PERFORMANCE AUDIT

DEPARTMENT OF ADMINISTRATION

Building and Planning Services Section and Construction Services Section

Report to the Arizona Legislature
By the Auditor General
October 1993
93-9

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DOUGLAS R. NORTON, CPA
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
DEPUTY AUDITOR GENERAL

October 29, 1993

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Mr. J. Elliott Hibbs, Director
Department of Administration

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Administration, Building and Planning Services Section and Construction Services Section. This report is in response to a December 13, 1991, resolution of the Joint Legislative Oversight Committee and is the second of six audits scheduled on the Department.

The report addresses the effectiveness and efficiency of the Building and Planning Services Section and Construction Services Section. We found that a lack of funding and inefficient management have rendered many State buildings in need of major repairs. We also found that DOA can improve its handling of agency relocations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on November 1, 1993.

Sincerely,

Douglas R. Norton

Douglas R. Norton
Auditor General

2910 NORTH 44TH STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Department of Administration (DOA), Building and Planning Services Section and Construction Services Section, pursuant to a December 13, 1991, resolution of the Joint Legislative Oversight Committee. The audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2951 through 41-2957 and is the second of six audits scheduled on the Department.

Located within DOA's General Services Division, the Building and Planning Services Section and the Construction Services Section have oversight responsibility for the State's buildings. The mission of these sections is to provide safe, efficient, and accessible facilities for State employees, agencies, and the public. Their responsibilities and activities include inspecting State-owned buildings, determining the use of space in State facilities, planning for major maintenance and capital improvements, and project management for construction of new facilities.

Many State-Owned Buildings Are In Need Of Major Repair (see pages 7 through 14)

Many State facilities need major repairs and renovation. Numerous problems exist, including overloaded electrical systems, structurally unsafe cooling systems, leaking roofs, and insufficient fire-safety systems. For example, in a State office building (the former State Compensation Fund Building) interior walls are cracking, chipped, and stained from rainwaters leaking through the roof. Many of these problems stem from the deferral of building renewal projects.

Tight State budgets have resulted in limited funding for building renewal. In 1986, legislation was passed requiring the Joint Committee on Capital Review to develop a uniform formula for computing the annual funding needs for building renewal. Applying the formula established by the Committee, approximately $60 million should have been appropriated for building renewal between fiscal years 1987 and 1993, yet only $30 million has been actually appropriated. As a result, building renewal projects have been deferred to the point that more costly repairs may be needed. Without increased funding, the State's capital assets, valued at over $1 billion, will further deteriorate and people using the facilities could be endangered.

In addition to the need for increased funding, DOA also needs to improve its management of the State's assets. For example, DOA lacks basic information for State buildings, such as historical operating costs and the amount of money required to address necessary repairs. Without such information, DOA is limited in making cost-effective decisions regarding repairs and replacement of major building systems and renovations to the building itself. In addition, DOA does not track individual building

renewal projects and thus, no cumulative listing exists of deferred projects. The Department also generally fails to use its building inspection information to identify or confirm building renewal needs.

DOA Needs To Improve Services To Agencies Involved In Relocations (see pages 15 through 19)

DOA needs to improve in its role as a service organization to those agencies it relocates. Since September 1990, DOA has been relocating agencies into vacant space which became available due to new construction and the purchase of additional properties. To evaluate DOA's effectiveness in its efforts, we surveyed 43 agency officials that had undergone a move between September 1990 and June 1993. Although many agencies felt that DOA had performed adequately, it was evident that steps could be taken to improve the process. We found that DOA has not adequately assessed agency needs prior to making the decision as to which agencies will be moved and to where. Many agencies we surveyed encountered problems during their relocations which could have been avoided had DOA taken a more service-oriented approach to coordinating the move. Areas of concern included not informing agencies of their move responsibilities, inadequate coordination of contracted services, poor communications, and not having construction completed at the time of the move.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit and Sunset Review of the Department of Administration, Building and Planning Services Section and Construction Services Section, pursuant to a December 13, 1991, resolution of the Joint Legislative Oversight Committee. The resolution called for a review of DOA's Facilities Management Division. However, since that time the division has been reorganized into the two sections named above which are located within DOA's General Services Division. The audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957, and is the second of six audits scheduled on the Department.

DOA Oversight Of State-Owned Facilities

One of DOA's major responsibilities is the oversight and maintenance of the State's public buildings. State-owned facilities represent a substantial asset to Arizona, with over 3,000 buildings on the Statewide inventory[1] and a total replacement cost exceeding $1 billion. Currently, the average age of State-owned buildings is 22 years. Table 1 (page 2) describes the Statewide inventory by characteristics, such as square footage and replacement value.

Building systems - State-owned buildings are organized into building systems. Currently, there are only three designated building systems: State university facilities assigned to the Board of Regents, Arizona Department of Transportation facilities, and all other State facilities assigned to DOA. A.R.S. §41-790 defines a building system as "*...a group of buildings which together constitute a single unit for purposes of planning, land acquisition, construction or building renewal.*"

DOA has direct management responsibility for more than 40 buildings. These buildings consist of the majority of the buildings located in the Capitol Mall Complex, the Tucson State office building complex, and two buildings recently acquired through DOA's purchase of distressed properties. General Services handles the daily maintenance function for these buildings. However, for all other buildings, management and maintenance is the tenant agency's responsibility.

1. This figure does not include the State's university facilities or approximately 700 items, such as light poles, etc., which are included on the Statewide inventory data base but are not deemed to be a building.

Table 1

Characteristics Of Buildings In The Department Of Administration Building System Fiscal Year 1992-93

Characteristic	All Buildings	Buildings Valued At $500,000 Or More
Number of Buildings	3,183	384
Average Age	22 years	21 years
Total Replacement Cost	$1,010,785,139	$785,241,367
Average Replacement Cost	$317,557	$2,044,899
Total Square Feet	16,478,705	11,117,591
Average Square Feet	5,177	28,952

Source: Auditor General staff analysis of the Department of Administration's fiscal year 1992-93 Inventory of State-owned building data.

Mission And Responsibilities

Within DOA's General Services Division, the Building and Planning Services Section and the Construction Services Section have oversight responsibility for the State's buildings. The sections' mission is to provide safe, efficient, and accessible facilities for State employees, agencies, and the public.

Specifically, the Building and Planning Services Section performs the following functions:

- Oversees DOA space allocation, real estate acquisitions, and agency relocations;
- Maintains a listing of the Statewide inventory;
- Performs inspections of construction projects, statutory reviews of contracts, plans and specifications, and Statewide building inventory inspections;

- Assists all agencies in meeting statutory requirements through the review and approval of construction and leases; and

- Plans and designs the construction of tenant improvements in DOA-managed buildings.

In addition to these responsibilities, Building and Planning Services is also charged with capital improvement and building renewal[1] planning for State-owned buildings. Each October, DOA must present to the Governor the Capital Improvement Plan, which contains the capital improvement plans prepared by DOA and the Board of Regents for their respective building systems. Within the DOA building system, individual agencies submit both capital improvement and building renewal requests for their specific buildings. In fiscal year 1993-94, 17 agencies submitted 458 project requests to DOA totaling $189 million for capital projects and $21.8 million for 251 building renewal projects. DOA evaluated and prioritized the requests based on established criteria (such as whether the projects would correct fire and life safety issues, were critical to the continued operations of an agency, or would generate a savings) and anticipated funding. The Plan ultimately submitted to the Governor requested a total of $39 million for capital improvement and building renewal projects.

The Construction Services Section performs the following functions:

- Contracts for architectural and engineering design for proposed or State-owned buildings;

- Construction project management for State building construction projects, largely correctional facilities; and

- Corrections inmate construction program.

Budget And Personnel

For fiscal year 1992-93 the two sections were appropriated approximately $1.48 million. Of this amount approximately $500,000 was designated for agency relocation, $346,000 was designated to administer the construction of prison facilities, and $635,000 was designated for the Building and Planning Services Section personnel and operations. The sections receive no General Fund monies. Instead, funding for the $1.48 million

1. As identified in A.R.S. §41-790.2, "*...building renewal means major activities that involve the repair or reworking of a building, including the upgrading of systems which will result in maintaining a building's expected useful life.*"

appropriation was received from two separate funds: the Capital Outlay Stabilization Fund ($1,135,200), and the Corrections Fund ($346,000).

The sections combined have a total of 32 FTE positions. Construction Services consists of 11 positions and Building and Planning Services has 21 FTEs. In addition to these positions, DOA hires project staff for specific prison construction projects; however, these staff are exempt employees and are employed for the project duration only.

Audit Scope

Our audit focused on the Building and Planning Services Section and its functions. The report contains findings in two areas of the Building and Planning Services Section's responsibility:

- The Section's effectiveness in preventing deterioration of State-owned buildings, and

- The Section's effectiveness in relocating State agencies.

Although the Construction Services Section was also within the resolution's scope, we did not review it at this time. The Construction Services Section is responsible for overseeing State construction projects. However, in recent years, State construction projects have primarily been limited to projects within the Department of Corrections.[1] In 1991, we conducted an audit of the Department of Corrections prison maintenance and construction program (see Performance Audit Report No. 91-12), which included a review of DOA's efforts in this area. We found that DOA has built prisons for substantially less than the cost of prisons built by other states and the Federal government. Prison construction was considered to be relatively timely as well.

Because of the technical nature of the maintenance issues addressed in this report, we solicited the help of a consultant, Leo Mortenson, as part of our Office's Volunteer Program. Mr. Mortenson has over 20 years' management experience in institutional maintenance, including directing the maintenance program for the Boeing Corporation, and he currently serves as a consultant to the Greyhound Corporation. Mr. Mortenson spent numerous hours inspecting State-owned buildings, interviewing maintenance personnel, and reviewing maintenance files and reports. His contributions, in the form of assessments and recommendations, are incorporated in Finding I.

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1. During the most recent fiscal year, DOA saw an increase in projects outside the Department of Corrections due to its improvements of recently purchased properties.

Our audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director of the Department of Administration and the staff of the Building and Planning Services and Construction Services Sections for their cooperation and assistance during the audit.

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FINDING I

MANY STATE-OWNED BUILDINGS ARE IN NEED OF MAJOR REPAIR

A lack of funding and inefficient management have rendered many State buildings in need of major repair. Many State-owned facilities need repairs and renovations to be safe and operationally efficient. Based on the statutorily required formula, approximately $60 million should have been devoted to major repair projects between fiscal years 1987 and 1993; instead, only $30 million was appropriated. Without increased funding, the State's buildings will continue to deteriorate. In addition to funding, the Department of Administration (DOA) needs to take steps to improve its management of the State's buildings.

State Buildings In Need Of Repairs

Many State-owned facilities need major repairs and renovations. Based on interviews, document reviews, and inspections, we found that needed repairs are prevalent. We also found that many building renewal projects identified in previous years have not been addressed.

Problems are prevalent - Building renewal needs are widespread. In the fiscal year 1994 Capital Improvement Plan, agencies submitted 251 requests for building renewal projects.[1] These requests came from 16 agencies, and affect facilities located throughout the State. Projects ranged from life and safety issues, such as upgrading the fire alarm system in the Child Development Center, to repairing plumbing items at the Adobe Mountain Juvenile Institution. The estimate for the 251 building renewal projects was $21.8 million.

However, the total amount actually needed for repairs and renovation is not known. Some agencies may submit only a portion of their needs, identifying only the most substantial ones. In addition, some agencies submit building renewal projects as capital improvement requests because they have not been funded as building renewal projects in past years. Also, although DOA conducts triennial inspections of State-owned buildings, the inspections are not used to assess the extent or cost of needed repairs.

To establish and substantiate the condition of some of Arizona's buildings, we inspected 10 State-owned facilities, conducted interviews of DOA staff and building

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1. Capital projects are not included in this analysis. Capital projects include land acquisition, facility design, and new construction.

maintenance staff in other State agencies, and reviewed maintenance records, inspection reports, and budget and planning documents. In selecting the ten facilities for our inspection, we considered the following factors: size, age, location, and whether the building was managed by DOA or another agency. (See Appendix A for a list of these buildings and their characteristics.)

We saw buildings that have exposed and deteriorating asbestos, indoor air quality problems, and inadequate fire-safety systems, including insufficient fire sprinklers and alarms, and inoperable emergency lighting. Heating and cooling systems are outdated and inefficient; some are even structurally unsafe. Several buildings need new roofs or roof repair; the fiscal year 1994 building renewal requests identified 32 separate roofing projects. Also, because they were not designed to function with today's technology, many buildings have overloaded electrical systems. The following examples illustrate the types of problems we found during our review.

- OCCUPATIONAL LICENSING BUILDING
  1645 W. Jefferson, Phoenix;
  Size - 66,308 square feet; Date of Construction - 1973.

  It was estimated by our engineer that this building would require approximately $6 million to repair. Major problems in this building include an electrical system loaded to capacity; an obsolete elevator; a poorly designed chilled water system that does not allow for proper cooling; and settling of the exterior building piers, causing a noticeable slope in the floor. Poorly designed window frames that cause the glass to pop out when it expands pose a serious safety problem. This condition is considered to be extremely hazardous to individuals walking around the building's perimeter, and Risk Management recommends restricting pedestrian access. This problem has been investigated since 1986, but was not funded until fiscal year 1994 as a capital appropriation. DOA was appropriated $400,000 to replace the windows; however, it estimated $750,000 would be needed to address the problem.

- STATE OFFICE BUILDING (Former State Compensation Fund Building)
  1616 W. Adams, Phoenix;
  Size - 90,000 square feet; Date of Construction - 1961.

  Our engineer met with two DOA Tenant Services employees to discuss the needed work for this building. Together, they estimated that at least $1.5 million was needed for repairs. Repairs on the roof have been deferred to the extent that it now needs to be replaced. In addition, rainwater seeping through the roof has caused the interior cement to chip and crack. Other examples of needed repairs and renovations include new boilers, asbestos removal, replacement of plumbing, major repairs for the heating, ventilation, and air conditioning (HVAC) system, electrical system updates, elevator upgrades, and installation of a fire sprinkler system.

- STATE OFFICE BUILDING (Former Department of Economic Security Office Building)
  1300 W. Washington, Phoenix;
  Size - 60,180 square feet; Date of Construction - 1979.

  An engineering report completed for DOA estimated the renovation costs for this building could range from $1.5 to $1.9 million[1]. Some of the problems noted included severely damaged duct work systems, an inefficient air handling system, dirty and damaged ceiling tiles, and frayed and torn carpet. In addition, because the building was undergoing renovation, improvements had to be made to the building's plumbing and electrical systems, fire sprinklers, and its disability access in order to meet existing building code requirements.[2]

  Many of the building's problems had been identified earlier but were deferred. For example, the Department of Economic Security (DES), the tenant in 1989, sent a memo to DOA identifying some of these same problems. According to DOA officials, staff attempted to make repairs; however, they were limited by scarce resources. In addition, they decided to defer major maintenance items in anticipation of DES vacating the building upon completion of the DES West building. Nevertheless, a building less than 20 years old should not require complete renovation if proper building renewal and maintenance occurs.

State's Building Renewal Formula Not Met

Although statutes establish a formula for computing building renewal needs, given the State's fiscal constraints in recent years, this amount has never been fully funded. From fiscal years 1987 and 1993, the formula calculated approximately $60 million for building renewal needs, but only one-half of that amount was appropriated. This has led to building renewal projects being repeatedly deferred, some to the point that more costly repairs may be required. Without increased funding, building conditions will continue to decline and future repair costs may increase.

Building renewal formula - During the 1986 Session, legislation was passed (A.R.S. §41-793.01) requiring the Joint Committee on Capital Review to develop a uniform formula for computing the annual funding needs for building renewal.

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1. Funds were appropriated in fiscal years 1991-92 and 1992-93 to renovate the building. Actual renovation work began in the spring of 1993 and was still in process at the time of our review. Agencies began to occupy the building in June 1993.

2. Statutorily, public State buildings must comply with building code requirements existing at the time of construction. In addition, DOA will also bring buildings up to building code requirements if a building is undergoing renovation.

The formula established by the Committee considers both the replacement value[1] and the age of each State-owned building, and arrives at an annual building renewal amount that should be used for the major repair or renovation of the building[2]. The formula generates an amount slightly less than 1 percent of the total replacement value of all buildings. This amount is consistent, although conservative, with an industry standard we reviewed that suggests 1 to 3 percent of the building's replacement value be allocated for building renewal.

The derived building renewal amount is presented to the Legislature by DOA in its annual Capital Improvement Plan. This plan recommends funding levels and sources and lists building renewal projects in order of their priority. In fiscal year 1994, DOA requested $9.2 million for building renewal, and was appropriated $4.8 million.

Funding sources - Several sources provide building renewal funds for facilities in the DOA building system. The two main sources are the General Fund (GF) and the Capital Outlay Stabilization Fund (COSF)[3]. Approximately 1,570 buildings (representing approximately 80 percent of the total replacement value of all buildings) are dependent upon these two sources for building renewal funds. Although there are other funding sources, they support fewer buildings, and their use is restricted to buildings occupied by the fund's beneficiary agency[4].

Historically underfunded - The DOA building system has never received the entire formula-stipulated amount. In fiscal year 1987, the DOA Building System received $6.2 million as its first formula-driven appropriation for building renewal. While this amount may appear significant, it was 20 percent less than the formula required. In particular, buildings solely supported by the General Fund/COSF have been hardest hit. During fiscal year 1991 General Fund/COSF appropriations dropped to $500,000 instead of the required $7 million formula amount. By fiscal year 1993, appropriations

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1. Replacement value is equal to the estimated cost to construct the building today. Replacement value changes each year and is calculated using the original construction cost, and a construction market index that reflects the current construction costs for Phoenix compared to the original cost.

2. Based on the current application of the formula, in order for a building to be eligible for renewal funds, it must have a replacement value of at least $11,000. However, certain types of structures are not eligible for renewal funds even if their value is greater than $11,000; these noneligible structures include water systems, and sewage treatment plants.

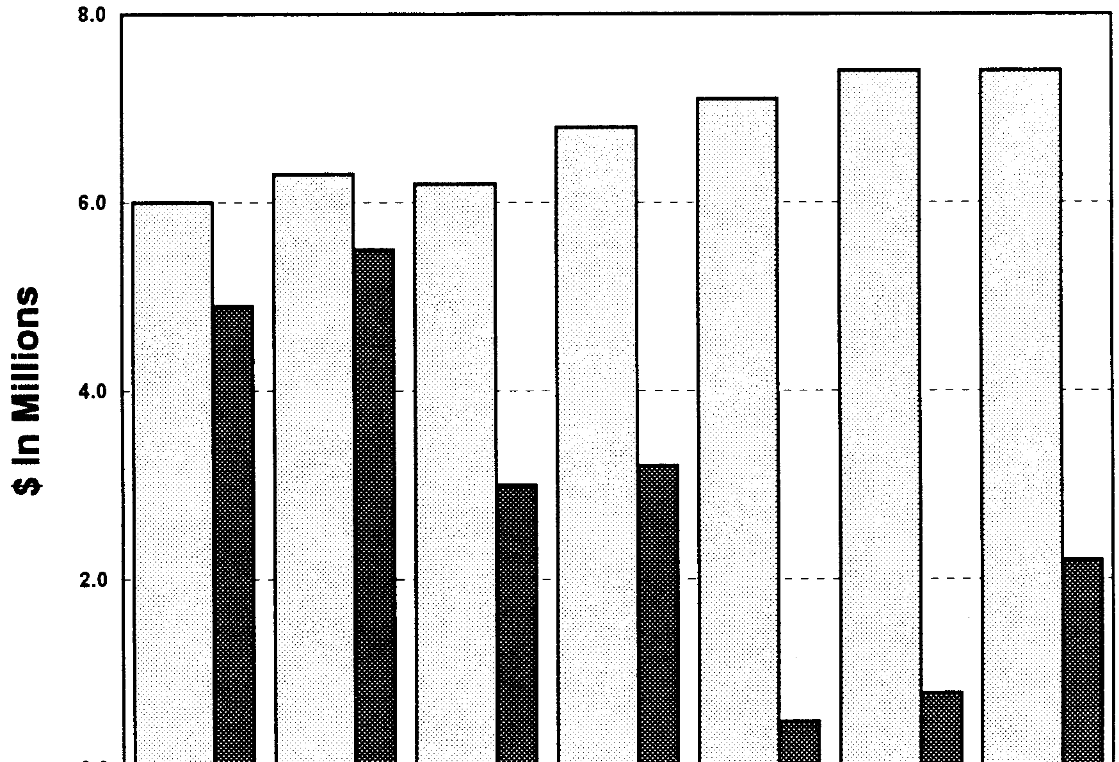
3. COSF monies are generated by charging a rental fee to agencies that occupy State-owned space in the Capitol Mall Complex and in Tucson. This fund has been used in the past to support both capital projects and building renewal projects. Currently, this fund generates approximately $7.7 million, and pays for utilities (approximately $6 million), part of the operating budget of DOA-General Services (approximately $1 million), and building renewal (with monies remaining after paying for the other two items).

4. Other funds provide support for approximately 825 buildings (representing about 20 percent of the total replacement value of all buildings). There are about eight other funds in any given year. Two examples are the Lottery Fund and the Highway User Fund. Appropriations from these funds must be used by the Lottery, and the Arizona Department of Transportation, respectively.

from the two funds had risen but still equaled only 30 percent of the formula amount. (See Figure 1.) Buildings that receive funds from other sources have fared better than those reliant on General Fund/COSF – appropriations from other funds. While starting behind requirements, they are now appropriated close to the formula level. (See Figure 2, page 12.)

Figure 1

Department of Administration
Building Renewal Formula Amounts vs. Appropriation Received
Fiscal Years 1987 through 1993
(General Fund & COSF)

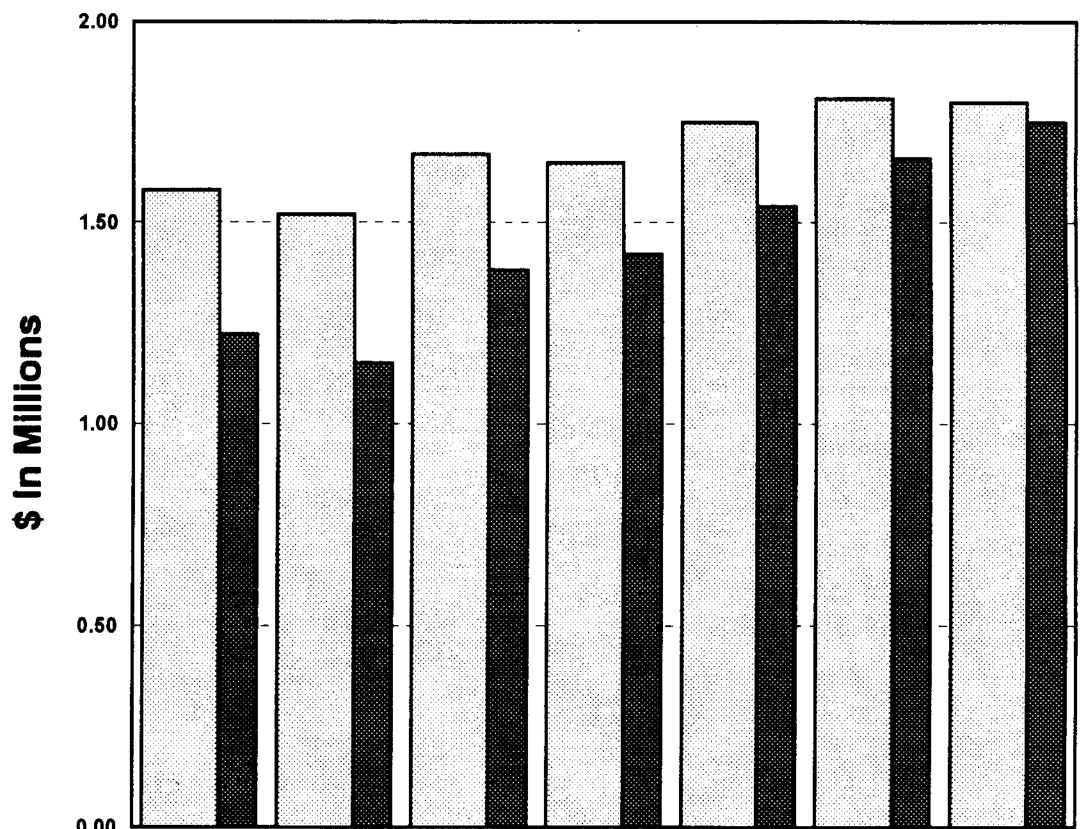


	1987	1988	1989	1990	1991	1992	1993
Formula Calculation	6.0	6.3	6.2	6.8	7.1	7.4	7.4
Appropriation	4.9	5.5	3.0	3.2	0.5	0.8	2.2

Source: Auditor General staff analysis of the Capital Appropriations and Department of Administration's Inventory of State-owned building data for fiscal years 1987 through 1993.

Figure 2

Department of Administration
Building Renewal Formula Amounts vs. Appropriation Received
Fiscal Years 1987 Through 1993
(Other Funds)



	1987	1988	1989	1990	1991	1992	1993
Formula Calculation	1.58	1.52	1.67	1.65	1.75	1.81	1.80
Appropriation	1.22	1.15	1.38	1.42	1.54	1.66	1.75

Formula Calculation
Appropriation

Source: Auditor General staff analysis of the Capital Appropriations and Department of Administration's Inventory of State-owned building data for fiscal years 1987 through 1993.

Without adequate GF/COSF appropriations, buildings supported by those funds will continue to deteriorate. As noted previously, deferring roof repairs on the former State Compensation Fund Building has now led to interior damage and the need to replace the roof. Similarly, some building systems have not been replaced and are now antiquated. Consequently, repairs are more costly because parts are not available and must be adapted or reconstructed.

DOA Needs To Improve Its Management of State Buildings

Although funding will be required to fix many of the building problems, DOA should make some improvements in its management of the State's assets. DOA does not maintain sufficient expenditure and funding information to make cost-effective decisions regarding building repairs. It also does not track projects or use its building inspections to identify and verify necessary repairs. In addition, our review suggests that DOA's preventative maintenance program for DOA-managed buildings is very limited.

Critical expenditure and funding information lacking - DOA does not consistently track information critical for building management decisions. During our review we found that DOA lacked basic information for State buildings, such as historical operating costs and estimated amounts required to address necessary repairs. Failure to track expenditures on a building-by-building basis limits DOA's ability to provide reliable figures regarding funding needed to maintain and operate State buildings. For example, a Legislative Committee was recently established and charged with determining the costs of maintaining State buildings during the past three years. However, because DOA internally lacks the information the Committee needs, DOA has had to seek this information from individual agencies. In addition, without basic cost information DOA is unable to determine whether it is more cost-effective to replace major building components (i.e., HVAC, electrical systems, etc.) or continue to repair existing systems. Lack of information also restricts DOA's ability to decide whether operating costs for particular buildings have reached the point that it is no longer feasible to retain the building.

Tracking status of individual projects - Although DOA provides the Legislature with a list of repair projects in its annual Capital Improvement Plan, no tracking is done to determine which projects were completed or had to be deferred. Unless completed projects and expenditures are tracked, adjustments cannot be made to the building renewal formula. Our review suggests the formula requires such adjustments to better reflect the building's age and value. In addition, without a cumulative listing of outstanding building repair projects, it is unclear what types of projects are being deferred and for how long. As previously mentioned, continued deferral of projects contributes to further deterioration, increased operating costs, or, in cases of safety issues, increased potential liability for the State.

Linking of building inspections - DOA does not generally link its inspection data with building renewal requests. DOA conducts inspections of State buildings on a triennial basis. However, the information collected typically has not been used to determine the validity of agency repair requests or to identify additional needed building repairs. While an agency may submit a request for a new roof, a building inspection may indicate that resurfacing would be adequate. Further, DOA inspections may identify additional needed repairs that are not included in agency building renewal requests, but are vital to the building's continued safe and efficient operations.

Preventative maintenance program limited - Through interviews and our inspections, we discovered that DOA's preventative maintenance program[1] is limited. Preventative maintenance work is performed by maintenance staff within the Tenant Services Section of DOA's General Services Division. The maintenance staff's work is primarily responding to repair requests; it was estimated that 80 percent of staff time is allocated to "fixing what breaks." DOA reported they routinely perform only the most basic preventative maintenance work, due to resource constraints.[2]

Failure to perform preventative maintenance work increases the amount of building renewal monies needed. It is universally accepted that a good preventative maintenance program forestalls deterioration. Our engineer consultant stated that such a maintenance program can extend the life of a building's components, as well as save money. For example, he stated that the life of a building roof can be extended up to ten years if it is annually inspected and repaired. Also, a Wisconsin report states, "*one estimate widely accepted among facility management professionals is that every dollar spent on preventative maintenance programs results in reducing future repair and replacement costs by five dollars.*"[3]

RECOMMENDATIONS

1. General Fund/COSF Appropriations for Building Renewal should be increased to match, as nearly as possible, the formula-generated amount.

2. DOA should maintain all necessary information on a building-by-building basis to ensure adequate identification, tracking, and planning for building renewal needs.

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1. Preventative maintenance means the periodic inspection of buildings and systems, and the minor repair or replacement of worn-out parts to prevent future breakdown and forestall deterioration.

2. The scope of this audit did not include a thorough assessment of DOA's preventative maintenance program, as this program will be reviewed in an upcoming audit of the Tenant Services Section of DOA's General Services Division.

3. Department of Administration and University of Wisconsin, "An Evaluation of Building Maintenance and Construction Supervision," January 1991, Report No. 91-3.

FINDING II

DOA NEEDS TO IMPROVE SERVICE TO AGENCIES INVOLVED IN RELOCATIONS

DOA needs to improve in its role as a service organization to those agencies it relocates. To do so, DOA needs to blend the sometimes competing goals of "filling office space" with that of meeting agency needs. Although most relocated agencies considered DOA's efforts to be adequate, DOA has tended to make relocation decisions with limited agency input, and has not taken the necessary steps to ensure agencies a successful move.

Competing Goals

DOA is responsible for ensuring State-owned space is used as efficiently as possible. At the same time, however, DOA must also strive to meet agency needs when relocations occur. Based on our surveys of agencies involved in relocations, DOA has performed adequately in some areas, yet needs to improve its service to those agencies being moved.

DOA charged with efficient space utilization - DOA is responsible for the allocation of space in public buildings[1]. This task includes identifying, recording, and planning for the use of vacant office space. DOA has named this assignment the "Backfill Plan/Relocation Program." This program has been ongoing since September 1990, and resulted from a large amount of vacant space which became available due to new construction and the purchase of several distressed properties.[2] While DOA's goal is to attain a 100 percent occupancy rate, as of April 1, 1993, it reported an 85 percent occupancy rate. DOA expects the occupancy rate to rise by the end of 1993, as several relocations are scheduled.

While DOA is responsible for ensuring State space is fully utilized, it is also responsible for ensuring that agencies experience a successful move by providing expertise and assistance to those selected to relocate. Typically, agencies move infrequently and therefore, have limited in-house knowledge of what a move entails. In contrast, DOA has been involved in approximately 60 relocations in the past three

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1. A.R.S. §41-791. This applies only to DOA-managed buildings.

2. The Legislature appropriated $15 million and authorized DOA to purchase distressed properties with the intent of reducing the number of private sector leases. Distressed properties were defined as those properties that were being sold at a price not exceeding 40 percent of the estimated replacement value.

years. DOA needs to use this knowledge to ensure agency needs are met and that an agency encounters as little disruption in its operations as is possible.

Survey results are mixed - As part of our evaluation of DOA's relocation efforts, we conducted a survey of 43 agency move coordinators randomly selected from moves that had occurred between September 1990 and June 1993.[1] Our survey indicates that most agencies felt that DOA performed adequately in its efforts to relocate their offices. It was evident that when DOA took a service approach and involved agency staff, established good communications with the agency, and attempted to meet agency needs, the agency was very positive about DOA's efforts and the move.

In contrast, those agencies that were the least satisfied with DOA's performance indicated that DOA failed to work well with them. For example, one agency move coordinator described DOA's approach as "we're in charge, we will tell you what to do and you will comply." In addition, he stated that DOA showed little sensitivity regarding the agency's own move responsibilities and its on-going operations. Survey results indicated two primary sources of dissatisfaction — DOA's tendency to make relocation decisions with limited agency input, and its failure to provide services once the decision to relocate an agency had been made.

Agency Input Needed Before Making Relocation Decisions

DOA has made some poor relocation decisions because it generally does not consult with agencies prior to making the decision as to which agencies will be moved and to where. Problems that surfaced due to the failure to obtain this information were most evident in the relocations involving distressed properties. DOA based many of its decisions primarily on the amount of space the agency was leasing. DOA then notified agency officials of the scheduled moves. Agency officials were quick to point out flaws in DOA's plans because of its failure to obtain agency-specific needs before making its decisions. The following case examples illustrate specific problems that resulted from the lack of adequate agency assessments prior to making relocation decisions.

- DOA made the decision to relocate several regulatory boards into one facility without conducting initial assessments of them. When DOA informed the boards of its intent, they objected to this "unilateral" decision. They questioned the cost-effectiveness of the relocation, the security of the premises, and the ability to meet the needs of their clients. For example, one board estimated they would be required to pay almost $3.00 per square foot more in this facility. Because the board is solely funded by licensing fees, it anticipated that an increase in fees or

1. Of the agencies we surveyed, DOA initiated the relocation for 63 percent of the respondents, 28 percent of the respondent agencies requested the move, and 9 percent were unsure who had initiated the move.

a reduction in its operational budget would be necessary to pay the higher rent. Due to the issues raised by the boards, DOA concluded that this plan would not work, and had to identify another agency to fill the space.

- DOA made the decision to relocate several agencies with high lease rates into one building. Space allocation in this building was made using the amount of space an agency leased in the private sector. With these figures, DOA was able to accommodate six agencies in the building, making the purchase appear cost-effective. However, once DOA visited these agencies during the relocation process, it was obvious that some of them worked in crowded conditions and needed additional space. Because DOA did not conduct an initial assessment, and an error was made in calculating the amount of usable space, DOA had to alter its decision. Now only four agencies will be able to occupy the building, and one agency will be required to lease additional space for a short period of time. These changes reduce the cost-effectiveness of purchasing the building, because a fewer number of agencies must cover the cost and two agencies remain leasing space.

- The decision to relocate a division of one agency had to be revised three times because DOA did not seek sufficient information prior to making the decisions. The original site proved to be inadequate when DOA learned that another scheduled tenant was expecting an increase in its number of employees. The facility would not be able to accommodate both tenants. After a second location was decided upon, it was later determined that it too was inadequate. Although the amount of space the division leased was comparable to the space available in the second location, they felt that differences in the configuration of space rendered the new facility inadequate. None of this information could be gleaned from the leasing information used to make these space allocation decisions. Ultimately, DOA decided to split the division and house it in two separate facilities. According to the division, this arrangement will hinder efficient communication and operations and cost more, as well as negatively affect employee morale.

Preliminary evaluations should solicit information from potential agencies on the current number of employees, growth trends, adequacy of current space, type of work performed by the agency, and any special client or location needs the agency might have. This information should play a vital role in relocation decisions.

DOA Needs to Ensure Successful Moves

Once the decision to relocate an agency is made, DOA needs to ensure that the move proceeds as smoothly as possible. Many of the agencies we surveyed encountered problems during their relocations which could have been avoided had DOA taken a more organized, aggressive approach to coordinating the move. Areas where agencies were especially critical of DOA include not informing agencies of their responsibilities, inadequate coordination of contracted services, not identifying or addressing special needs, not responding to agency questions or concerns, not having work completed at the time of the move, and shifting of move dates. The following examples illustrate these problems.

- One agency moved into a building which had extensive buildouts and improvements; however, the work was not completed at the time of the move. According to the agency's move coordinator, office doors were missing, electrical work was not finished, and the air conditioning was not working adequately. In his opinion, there was poor communication throughout the relocation process—he was not kept abreast of the status of the renovations and he had difficulty in getting responses to questions and problems he encountered. In addition, the agency coordinator indicated that he was held responsible for tasks which had never been brought to his attention by DOA.

- Another agency also moved into a building with substantial buildouts that were not completed by the time of the move. The agency move coordinator stated that electrical work and wall surfaces were not finished, and doors were missing. He said that a painter was in the building for weeks after the move and that two months after the move some work remains unfinished. In addition, the agency's telephone system was not operational at the time of the move. Further, the agency had confidential files that had to be moved separately, yet it was not told who had been awarded the contract to do so until two days prior to the move.

- An agency was scheduled to move into a facility by the end of June 1993. Extensive buildouts and improvements were needed. The agency move coordinator felt that DOA performed well in securing contracts, but did not adequately oversee the services delivered from those contracts. As a consequence, there were problems in coordinating these services and informing the agency of its responsibilities and a timetable for completion. Construction was not complete by the end of June and the move was delayed until the end of August. The agency move coordinator said that he toured the building a week before the August move date and, although it appeared that a substantial amount of work remained to be completed, DOA assured him that the building would be ready to move into as planned. At the time of the move, construction was not complete and at least another week was needed to substantially finish the work. This agency also expressed concerns with the lack of a dedicated cooling system necessary for proper operation of its computer system.[1]

Some of the problems encountered by agencies were possibly due to the unusually large number of agencies being relocated under a limited timeframe. Due to

1. Of four agencies located into this facility, only one had its computer cooling needs met.

legislation, DOA was required to move a number of agencies into distressed properties by July 1, 1993, or assume the lease costs for those agencies not moved by the deadline. Also, according to DOA officials, the fact that some agencies did not want to move contributed to some of the problems.

In spite of these factors, DOA needs to take a number of basic steps to improve the relocation process. It should develop a checklist enumerating tasks associated with relocating. At the beginning of a move, DOA and the agency should discuss these tasks and affix responsibility for each one. Throughout the relocation process DOA should meet with agency representatives to discuss the progress of the move, respond to agency questions or concerns, and determine if additional actions are needed. DOA also needs to take an active role in overseeing and coordinating contracted services.

RECOMMENDATIONS

1. Prior to making a decision to relocate an agency, DOA should conduct an initial assessment of that agency to determine the feasibility of relocation.

2. DOA needs to take a number of basic steps to ensure that the move process proceeds smoothly, including:

   - Developing a check list enumerating move tasks,

   - Meeting with agency officials at the beginning of a move to discuss tasks and affix responsibility,

   - Meeting with agency officials on an ongoing basis throughout the move to discuss the progress of the move, respond to agency questions or concerns, and determine whether additional actions are needed, and

   - Taking an active role in coordinating contracted services.

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Fife Symington
Governor

J. Elliott Hibbs
Director

ARIZONA DEPARTMENT OF ADMINISTRATION
GENERAL SERVICES DIVISION • 1700 WEST WASHINGTON STREET, ROOM 600
PHOENIX, ARIZONA 85007
(602) 542-1920

October 22, 1993

Mr. Douglas R. Norton, Auditor General
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Mr. Norton:

The Department of Administration (DOA) thanks you for the opportunity to comment on the performance audit of our Building and Planning Services Section of the General Services Division.

We understand the nature of the audit and concur with the general findings.

We have taken a positive and pro-active approach to the report findings. In fact several recommendations in the report have already been acted upon, such as better management of building renewal projects, incorporating the building inspection reports into the selection of building renewal funding commitments, and a better management and communication process in the relocation program.

We will focus our response on two primary issues highlighted within the audit report:

1. Building Renewal Program

The Building Renewal Program is of primary importance to the Department of Administration's Building System and all state agencies within this system. Beginning in FY 1994 and with the support of the Governor's Office for Strategic Planning and Budget and the Joint Legislative Budget Committee (JLBC), DOA has undertaken an enhanced management role in the overall program. **This has included first time efforts in the prioritizing of individual agency requests, the use of our staff building inspectors in determining the most pressing needs, accelerated implementation schedules and set-aside funding for emergency projects.** Agencies that receive a funding commitment for building renewal will be given four months to begin implementation and an additional six months to complete their respective projects. If the agency has not shown adequate progress on a project within these time frames the funding commitment may be revoked and reapplied to the next highest rated priority project that has not yet been funded. **By taking this approach, DOA believes the highest needs of the Building System will be satisfied in the shortest time frames.** Additionally, DOA will monitor project expenses and activities to ensure timely and proper expenditure of funds on authorized projects. DOA will also maintain the necessary information on each building to ensure identification, tracking and planning for future building renewal needs.

DOA <u>strongly agrees</u> with the Auditor General's findings that the building renewal system has been inadequately funded since its inception. Even if the program is funded at 100% in the future, we are not certain that the present building renewal formula adequately provides enough funding for all major deferred maintenance within the DOA Building System. During the past six years, the DOA Building System has only been appropriated 50% of the requested formula amount, which translates into a shortfall of $30 million. As a result, major renovation projects have been postponed because they cannot compete with priority maintenance repairs and emergency requirements.

2. Agency Relocation Activities

DOA concurs with the Auditor General finding that the Building and Planning Services Section needs to improve their service orientation to user agencies in relocations.

DOA has implemented a pre-relocation survey, an initial meeting with agency heads and staff, a relocation checklist enumerating move tasks and responsibilities, scheduled update meetings, as well as a post relocation walk-thru and a follow-up customer satisfaction survey.

We would however, reiterate the comment made in the Auditor General's findings that DOA is often placed in a conflicting position of control versus service orientation. As the agency responsible for ensuring efficient use of state owned space, DOA plans on a global basis which may conflict with individual agency requests and desires. For example, in the $15 million Distressed Property Program, as cited by the Auditor General, DOA interacted with several agencies that were being relocated from Class "A" private sector space into renovated state facilities. In many cases, the relocating agencies were not motivated and displayed reluctance to expeditiously cooperate because DOA was the only agency being held accountable for the relocation. In the October meeting of the Joint Committee on Capital Review, this matter was addressed by the JLBC staff with concurrence that on future agency relocations, DOA and the relocating agency be held equally accountable for non-performance penalties.

We believe this approach will allow greater service orientation and mutual cooperation while expediting future relocation projects at decreased overall cost.

Finally, it should be noted that space planning, construction renovation and relocations are a traumatic experience even during the best of circumstances, but during this relocation program more state agencies (14) were moved from lease space(203,,277 SF) in a shorter time frame(8 months) by fewer DOA staff(5 FTE) than have ever been accomplished in the past. **To date, DOA has ensured and completed every relocation project successfully. As of October 22, 1993, the occupancy rate for DOA managed office buildings has increased from the Auditor General's report of 85% to 96%.** This major increase in state space utilization results from the recently completed $15 million Distressed Property Program and the renovation of the 1300 and 1400 West Washington State Office Buildings.

We would, however, submit that the single most important commentary missing from the audit is that the Building and Planning Services Section of the General Services Division of DOA has successfully relocated approximately $2,327,533 worth of leases to state owned buildings. This figure is no longer simply an expense to the State, but goes toward building asset value for the taxpayer.

Lastly, DOA is pressing forward with the process of continuous improvement. We are presently conducting process analysis of our planning programs in an effort to better satisfy our customers.

Sincerely,

J. E. Hibbs

J. Elliott Hibbs
Director

We inspected the following State-owned facilities to determine their condition. Buildings were selected based on the following factors: size, age, location, and whether the building was managed by DOA or another agency. The descriptive information presented here and used in selecting the buildings was obtained from DOA's fiscal year 1992 Inventory of State-Owned Buildings.

DOA-Managed Buildings:

1) **Capitol Center**
15 South 15th Avenue
Capitol Complex, Phoenix

Date of Construction:	1986
Replacement Cost:	$12,240,000
Square Footage:	141,513
Renewal $ Eligible:	$44,822[1]

2) **Law Building**
1275 West Washington
Capitol Complex, Phoenix

Date of Construction:	1981
Replacement Cost:	$6,097,793
Square Footage:	101,741
Renewal $ Eligible:	$38,279

3) **State Office Building, Tucson**
402 W. Congress
Tucson

Date of Construction:	1980
Replacement Cost:	$3,624,436
Square Footage:	49,166
Renewal $ Eligible:	$24,649

4) **Occupational Licensing Building**
1645 W. Jefferson
Capitol Complex, Phoenix,

Date of Construction:	1973
Replacement Cost:	$6,936,216
Square Footage:	66,308

1. This is the formula-generated amount the building was eligible for in fiscal year 1992.

Renewal $ Eligible:	$72,571

DOA-Managed Buildings: (concl'd)

5) **State Office Building**
(Former Compensation Fund Building)
1616 West Adams
Capitol Complex, Phoenix

Date of Construction:	1961
Replacement Cost:	$7,050,000
Square Footage:	90,000
Renewal $ Eligible:	$118,019

Agency-Managed Buildings:

6) **Industrial Commission**
800 W. Washington
Capitol Complex

Date of Construction:	1985
Replacement Cost:	$11,023,140
Square Footage:	143,000
Renewal $ Eligible:	$46,132

7) **Department of Economic Security**
Office Building
4365 S. Central, Phoenix

Date of Construction:	1984
Replacement Cost:	$1,108,385
Square Footage:	22,515
Renewal $ Eligible:	$5,218

8) **Game and Fish Administration Office**
2222 W. Greenway Road
Phoenix

Date of Construction:	1969
Replacement Cost:	$1,592,625
Square Footage:	20,740
Renewal $ Eligible:	$19,995

Agency-Managed Buildings: (concl'd)

9) **Arizona State Hospital**
(Juniper Hall),
2500 E. Van Buren
Phoenix

Date of Construction:	1954
Replacement Cost:	$5,825,511
Square Footage:	100,407
Renewal $ Eligible:	$118,854

10) **Southern Arizona Mental Health**
Administration and Clinic
1930 E. 6th Street, Tucson

Date of Construction:	1933
Replacement Cost:	$705,668
Square Footage:	9,777
Renewal $ Eligible:	$18,458