plays an integral role in the master plan. Proper space planning allows for a method to make cost effective decisions through evaluating future space needs, evaluating the cost of leasing versus owning, and creating statewide space standards.

DCS's space planning efforts appear to be agency demand driven, reactive rather than proactive, and lack a standard methodology on which to base cost-benefit decisions.

Because no master plan exists, SLO's space planning efforts appear to be agency demand driven, reactive rather than proactive, and lack a standard methodology on which to base cost-benefit decisions.

Examples of other states that identified cost savings or cost avoidance through space planning include:

- Georgia – saved \$1.1 million in one year by identifying opportunities to consolidate space, renegotiate lease rates, and relocate state entities to more cost-effective locations.
- Florida – realized cost avoidance of \$4.6 million by implementing a new statewide leasing process. The process addresses consistent space standards, strategic determination of office locations (to ensure office locations are determined based on customer demands, not personal preference), standardization of lease terms, obtaining quality space using Building Owners and Managers Association International standards, consolidating locations where appropriate, and the use of tenant brokers.
- Arizona – projected savings of \$292 million over a 50-year period by acquiring two buildings, valued at \$100 million, using a privatized lease-to-own program.

An additional aspect of Oklahoma's evaluation process is included in HB 1438. This legislation requires DCS to identify the five percent most underutilized state-owned properties. The legislation does not define what "underutilized" means nor does it outline how this is to be determined.

Without a master plan, identifying underutilized state-owned properties is ineffective.

Without a master plan, identifying underutilized state-owned properties is ineffective. Although the property may be underutilized

today, planning could identify a need or use for the property at a later date.

*Capital Improvement
Plan*

A CIP identifies the needs of an entity and prioritizes capital improvement projects. The CIP should compel decision makers to review, compare, and assign priorities in order to fund projects.

Statutes assign the LRCPC with the responsibility of preparing the CIP. The CIP is created from the “Capital Outlay Project” reports submitted by agencies through OSF’s web-based capital budgeting system. The report provides information related to eight areas:

- overall fiscal impact/cost effectiveness
- legal obligation and governmental mandates
- impact on service to the public
- economic impact/job creation
- urgency of maintenance needs
- whether prior phases have been funded or partially funded
- state agency priority
- impact on technology use

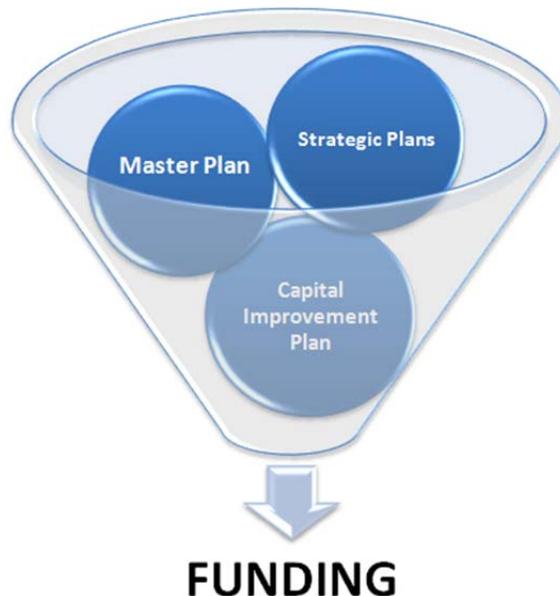
Following the submission of the Capital Outlay Projects, the State Bond Advisor and staff evaluate the agencies’ requests based on the LRCPC’s approved evaluation process.

Discussions with DCS personnel and the State Bond Advisor indicated that some information provided by the state agencies may not be accurate (e.g. state agency projects may not be properly prioritized). Reasons for the inaccurate information may be the result of:

- Insufficient time and proper consideration given to completing the Capital Outlay Project reports because of a belief that legislative funding does not specifically tie to recommendations made in the CIP.
- Inadequate understanding or expertise necessary to properly budget for a capital outlay project.

In addition to the risk of inaccurate information, the integrity of the CIP recommendations is somewhat at risk due to:

- Insufficient time spent completing the CIP because of limited staff resources within the State Bond Advisor's office. This responsibility is not the primary mission of the State Bond Advisor's office.
- Inadequate statutory mandates addressing the expertise level of LRCPC's members. The statutory mandates do not require specific knowledge or experience in capital asset design, construction, and maintenance.



Does DCS have a funding mechanism?

Funding projects as well as building operations and maintenance is a critical aspect of the capital asset model. Because building deterioration occurs over a long period of time, there is often a perception that maintenance can be delayed for a year or two without significant damage. However, continually delaying maintenance to facilities can result in major disruptions in service and business, and cause serious health and safety consequences.

Funding mechanisms and preservation maintenance practices and strategies should be established for ongoing asset care. In times of tight budgets and competing demands for public resources, it may be difficult to convince decision makers that neglect of maintenance of

capital assets and equipment can lead to significant losses of those assets.

Trying to gain decision makers' recognition of the full cost of asset ownership and their commitment to properly maintain the assets

Maintenance projects are given priority only when conditions present an emergency or pose a danger to the public's health and well-being.

presents a challenge to those charged with the responsibility for managing these facilities. Maintenance projects may not be a priority to decision makers in part because results are not readily visible. It appears maintenance projects are given priority only when conditions present an emergency or pose a danger to the public's health and well-being.

The CIP was originally developed to provide legislative leadership and the governor with information necessary to effectively and efficiently allocate limited resources. The LRCPC did not issue a CIP for FY 09 or 10.

In FY 11 the LRCPC received \$2.8 billion in appropriation requests for capital outlay projects. For fiscal years 2013 through 2017 the December 2011 CIP recommends a total appropriation of \$300 million, with an annual funding level of \$60 million to be awarded for capital improvement projects costing under \$2 million. The State Bond Advisor indicated that this is an arbitrary figure selected by the LRCPC and that the legislature has yet to fund the \$60 million recommendation. The \$300 million appropriation for capital funding represents only 1.0% of the expected \$30 billion the legislature will appropriate over the next five years.⁷

CIP recommended capital funding represents only 1% of the expected legislative appropriations over the next five years.

Projects exceeding \$2 million⁸ were not considered by the LRCPC as feasible for appropriation. Instead, the projects were recommended for funding through future bond issues.

We were unable to determine how much was actually appropriated for capital improvements based on the CIP recommendations because the projects are not line-item appropriated in the General Appropriations bill or contained in individual agency budget limit

⁷ December 2011 Capital Improvement Plan.

⁸ These requests totaled in excess of \$1.8 billion, with over 58% of the requests made from Oklahoma's higher education institutions and more than \$400 million made from the Department of Corrections.

bills. Without line items or budget limits, it is impossible to determine the amount appropriated for capital outlay and ongoing operations and maintenance.

DCS administers two funding structures for operating and maintaining the 18 state-owned buildings. Legislative appropriations

No standard methodology for determining the buildings' funding structure creates an unfair and inequitable environment.

are provided for seven buildings, while the remaining 11 are supported by rent revenue. There does not appear to be a standard methodology for determining the buildings' funding structure creating an unfair and inequitable environment. Operation and maintenance costs for appropriated buildings are subsidized by revenues generated from non-appropriated buildings.

Although DCS budgets by state-owned building, it is unclear how much was actually received through legislative appropriations either by a reference to total facility maintenance expenditures or by specific building expenditures in the General Appropriations Bill.

Current rental rates for non-appropriated facility tenants are based on the projected 2008 costs to maintain the specific facility. Costs include utilities, personnel, service contracts, and on-call contract expense per square foot of the total net rentable space, plus \$1.00 per square foot to offset deferred maintenance costs.

Over the last five years, DCS has endured reductions in legislative appropriations:

DCS FIVE YEAR HISTORY OF APPROPRIATIONS

FY-08	\$19,053,697
FY-09	\$18,713,175
FY-10	\$16,552,201
FY-11	\$15,973,031
FY-12	\$15,334,110 ⁹

To offset the decreases in appropriations and insufficient rent revenue to support building operations, OFM has reduced energy and water usage, realizing \$849,038 in cost-avoidance.¹⁰

Despite this effort, DCS has been forced to delay major capital outlay projects to meet tighter budget constraints. Such delays increase the

⁹ DCS's FY 12 final appropriation was \$17,313,301. According to Senate Fiscal Staff, this includes \$1.5 million for operations and maintenance of the new Judicial Center, and one-time appropriation of \$479,191 for a new chiller in the Denver Davison Building.

¹⁰ DCS website: http://www.ok.gov/DCS/Office_of_Facilities_Management/Energy_Management/Energy_Usage/.

risk of asset failure that can lead to more costly replacement and rehabilitation needs.

In reviewing states' asset management practices, the GSA highlights other states that consider creative funding mechanisms to ensure adequate resources are available to secure necessary property while protecting long-term financial interests. Arizona, for example, used a Privatized Lease to Own program to build three buildings. Under this program, the private sector developer owns, develops, operates, and maintains buildings on state-owned land. At the end of a 25 year lease, the state will own the buildings valued at \$100 million.



Attorney General Building

GSA also recognizes Missouri and Utah for having designated funding mechanisms to support maintenance costs. Missouri statutorily requires a set-aside of 0.05 percent of the general revenue each year for the Facilities Maintenance Reserve Fund, which supports maintenance and repair projects of a predictable nature for all facilities statewide. Utah statutorily requires a set-aside of a varying percentage of the estimated replacement costs for all state building improvements, currently at 1.1 percent.

In 2011, the legislature authorized a one-time appropriation from the net proceeds and related interest from the sale of designated OCIA bonds for deferred maintenance. This appropriation was directed for deposit into the Deferred Maintenance Revolving Fund established in HB 1512. The amount of the appropriation was originally projected to be \$800,000. The actual amount appropriated was over \$2 million.

Conclusion

Cost savings and improved efficiencies could be realized by the establishment of a centralized capital asset management process through improving planning, management, and funding practices.

Recommendations

The following are recommendations that OSF and the legislature should consider in order to realize the most opportunity for increased efficiencies attained through establishing a capital asset management process.

- #1 Develop and complete an integrated inventory database to include both state-owned facilities and leased facilities. The database should include at least the location, value, useful life, and condition of facilities.

Department of Central Services Performance Audit

#2 Statutes should be amended to include leased properties in the required inventory listing, to incorporate OFM in the construction planning process, and to establish the criteria for underutilized property.

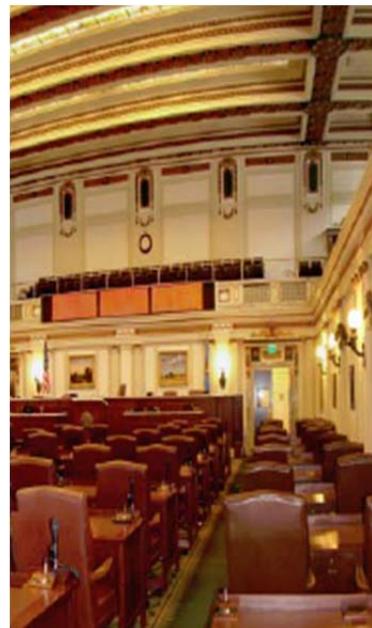
#3 Policy should be developed to establish and implement:

- Uniform maintenance standards for all state-owned buildings outside of DCS's control to ensure sufficient preservation of Oklahoma's capital assets. Minimum maintenance standards should also apply to leased properties.
- A customer feedback system for state-owned and leased properties to promote ongoing and reliable service.
- An analytical method to document the cost-benefit decisions associated with space planning, such as matching facilities to requestors' needs or considering leased property options.
- An alternative lease pricing practice, such as competitively bidding leases, to ensure appropriate office space is obtained.

#4 Provide sufficient training to ensure appropriate agency personnel accurately prepare the Capital Outlay Project report.

#5 Develop a statewide master plan using the integrated inventory database, facility assessments, agency strategic plans, Capital Outlay Project reports, and assessments of future needs, to project statewide capital assets needs.

#6 Demonstrate legislative commitment and increase agency accountability by providing line-item appropriations or budget limits



House Chamber

for facility operations and maintenance in the General Appropriations bill, individual appropriation bills, or agency budget limit bills.

- #7 Establish a permanent capital improvement fund with dedicated, constant revenue sources to address the back-log of capital improvement projects. An option could be dedicating a set amount or percentage from the General Revenue Fund.
- #8 Provide sufficient resources to fund ongoing operations and maintenance for DCS-managed buildings. Options could include creating a cost-recovery rental rate structure, providing adequate appropriations, or a combination to meet actual costs.
- #9 Integrate the master plan with an analysis of cash flow needs to determine appropriate capital financing options, such as:
 - Public-private partnerships, such as lease-to-own agreements.
 - Pay as you go – create an investment pool using available state entity resources to fund state acquisition and building opportunities.
 - Federal grants – pursue federal grant matching opportunities.
 - Debt financing – obtain external funds through the capital market.

**Views of
Responsible
Officials**

The Department of Central Services of the Office of State Finance (DCS) requested Senate Bill 1052 (SB 1052) which requires a report be submitted to the Governor, Speaker of the House, and the President Pro-Tempore by December 31, 2012 making recommendations on streamlining and consolidating state construction processes. DCS requested the report as an opportunity to provide suggestions to improve current procedures, introduce potential changes to statutes, and present industry best practices as options for meeting the facilities and maintenance operations of Oklahoma's government.

Recommendation #1

We concur. DCS is currently in the process of updating and completing an inventory of both state-owned and leased facilities. In addition, DCS' Risk Management database maintains such information as the elements suggested in the State Auditor's report. The division is currently working to integrate the two databases into one comprehensive source of data.

Recommendation #2

We concur. As mentioned above, the integration of properties in an inventory management system is underway. DCS plans to recommend a requirement to include in the report required by SB 1052 that OFM be incorporated into the construction planning process. Finally, as a response to HB 1438 (2011), we are currently establishing criteria and defining measures to use a consistent method in determining what constitutes "underutilized" property and how to decide the optimum solution for managing the asset, i.e. disposal, refit, or increased utilization as is.

Recommendation #3

We concur.

- Uniform maintenance standards will be included in the SB 1052 report.
- A customer feedback system is in development with an anticipated implementation date of July 1, 2012.
- One of the core requirements of SB 1052 is the identification of a planning and process model. DCS intends to include a cost-benefit analysis as part of the planning process.
- DCS will explore the options, current legal restrictions, and best practices associated with lease pricing and implement those deemed to be in the best interest of the state.

Recommendation #4

We concur. DCS currently offers a training program for agencies called "Doing Business with CAP." Training on the preparation of Capital Outlay Projects Reports can easily be incorporated into this venue.

Recommendation #5

We concur. A central requirement of SB 1052 is developing a statewide master plan. Section 204(A)(1) calls for the Construction and Properties Division to “maintain a comprehensive master plan for the utilization and construction of buildings for state agencies, capital improvements, and utilization of land owned by this state.” New language has been suggested for the purpose of defining or identifying the preparation, analysis and components of the plan including reporting by state agencies, performance benchmarking of facilities, developing long-range strategic facility plans, budgeting for short-range projects to implement facility capital improvements and asset management decisions, submitting an annual capital plan for all state agencies for line-item appropriation requests.

Recommendation #6

We concur. As mentioned above, SB 1052 requires line-item appropriations for construction, repairs, and maintenance.

Recommendation #7

We concur and will include this recommendation in the SB 1052 report.

Recommendation #8

We concur. DCS is currently working with the legislature on converting ‘appropriated’ buildings to ‘rent’ buildings by including in each agency budget a line-item amount for tenant rent payments. DCS has requested an additional appropriation of \$5 million a year for the next five years to catch up on deferred maintenance needs.

Recommendation #9

We concur. Passage of SB 1052 will result in visibility of all state assets and the total annual capital spend. This information will assist in the decision-making necessary to leverage available funding streams and implement alternative financing in the most appropriate and effective manner. The SB 1052 report will include statutory changes necessary to take advantage of financing strategies, such as lease-to-own.

We will seek grant dollars to assist DCS in financing projects, operations and maintenance of state properties. We will also seek to collaborate with partners, such as the Department of Commerce, to identify and pursue grants as funding sources.

APPENDIX A:

Best Practices Guides

Governing - Measuring Performance The State Management Report Card for 2008, March 2008 issue

http://www.pewtrusts.org/our_work_report_detail.aspx?id=36066

General Services Administration Real Property Management in State Government - Best Practices Guide (March 2003)

http://www.gsa.gov/graphics/ogp/best_practices_state_03_R2J66-x_0Z5RDZ-i34K-pR.pdf

Nastional Association of State Facilities Administrators - Innovation Awards (or Honorable Mentions)

2011 Honorable Mention - Florida's Changing the Culture of Managing its Real Estate Portfolio

<http://www.nasfa.net/displaycommon.cfm?an=1&subarticlenbr=187>

2007 Winner - Georgia's BLLIP: Building, Land & Lease Inventory of Property

<http://www.nasfa.net/displaycommon.cfm?an=1&subarticlenbr=15>

2001 Honorable Mention - Arizona's Privatized Lease to Own (PLTO) Program

<http://www.nasfa.net/displaycommon.cfm?an=1&subarticlenbr=15>

APPENDIX B:

*Buildings managed by OFM:*¹¹

*(Buildings marked with an * are tenants which pay rent, "non-appropriated")*

Agriculture Building & Lab*



Built: 1984

Lab Built: 2009

Size: 140,404 sq. ft. over three floors and basement level

Tenants: Department of Agriculture, Conservation Commission, Agriculture Mediation Program, Board of Regents for Oklahoma Agriculture and Mechanical Colleges & United States Department of Agriculture

Allen Wright Memorial Library



Built: 1973

Size: 79,878 sq. ft. over three floors and partial basement level

Tenant: Department of Libraries

Attorney General Building*



Built: 1918

Major Addition: 2007

Size: 76,153 sq. ft. three floors and underground parking level

Tenant: Office of the Attorney General

¹¹ Department of Central Service – Office of Facilities Management Tenant Manual, Edition 1.0, January 2011.

Department of Central Services
Performance Audit

Construction and Properties Building*



Built: 1965
Major Renovation: 2009; LEED Gold Certification
Size: 11,427 sq. ft
Tenant: Department of Human Services, Information Services Division

Denver Davison Courts Building



Built: 1983
Size: 88,714 sq. ft over three floors and a basement level
Tenants: Workers Compensation Court and Court of Civil Appeals (Real Estate Commission – future tenant)

Department of Transportation*



Built: 1974
Size: 218,446 sq. ft. over three floors and a basement level
Tenant: Department of Transportation

Facilities Services Annex



Built: unknown
Size: 6,865 sq. ft
Tenant: DCS Central Maintenance
Headquarters

Governor's Mansion



Built: 1928
Size: 16,366 sq. ft over four floors and
a basement
Tenant: Governor & First Family

Jim Thorpe Building



Built: 1938
Size: 162,074 sq. ft. over eight floors
Tenants: Office of Personnel
Management, Oklahoma Arts
Council, Corporation Commission,
and Human Rights Commission

Department of Central Services
Performance Audit

Judicial Building



Built: Early 1900's
Major Renovation: 2011
Size: 145,500 sq. ft.
Tenants: Oklahoma Supreme Court, Administrative Office of the Courts, Court of Criminal Appeals, and Clerk of the Appellate Courts

M.C. Connors Building*



Built: 1973
Size: 161,884 sq. ft. over five floors, a basement and sub-basement level
Tenant: Tax Commission

Oliver Hodge Building*



Built: 1973
Size: 101,865 sq. ft over five floors and a basement level
Tenants: Department of Education and Oklahoma Teachers Retirement System

Sequoyah Building*



Built: 1961
Size: 176,120 sq. ft. over five floors and a basement level
Tenant: Department of Human Services

State Banking Department Building*



Built: 2009
Size: 7,969 sq. ft.
Tenant: State Banking Department

State Capitol Building



Built: 1917
Size: 452,508 sq. ft.
Tenants: Members of the Executive, Legislative, and Judicial branches of state government.

Department of Central Services Performance Audit

Warehouse*



Built: unknown
Size: 79,996 sq. ft.
Tenant: DCS Fleet Management and State Storage

Will Rogers Building*



Built: 1961
Size: 167,330 sq. ft. over five floors and a basement level
Tenants: Department of Central Services, Oklahoma Employment Security Commission, Secretary of State, Oklahoma Department of Emergency Management and Oklahoma State Election Board

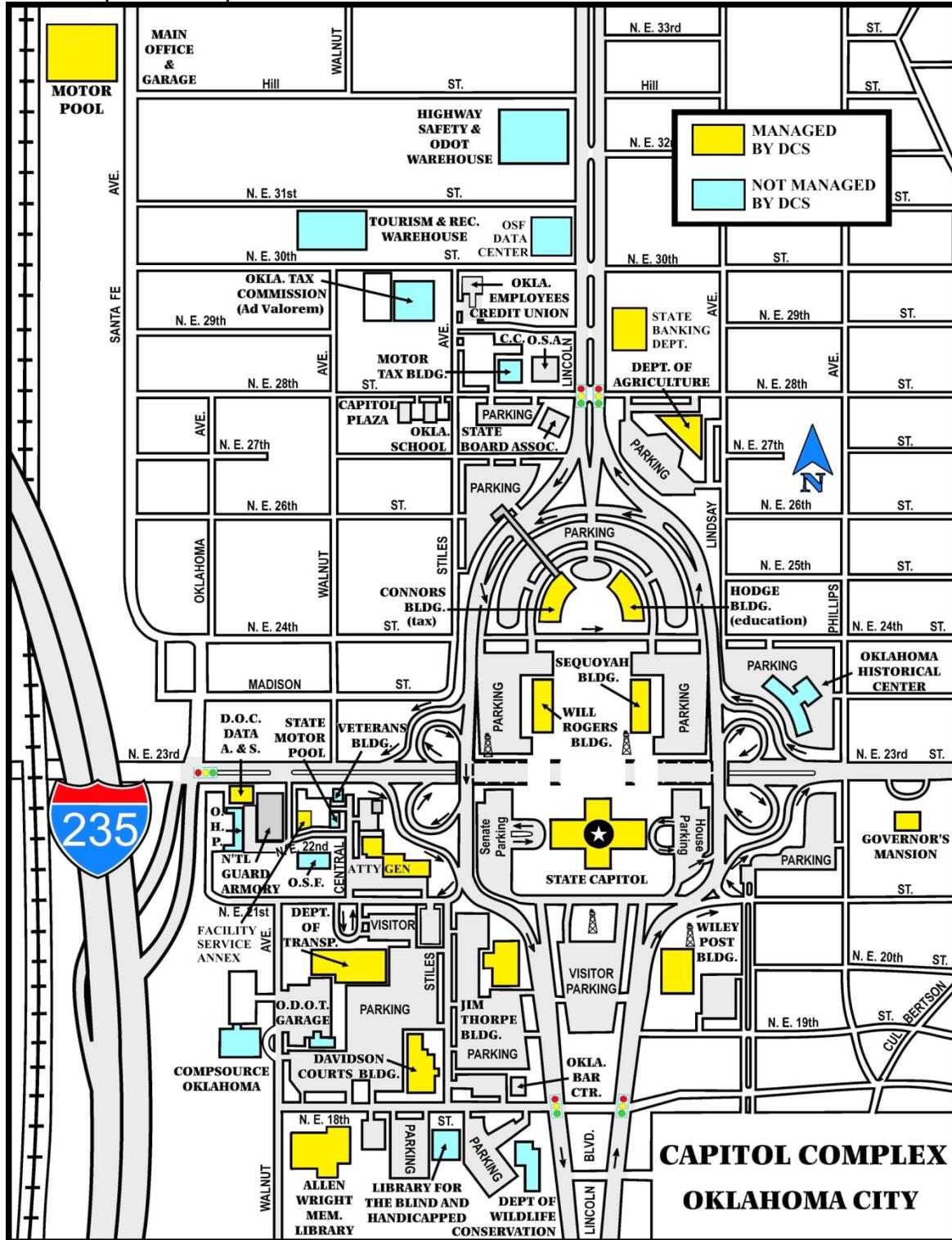
Kerr- Edmonson Building (Tulsa)*



Built: 1975
Size: 236,585 sq. ft. over four floors (J. Howard Edmonson) and eight floors (Robert S. Kerr)
Tenants: Department of Agriculture, ABLE Commission, Oklahoma State Auditor and Inspector, Corporation Commission, Department of Corrections, Court of Civil Appeals, Office of the Governor, Human Rights Commission, Department of Labor, Tax Commission, Water Resources Board, Worker Compensation Court, Office of State Finance, Department of Rehabilitation Services, Office of Juvenile Affairs, and Department of Human Services

APPENDIX C:

State Capitol Complex





OFFICE OF THE STATE AUDITOR AND INSPECTOR

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