



California Department of General Services' Real Estate Services Division

To Better Serve Its Client Agencies, It Needs to Track and Analyze Project Data and Improve Its Management Practices

Report 2015-117

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March 15, 2016

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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the efficiency and effectiveness of the California Department of General Services' Real Estate Services Division's (division) planning and completion of construction projects that were active between January 1, 2011, and June 30, 2015.

This report concludes that for 25 projects we reviewed the division exceeded its initially estimated time frames and costs for the majority of the projects. We identified a variety of common factors that contributed to these delays and cost overages—such as client requested scope changes, design deficiencies, and planning inadequacies. Although some of these factors may not have been preventable, we noted that the division could have prevented others if it centrally tracked and analyzed data related to these projects. This lack of data hinders division management's ability to do the following: assess how effectively it is delivering projects for its client agencies, identify undesirable patterns, and adjust its processes for project delivery accordingly. Further, although the division cannot demonstrate whether it has a backlog of construction projects, given the frequency with which the division exceeded its original time frames for the projects we reviewed, it is reasonable to conclude that other projects were not able to begin on time. Moreover, we identified a contracting method, known as job order contracting, that we believe could ultimately reduce project time frames and costs for certain types of projects.

We also noted that the budgets of construction projects managed by the division's Project Management and Development Branch (project management branch) include costs related to planning, project management, design, review, inspection, and administrative services. Many of these costs are charged through an hourly rate to client agencies. The hourly rate it charges for its design, project management and construction management services is much higher than the rates of private sector firms conducting similar work for the State. Based on a rate analysis conducted by the project management branch, it concluded that administrative and overhead costs largely contribute to the difference between these rates. However, this analysis is inadequate and does not fully explain the differences between the rates, hindering the division's ability to ensure that the project management branch's rates remain competitive for its client agencies and that it is providing the State with the best value.

Finally, this audit found that the division has not developed adequate goals or meaningful metrics by which to measure its progress in delivering projects on time and within budget. Because it has not done so, the division is missing a key opportunity to obtain information critical to developing effective training for its staff. Thus, it is not surprising that we found the training the division's two largest branches provide to staff is largely inadequate and infrequent. Further, the limited training it does offer is generally not focused on project delivery. Without a formal training program that incorporates mechanisms to evaluate the division's project management processes, identifies room for improvement, and provides the needed training related to project delivery, we question how the division can claim that its staff are adequately trained.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The California Department of General Services' (General Services) Real Estate Services Division (division) controls 58 buildings statewide. The division provides various real estate and property management services for most state departments and agencies, including maintaining state buildings, managing and designing various construction projects, performing construction inspections, and providing construction services deemed to be of an urgent nature. The division is composed of four branches—Asset Management, Project Management and Development (project management branch), Building and Property Management (building management branch) and Construction Services (construction services branch)—each of which is responsible for a distinct array of the division's services. For example, the project management branch is responsible for delivering capital outlay projects and providing architectural and engineering services, while the construction services branch is solely responsible for conducting inspections of construction projects and providing construction services under certain circumstances, using a combination of day laborers and contractors.

Our audit revealed that the division exceeded the initial time frames it established for the majority of the projects we reviewed. Specifically, of the 25 projects we reviewed, which were active between January 1, 2011, and June 30, 2015, we identified 17 for which the division exceeded estimated time frames and an additional four for which it did not establish time frames. When we interviewed division staff and reviewed available project documentation, we noted that in some cases, the division may have been able to prevent certain project delays. For example, we noted that in seven of the projects we reviewed, the project management branch overlooked key features in the projects' planning or design. In one instance, General Services—which owns the building—requested that the project management branch renovate the interior and exterior of the State Library and Courts building. Initially, the project management branch planned to perform the construction in phases in order to maintain occupancy of the building. However, a detailed analysis of the building's infrastructure systems was later performed and it was determined that maintaining occupancy was not feasible, and thus General Services had to seek approval from the Department of Finance to relocate the tenants, adversely affecting the project schedule. Had this type of analysis been done to inform its initial project schedule, the project management branch could have developed a more accurate time frame estimate.

Audit Highlights . . .

Our audit concerning the California Department of General Services' Real Estate Services Division's (division) planning and completion of construction projects revealed the following:

- » *The division exceeded the initial estimated time frames for the majority of the projects we reviewed.*
- » *Project costs frequently exceeded the division's initial estimates, and the division did not always prepare cost estimates.*
- » *The division does not centrally track and analyze data for its projects to identify reasons for project delays and cost overages.*
- » *Adopting job order contracting could reduce project time frames and costs for certain types of projects.*
- » *The hourly rate the Project Management and Development Branch charges is much higher than the comparable rates of private sector firms conducting similar work for the State.*
- » *The division has not developed adequate goals or meaningful metrics by which to measure its progress in delivering projects on time and within budgeted cost estimates.*
- » *The training the division's two largest branches provide to staff is largely inadequate and infrequent.*

Similarly, we found that project costs frequently exceeded the division's initial estimates. Of the 25 projects we reviewed, we found that the division prepared complete cost estimates for only 19, and of those 12 exceeded the division's initial cost estimate. In the example with the largest difference, we found that the project management branch spent roughly \$115 million more than its initial estimate of about \$118 million for the construction of a veterans' home in West Los Angeles; however, this cost overage was primarily due to changes in the project's scope requested by the client agency. Further, of the seven projects that exceeded initial cost estimates by 10 percent or more, one overage occurred primarily because of deficiencies in the design of the project. In particular, the project management branch's costs associated with the construction of a new area office in Oakhurst for the California Highway Patrol primarily increased due to inadequacies in the contractor's design for a communication tower.

We asked client agencies about whether they had any concerns regarding time frames and costs as part of our survey of client agencies associated with the projects we reviewed. Several expressed that they had concerns about both the time frames and the costs of their projects. Further, five of the client agencies reported that their operations were adversely affected because of these delays or cost overages. For example, the California Department of Transportation reported that the project management branch's renovation of one of its existing buildings, which took two years longer to complete than originally estimated, affected employee morale, increased rental costs, and created additional workload for its headquarters' administrative staff.

Without centrally tracking the reasons for delays and cost overages, the division cannot readily identify the number and frequency of delays due to design deficiencies, planning inadequacies, site conditions, or other common factors, nor can it determine whether it should alter its project management practices accordingly. Because the branches lack procedures for identifying and tracking project status, including the reasons for time delays or cost overages, the division generally relies on the project managers to answer division management's questions related to the status of individual projects as needed. This issue is not new. In fact, this deficiency was brought to the attention of the division roughly 10 years ago; however, the division still lacks a system to centrally track key data related to its projects. Further, although the project management and construction services branches assert they do not have a backlog—projects that have never begun or are unnecessarily on hold—both were unable to prove this assertion because they do not centrally track the required data. Additionally, the building management branch explained that it does have a backlog of projects, but its data do not distinguish construction

projects from other projects, such as maintenance. Thus, this branch could not demonstrate whether it had a backlog of construction projects. Given the frequency with which the division exceeded its original time frames for the projects we reviewed, it is reasonable to conclude that other projects were not able to begin on time, which is one definition of a backlog.

Division management explained that it does not centrally track adequate project information because its current data system was designed to track project costs and was not intended to be a project management tool. However, since its initial implementation of the system, the division has added functionality that would allow it to track the appropriate data, yet it had not considered using the system for this purpose until we brought it to the division's attention during the course of our audit. Division management indicated that it is in the process of implementing a new project management system through a statewide initiative, with an anticipated launch date of July 2017. The division has contracted with a consultant to assist the division in implementing this system, making recommendations to the statewide project team to ensure the system meets the division's needs and provides it with the capability to implement our recommendations, and developing an implementation plan.

During our audit we identified a contracting method, known as job order contracting, that we believe could ultimately reduce project time frames and costs for certain types of projects. Currently, the division must conduct competitive bidding for its construction contracts except under limited circumstances authorized by state law. When the division uses competition to award a contract, it must award it to the lowest responsible bidder. However, this may not be the most efficient option for the division's smaller, frequently repeated types of construction projects. Instead, for those types of projects, the division could benefit from job order contracting that would allow it to seek competitive bids for predetermined types of jobs to be performed in the future. According to several public educational entities in the State that use job order contracting—including the University of California Office of the President—this method has resulted in both time and cost savings.

Further, our audit noted that the budgets of public works projects—any state-funded construction project performed for the benefit of the public, including construction-related work performed on state-owned office buildings—managed by the project management branch include costs relating to planning, project management, design, review, inspection, and administrative services. Many of these costs are charged through an hourly rate to client agencies and can drive up the cost of projects. Specifically, the hourly rate the project management branch charges for its design,

project management, and construction management services is much higher than the comparable rates of private sector firms conducting similar work for the State. In fact, the project management branch conducted a rate analysis dated February 2015 and concluded that administrative and overhead costs largely contribute to the project management branch's higher hourly rate, which was \$182 for fiscal year 2014–15, or \$46 more than the \$136 average hourly rate of 26 private firms that conduct similar work for the State. However, neither the project management branch nor the division has conducted an adequate analysis to fully explain the reasons for this difference. The project management branch's analysis contemplates that by adjusting its method for recovering administrative costs from its client agencies whose work it outsources to private firms, it could reduce its hourly rate by \$9. However, this leaves a \$37 per hour difference between the two rates that the project management branch could not explain. Without conducting such an analysis, the division cannot ensure that the project management branch's rates remain competitive for its clients and that the project management branch is providing the State with the best value.

Our audit also found that the division could improve its approach for communicating project status to client agencies. The division does not establish clear expectations for how its project managers should communicate changes in project costs and time frames to its client agencies and other stakeholders. Instead, it provides each project manager with the discretion to establish individual communication plans based on the level of contact desired by the client agency and the level of technical expertise within the client agency. To understand how this practice affects client agencies, our survey included questions regarding client satisfaction that revealed areas where the division could improve its communication methods. For example, the California Highway Patrol recommended that division staff respond to client questions in a timely manner, while the California Department of Insurance suggested that division staff set up regularly scheduled meetings to keep customers updated and projects moving forward.

Finally, we found that the division has not developed adequate goals or meaningful metrics by which to measure its progress in delivering projects on time and within budget, which is of particular concern given that the division frequently exceeded estimated time frames and costs for the projects we reviewed. Because it has not done so, the division is missing a key opportunity to obtain information critical to developing effective training for its staff. Thus, it is not surprising that we found the training that the division's two largest branches—project management and building management—provide to staff is largely inadequate and infrequent. Further, the limited training it does offer is generally not focused

on the timely and effective delivery of projects. Without a formal training program that incorporates mechanisms to evaluate the division's project management processes, identify any gaps that require improvement, and provide the needed training related to project delivery, we question how the division can claim that its staff are adequately trained.

Recommendations

Legislature

To improve efficiencies and reduce some costs for less complex and easily repeatable projects, the Legislature should authorize the division to create and implement a pilot program for job order contracting for appropriate projects. The division should report to the Legislature on its progress within two years of implementing the pilot program, including, at a minimum, information regarding the time and cost savings the pilot program provided the State.

Division

To ensure long-term efficient and effective delivery of projects, the division, in its planned implementation of its new project management system in July 2017, should do the following:

- Ensure that the project management system can centrally track and extract all data regarding project status, including time delays, cost overages, and the reasons for each.
- Track the reasons that projects are pending to identify its true backlog of projects.
- At least annually, it should use the centrally tracked data to identify common themes in the causes for project delays and cost overages, and develop solutions to address these issues. Further, it should report the results of its review to General Services' executive management.

Until the division implements its planned project management system, it should, by September 2016, develop a process to, at a minimum, identify project status and reasons for project delays as well as cost overages. Using these data, the division should evaluate and modify its project management processes to ensure the efficient and effective delivery of projects.

To ensure that the project management branch charges its client agencies a competitive hourly rate, by December 2016 and every two years thereafter, the division should conduct a rate analysis that fully accounts for differences between the project management branch's rate and private firms' market rates. If the division finds that the rates are not competitive, it should identify and implement strategies to ensure that the project management branch's rates are as competitive as they can be with those of its private firm counterparts.

To improve its communication with client agencies, at a minimum the division should ensure that project managers are using consistent procedures by providing specific expectations related to communicating and documenting time delays, cost changes, and change orders.

To effectively evaluate the performance of its branches in delivering projects, the division should develop meaningful goals and objectives and a method of measuring its success in achieving them as part of its strategic plan that is focused on ensuring that projects are delivered on time and within budgeted cost estimates.

To ensure that its project management staff are adequately trained and have the information necessary to deliver projects as efficiently and effectively as possible, the division should develop and implement by December 2016 a periodic training program for staff within its project management and building management branches. This training program should include updated information that reflects any processes it revises based on its review of critical project status data and its progress toward meeting its goals.

Agency Comments

General Services agreed with our recommendations and indicated that it plans to take various actions to implement them.

Introduction

Background

The California Department of General Services' (General Services) Real Estate Services Division (division) controls 58 buildings statewide and provides real estate and property management services for most state departments and agencies. The division, with certain exceptions, has direct control over the erection, construction, alteration, repair, or improvement of any state structure or building.¹ The division may grant an exemption from this requirement if it determines that its services in connection with such projects are not required. Client agencies that have obtained this exemption may solicit bids from contractors or use their own staff to complete their projects. For example, the California Department of Water Resources explained that it frequently obtains this type of exemption for tenant improvement work because it employs architectural and engineering staff who can conduct the work.

According to division management, as of February 2016 the division consisted of roughly 2,000 employees spread across four branches—Asset Management, Project Management and Development (project management branch), Building and Property Management (building management branch), and Construction Services (construction services branch). These branches collectively provide services related to planning, overseeing, or performing construction and maintenance projects on behalf of the client agencies. Asset Management is responsible for reviewing the completeness of incoming project requests and assigning those requests to the appropriate branches within the division. Therefore, Asset Management is not responsible for delivering projects. As such, we focused our review on the other three branches.

Projects range from maintenance, such as repaving parking lots, to major capital outlay projects, such as the construction of a new building, with each branch having its own distinct responsibilities, as shown in Table 1 on the following page. For example, the project management branch is responsible for delivering capital outlay projects and providing architectural and engineering services, whereas the construction services branch is solely responsible for conducting inspections of construction projects and providing

¹ According to the division's principal architect, if a client agency wishes to undertake a project with a total cost not exceeding \$281,000, it may do so without permission from the division. However, for most client agencies, if the total project costs are between a specified threshold, \$281,000 and \$634,000 for 2015, the client agency needs to obtain delegated authority from the division to undertake those projects with minimal division oversight. If a project exceeds \$634,000, the client agency is not eligible to obtain delegated authority to undertake those projects unless allowed by statute.

construction services under certain circumstances, using a combination of day laborers and contractors. According to its website, as of February 2016 the division managed more than 24 million square feet of space in state-owned or state-managed facilities, and its major capital outlay, special repair, and minor capital outlay projects encompassed nearly 1,200 active projects valued in excess of \$4.2 billion.

Table 1
Three of the Real Estate Services Division's Branches and Their Key Responsibilities as They Relate to Project Delivery

	BUILDING AND PROPERTY MANAGEMENT BRANCH	PROJECT MANAGEMENT AND DEVELOPMENT BRANCH	CONSTRUCTION SERVICES BRANCH
Mission	To provide tenants and the public with a safe and healthy environment in which to conduct business, and to preserve the State's investment in real property and equipment through an efficient and effective centralized maintenance and operations program.	To deliver quality, cost-effective, and timely real estate services to state agencies. This includes management of the planning, design, and construction of major and minor capital outlay projects and leasing projects within the scope, budget, and schedule that meet the program requirements of clients and the authorization of the Legislature. This may be done either through the capital outlay process or through alternative forms of delivery.	Construction Management and Inspection Unit: To ensure compliance with building codes and that the highest quality of construction is provided to the State in its buildings. Direct Construction Unit: To provide high-quality construction solutions to address urgent construction problems that are in the best interests of the State, with minimum disruption and maximum sensitivity to multiple client agencies.
Number of positions (as of February 2016)	1,582	292	95
Key responsibilities and services	Facility operation and maintenance.	<ul style="list-style-type: none"> In-house architectural and engineering services. Management of large and/or complex projects, including capital outlay projects. Cost estimates for all phases of construction projects. 	<ul style="list-style-type: none"> Code inspection to ensure compliance with building codes and regulation. Field-level management of construction. Change order estimation and negotiation. Direct construction services.

Sources: *State Administrative Manual*, sections 1301, 1320, 1320.1, 1328, and 1330, and documentation provided by the California Department of General Services' Real Estate Services Division (division).

Note: This table represents a variety of activities undertaken by the division. Although we included maintenance in this table to demonstrate the Building and Property Management branch's responsibilities, we did not review maintenance, as it was not within the scope of our audit. Further, the Asset Management branch is not included in this table because it does not work directly on construction-type projects.

Types of Construction Projects and the Process Used to Deliver Them

The division is responsible for specific types of construction projects: major and minor capital outlay projects and support-funded projects, the funding for which is defined in the text box. According to the *State Administrative Manual*, capital outlay projects are those that alter the purpose or capacity of real property, which could include projects such as renovating existing buildings or building new ones. In addition, the division oversees support-funded projects. According to an assistant branch chief in the building management branch, these projects may include tenant improvements—such as replacing carpet, repainting office walls, and replacing doors or windows before the end of their lifecycle—and special repair projects, such as replacing roofs, security systems and boilers, and modernizing elevators.

Although the branches are ultimately responsible for the planning and delivery of all types of projects, there are certain differences in responsibilities between major capital outlay projects, minor capital outlay projects, and support-funded projects. For example, although the division is responsible for managing public works projects—any state-funded construction project performed for the benefit of the public, including construction-related work performed on state-owned office buildings—once preliminary plans for a major capital outlay project are approved by the State Public Works Board (public works board) and the Department of Finance (Finance), project scope cannot be altered without written approval from Finance. Conversely, if a similar scope change occurs on minor capital outlay projects or support-funded projects, the division does not have to seek this same approval.

Within the division, the project management branch has primary responsibility for delivering major capital outlay projects. For these typically higher-cost projects, the division must follow the specific process prescribed in the *State Administrative Manual*. Required steps include approvals from both Finance and the public works board. Table 2 on the following page describes each phase of the process and its estimated duration. Further, as shown in the table, major capital outlay projects can take nearly three years, at a minimum, to complete. According to a capital outlay program manager in the project management branch, for minor capital outlay and support-funded projects, the division generally follows

Funding of Construction Projects in 2015

Minor capital outlay: Generally, projects with a cost of less than \$634,000 and specifically described as minor in the budget act.

Major capital outlay: Projects exceeding \$634,000 or any capital outlay project not described as minor in the budget act, regardless of the total project cost.

Support-funded: Projects in a state-owned or state-managed building that are paid for out of the client agencies' operating budget.

Sources: *State Administrative Manual*, sections 6806 and 6807; the Department of Finance Budget Letter 14-01; and interviews with California Department of General Services' Real Estate Services Division staff.

the major capital outlay project process outlined in the *State Administrative Manual*, with the exception of oversight by the public works board, which is not required.

Table 2
Phases of Capital Outlay Projects and Estimated Time Frames

PHASE	ACTIVITIES	ESTIMATED TIME FRAME
1 Concept and documentation	<ul style="list-style-type: none"> Client agency defines problem and develops conceptual solution. 	2 to 5 months
2 Historical resources	<ul style="list-style-type: none"> Client agency submits proposed project and historic resources inventory to the California Office of Historic Preservation for review <i>if</i> the project will affect a state-owned structure that is over 50 years of age. 	Typically coincides with phases 1 and 3
3 Budget approval	<ul style="list-style-type: none"> The California Department of General Services Real Estate Services Division (division) submits proposed projects to the Department of Finance (Finance) for approval in the state budget. 	17 months
4 Site selection and acquisition	<ul style="list-style-type: none"> Client agency and the division select a site. State Public Works Board (public works board) approves the site. As the public works board's agent, the division acquires the property. 	Up to 12 months
5 Environmental review	<ul style="list-style-type: none"> Division ensures that the project meets California Environmental Quality Act requirements. 	May coincide with phases 1 through 4
6 Preliminary plans	<ul style="list-style-type: none"> Design architect or engineer prepares schematic documents, designs, and estimate of project costs. Division certifies the environmental process. Public works board and Finance approves preliminary plan design. 	3 to 12 months
7 Working drawings	<ul style="list-style-type: none"> Design architect or engineer prepares plans and specifications for bidding and construction work and refines the cost estimate. Responsible lead design agency obtains mandatory review and approvals from the Office of the State Fire Marshal and the Division of the State Architect. Division submits the design certification to Finance. Finance approves the working drawings and proceeding to bid. 	3 to 11 months
8 Bidding	<ul style="list-style-type: none"> Division advertises the project for construction bids. Interested bidders prepare and submit construction bids to the division. Finance authorizes the award, if within approved funding levels, and approves transfer of construction funds for the division. Division awards the construction contract to the contractor. 	3 to 6 months
9 Construction	<ul style="list-style-type: none"> Contractor constructs project. Division processes construction progress payments and change orders within the approved contingency amount. Division files a contract completion notice with Finance. 	3 to 36 months
10 Claims and close-out	<ul style="list-style-type: none"> Division closes out the project by returning or refunding unused funds to the source of those funds. 	Within 3 months after project completion or within 3 years from the time the funds were transferred, whichever is earlier
Total estimated minimum time frame		34 months*

Sources: *State Administrative Manual*, sections 1451, 6808, and 6851 and Government Code Section 14959.

* The total estimated minimum time frame excludes site selection and acquisition, as these phases do not apply to every project.

Process for Estimating and Funding Public Works Projects

Generally, when a client agency requests a public works project, both the project management and construction services branches—depending upon the branch responsible for the project—prepare initial cost estimates that they present to the client agencies. According to cost estimation staff in these two branches, cost estimators prepare estimates based on historical costs for similar projects, internal guidelines, industry standards, and the professional judgment of the cost estimators and their supervisors. However, as we describe in the Audit Results, the building management branch does not have a process for estimating project costs, which are built into the tenants' rental rates, or time frames.

Prior to beginning work on a project, funds must be deposited into General Services' Architectural Revolving Fund (fund). The *State Administrative Manual* indicates that transfers into the fund require approval from Finance. Under state law, division expenditures of fund money must adhere to the original authorized purposes for which the money was transferred. Once a project is complete, state law requires General Services to transfer any remaining money that has not been obligated to the project back to its source within three months. However, irrespective of project completion, funds not obligated to the project within three years of their deposit must be returned unless Finance authorizes an extension.

Requirements for Public Works Projects Compared to Private Sector Projects

Public works projects, compared to purely private sector projects, have more rigorous statutory requirements, as described in Table 3 on the following page, which can contribute to increased costs and project duration. For example, state law requires private contractors on public works projects to pay prevailing wages to their workers—a wage determined by the Department of Industrial Relations based on the type of work conducted and the location of the job site—and to employ paid apprentices, both of which may increase costs. In addition, state law requires the division to award the majority of public works contracts to the lowest responsible bidder after completing a prescribed competitive bidding process. According to the *State Administrative Manual*, this process can add up to six months to the length of the project. Given that the competitive bidding process requires administrative oversight, this process can also increase project costs.

Table 3
Comparison of Major Requirements for Public Works Projects and Private Sector Projects

REQUIREMENT	PUBLIC POLICY GOAL	PUBLIC WORKS PROJECT*	PRIVATE SECTOR PROJECT
Compliance with the California Building Standards Code (Title 24). Title 24 governs the design and construction of buildings and includes requirements for the structural, plumbing, electrical, and mechanical systems; fire and life safety; energy conservation; green building design; and disabled building access.	To provide minimum requirements to safeguard public health, safety, and general welfare.	✓	✓
Governor's Executive Order Number B-18-12 (April 25, 2012): Requires state agencies to implement the building practices set forth in the Green Building Action Plan.	To reduce the costs and environmental impacts associated with operating state buildings.	✓	
Competitive bid process/contract awarded to lowest responsible bidder.	To prevent corruption and discourage favoritism and fraud.	✓	
Prevailing wages.	To protect against substandard wages and equalize competition.	✓	
Contractors performing public works projects must employ paid apprentices.	To encourage the utilization of apprenticeship as a form of on-the-job training.	✓	
Small business/disabled veterans business enterprise considerations.	To help these interests compete more effectively for a portion of the dollars awarded competitively through the State's bidding process.	✓	

Sources: California Code of Regulations, Title 24; Health and Safety Code sections 18901 et seq.; State Contract Act (Public Contract Code, sections 10100 et seq.); Labor Code sections 90.5, 1770 et seq., and 3070 et seq.; Government Code sections 14835 et seq.; Military and Veterans Code sections 999 et seq.; *State Contracting Manual*, chapters 1, 5, 8, and 10; and Governor's Executive Order Number B-18-12 (April 25, 2012).

* These requirements apply to all public works projects, regardless of whether a state department manages the project or a private sector firm manages the project.

Procuring Architecture and Engineering Services for Public Works Projects

Although under state law the division generally must award construction services portions of projects to the lowest responsible bidder, for architecture and engineering services, state law requires that selection be based on demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required at a fair and reasonable price. Further, the division can contract out these services without providing a justification explaining its reasons for contracting out work that a state employee could otherwise perform, as is typically required of any state personal services contract. According to the chief of the project management branch, in order to fulfill all requests for public works projects, the branch frequently contracts with private architecture and engineering firms to perform design and construction management services for its projects. The chief of the project management branch also explained that the branch determines which work it will contract out based on staff availability and technical expertise. To accomplish this work expeditiously, the branch maintains retainer contracts with several private architecture and engineering firms to conduct such work.

Evolution of the Division's Structure

The division, formed in 1997, originally comprised six branches. Since its formation, the division has continued to reassess its structure and has consolidated its operations down to its current four branches, three of which we described in Table 1 on page 8. Specifically, the division commissioned a study by a private consulting firm to conduct a high-level evaluation of the division's structure. In its report, issued in January 2006, the consulting firm noted that the division was organized primarily by function and that the branches within the division tended to operate as separate organizations that did not fully share knowledge, process innovation, or critical operational data. Although as of March 2016, the division's branches still seem to operate primarily as independent organizations, we did not see evidence during our work indicating that this was causing unnecessary project delays or hindering work product. Further, in its report, the consulting group noted that the division had initiated a change in its organizational approach in response to pending retirements, staff reassignments, and the division's belief that reassigning personnel would introduce more accountability. The report recommended that the division support this new approach by consolidating two branches—Customer Account Management and Asset Planning and Enhancement—which the division has implemented. This consolidation resulted in the Asset Management Branch.

Further, during 2012 and 2013, according to an internal report, the division made two key changes to its structure. First, it dissolved its Business Operations, Policy, and Planning Branch and dispersed that branch's responsibilities among the division deputy director's office as well as central service offices within the department. It also combined its Professional Services Branch and Project Management Branch to create the Project Management and Development Branch. According to the division's report, the goals of this consolidation were consistent with the division's strategic plan to increase project on-time delivery, improve cost recovery through efficient operations, increase customer satisfaction, and increase employee satisfaction.

Recent Concerns Regarding the Division's Maintenance Services

The Legislative Analyst's Office (LAO) issued a report in March 2015 related to the division's responsibilities for performing maintenance on buildings controlled by General Services, such as replacing heating, ventilation, and air conditioning systems or repaving parking lots. The building management branch is responsible for this type of ongoing maintenance. This report identified several issues relating to the division's untimely

completion and high costs of maintenance-type work. Specifically, the LAO noted that the division was not tracking the needs and performance of its buildings, not tracking its spending on maintenance activities, and not using benchmarks to compare its maintenance performance to that of outside organizations. As a result, it recommended that the Legislature require General Services to address the factors that led to the accumulation of deferred maintenance by evaluating building maintenance staffing levels, setting rental rates to meet ongoing building needs, and using its existing analysis tools to better prioritize maintenance efforts.² Additionally, the LAO recommended that the Legislature provide General Services with authority to use job order contracting for certain types of maintenance projects.

Scope and Methodology

The audit committee directed the California State Auditor's office to perform an audit of the division regarding its operations to plan, design, and construct capital outlay projects. Table 4 includes the audit objectives the audit committee approved and the methods we used to address them.

Table 4
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHODS
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	We reviewed relevant state laws and regulations.
2 Determine whether the structure of the California Department of General Services' (General Services) Real Estate Services Division (division) structure allows it to effectively provide services regarding state-owned or leased buildings throughout the State.	<ul style="list-style-type: none"> • For each of the four branches within the division—Asset Management, Project Management and Development (project management branch), Construction Services (construction services branch), and Building and Property Management (building management branch)—we reviewed the branch's role in performing public works projects, including special repairs, and its process for completing these projects. We did not note any areas of concern related specifically to the division's overall structure. However, as we explain in the Audit Results, we do believe there is a need for a staffing analysis in the building management branch. • We also reviewed an external evaluation of the division's structure completed in 2006, as well as an internal report regarding the division's reorganization that occurred in 2012 and 2013.

² The building management branch uses a separate data system to track building maintenance than the one we discuss in the Audit Results.

AUDIT OBJECTIVE	METHODS
<p>3 For a selection of project requests made by state agencies since 2011, assess the effectiveness of the division's applicable processes, policies, procedures, and practices for the following:</p>	
<p>a. Determining the scope and timeline of the projects, including whether the projects were completed within estimated time frames.</p>	<ul style="list-style-type: none"> • Because the division does not consistently track project time frames in General Services' Activity Based Management System (ABMS), the data were insufficient to identify projects based on the date the project was requested. Therefore, we judgmentally selected 24 projects active between January 1, 2011, and June 30, 2015. Although the Joint Legislative Audit Committee asked us to specifically review capital outlay projects, we also included support-funded projects, including tenant improvements and special repairs, to ensure that we selected the types of construction projects cited in the audit request. To select our test items, we weighted our project selection based on the relative proportion of the division's work performed by each branch. The project management branch had a significantly larger number of construction projects; thus, we weighted our selections more heavily for that branch. Further, we included a State Board of Equalization project, as the audit request raised a specific concern regarding that project. • We interviewed division management and reviewed applicable documentation to gain an understanding of the division's process for determining the project scope and estimated time frames. • For our selection of 25 projects, we performed the following: <ul style="list-style-type: none"> - Compared the original estimated project time frames, if available, to the actual time frames for each phase and determined whether the division completed the phases and overall projects within its original estimated time frames. - Interviewed division staff, including project managers, and reviewed available project documentation to attempt to identify the primary reasons for any delays and to determine whether the projects with delays had any common factors primarily contributing to the delays. • We developed and conducted a client agency survey of those entities whose projects we reviewed. The survey inquired about various aspects of the project lifecycle, including the division's communication with the client agency regarding project time frames.
<p>b. Estimating the costs of the projects. To the extent possible, determine whether the projects' design and construction costs are comparable to those costs on similar private sector projects and determine the reasons for any differences.</p>	<ul style="list-style-type: none"> • To assess the division's processes for estimating costs for each of the projects selected in Objective 3a, we performed the following: <ul style="list-style-type: none"> - Obtained cost estimates from branch staff and reviewed each branch's approach to deriving cost estimates. - Compared initial estimated project costs, if available, with actual project costs for each phase. - Reviewed available project documentation and interviewed project managers to attempt to determine the primary reasons variances existed between any initial cost estimates and the actual project costs. • To determine if the projects' design and construction costs are comparable to those in the private sector, we performed the following: <ul style="list-style-type: none"> - Reviewed laws and regulations to identify reasons for cost differences between public and private sector construction projects. - Interviewed management in each of the three branches to determine if they had conducted analyses of their costs compared to those of private firms conducting similar work. The project management branch was the only branch that had conducted such an analysis. - Reviewed the project management branch's analysis of the hourly rate it charges client agencies for design, project management, and construction management to private firms it has contracted with to provide architecture and engineering services. As described in the Audit Results, we determined this analysis is inadequate. - Conducted our own analysis of the project management branch's hourly rate, after excluding administrative and most overhead costs, compared to those of two private firms' contracts the branch had on retainer during fiscal year 2014-15 that contained the most comparable positions as those included in the branch's hourly rate. - We focused our review on the project management branch's hourly rate because the branch had a significantly larger number of construction projects than the other two branches, and thus the effect of noncompetitive hourly rates would be greater. Furthermore, unlike the other two branches, the project management branch maintains retainer contracts with private firms that conduct similar work for the State, allowing us to conduct such an analysis. - Used the responses from our client agency survey discussed in Objective 3a to understand their experiences working with the division, including their perspective regarding various aspects of the project lifecycle, such as project costs, and their experiences, if applicable, using private contractors in lieu of the division.

AUDIT OBJECTIVE	METHODS
<p>c. Communicating with the requesting agencies, project construction personnel, and other General Services and division staff about the projects including, but not limited to, project time frames, change orders, and revised costs. For change orders, determine who is notified about change orders and who approves them.</p>	<ul style="list-style-type: none"> • We used the client agency survey discussed in Objective 3a to ask client agencies about various aspects of the project lifecycle, including the division's communication of project time frames, project costs, and billing practices. • For each selected project that included change orders, we performed the following: <ul style="list-style-type: none"> - Selected two change orders from each project and verified that they received approval from the project manager. - For selected change orders, we reviewed project documentation to determine whether the project manager communicated these change orders to the client. • According to division management, the division typically communicates time frame delays and cost changes with other divisions of General Services only as needed during the course of a project because they do not receive ongoing support as it relates to project delivery from other sections of General Services.
<p>d. Billing the requesting agencies for the project costs. Specifically, determine whether the bills or invoices the division provides clearly reflect the work for which agencies are being charged.</p>	<ul style="list-style-type: none"> • We interviewed branch managers to determine the billing practices for each branch. • We interviewed branch managers to determine the reasons why the project management branch and the construction services branch do not provide bills or final cost breakdowns to the client agencies. • As part of our client agency survey, we also included questions related to billing.
<p>4 Determine what proportion of requested projects is completed by the division within estimated time frames. Determine whether a backlog of requested services exists at the division and, if so, the reasons for that backlog.</p>	<ul style="list-style-type: none"> • We attempted to review ABMS data to determine the timeliness of all projects that the division has completed since January 1, 2011, and to identify the number of projects requested since January 1, 2011, that were not completed as of June 30, 2015. Because of the significant concerns we had about the data that we describe in Table 5 and in the Audit Results, we concluded that ABMS did not contain the necessary data that would enable us to conduct a review of its entire project population to determine the proportion of projects completed on time or whether a backlog of requested projects existed.
<p>5 Determine whether the division has sufficiently and properly trained personnel to effectively meet the goals set by the division.</p>	<ul style="list-style-type: none"> • We reviewed the division's 2014 through 2018 strategic plan to identify the division's goals and objectives. • We interviewed key staff and reviewed available training materials from each branch to determine what, if any, training staff receive related to project delivery. • We reviewed certificates of registration for five engineers and five architects to ensure that their certificates were in good standing. We did not identify any issues.
<p>6 Review and assess any other issues that are significant to the audit.</p>	<ul style="list-style-type: none"> • We reviewed six construction-related contracts and one architecture and engineering services contract to ensure that General Services followed selected contracting requirements. We identified one instance where General Services could not provide evidence that it notified the Department of Industrial Relations of a public works contract requiring the payment of prevailing wage, as specified in state law. After we brought it to its attention, General Services has since revised its procedures and implemented a tracking log to ensure it always provides this notification. • We interviewed division management about job order contracting to determine whether the division believed this contracting method would be beneficial. We also reviewed the Legislative Analyst's Office's report, <i>The 2015–16 Budget: Addressing Deferred Maintenance in State Office Buildings</i>, issued in March 2015, that recommended the Legislature provide General Services with the authority to use job order contracting for certain types of maintenance projects. Finally, we interviewed officials from the Los Angeles Unified School District, the University of California Office of the President, and the California State University Office of the Chancellor, each of which have implemented job order contracting, to determine the benefits and challenges of such a contracting process.

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2015-117, and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained electronic data files extracted from the information system listed in Table 5. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of the computer-processed information that we use to support our findings, conclusions, or recommendations. Table 5 describes the analyses we conducted using the data from this information system, our methods for testing it, and the result of our assessment.

Table 5
Methods Used to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
California Department of General Services (General Services) Activity Based Management System (ABMS) General Services' project time frames as of August 2015	Make a selection of projects active between January 1, 2011, and June 30, 2015.	This purpose did not require a data reliability assessment. However, we attempted to validate the completeness of the universe from which we made our selection. We found that General Services' Real Estate Services Division does not consistently track project time frames in ABMS and currently has no mechanism to obtain a global view of the status of its projects. We discuss this limitation in the Audit Results.	Not complete

Sources: California State Auditor's analysis of information and data obtained from General Services.

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Audit Results

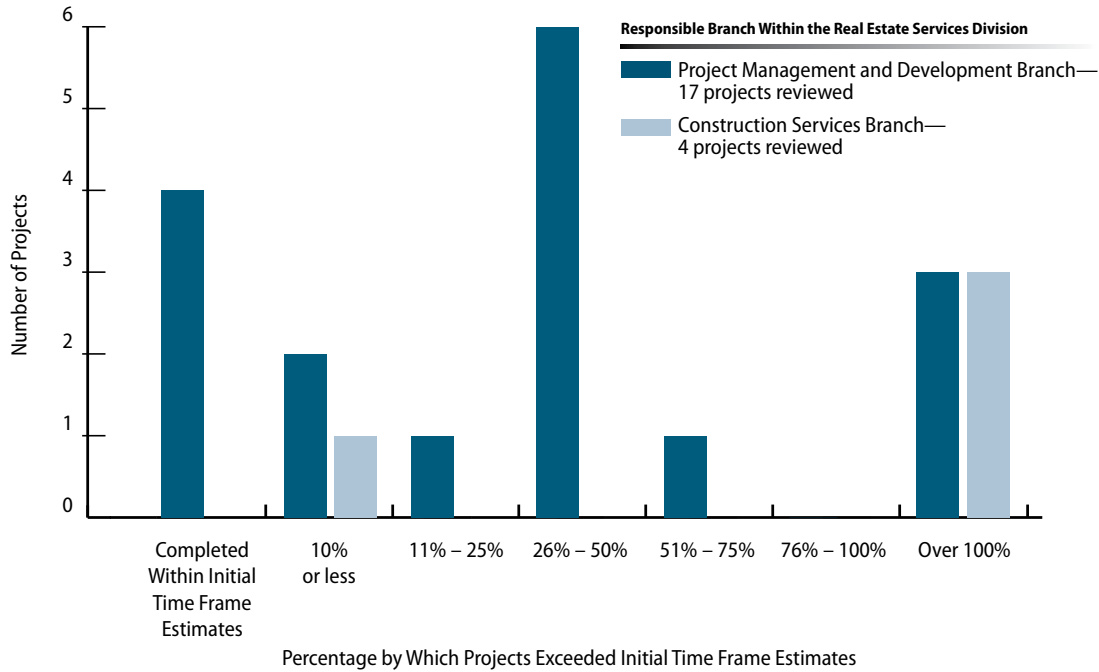
The Division Frequently Exceeded Its Estimated Time Frames and Costs and Lacks the Data Necessary to Assess the Reasons for These Overages

Our review of 25 construction projects conducted by the California Department of General Services' (General Services) Real Estate Services Division (division) revealed that it exceeded its initially estimated time frames and costs for the majority of the projects. Although, based on available documentation and interviews with division staff, a variety of factors contributed to these delays and cost overages, we noted some common factors that the division might have prevented if it had centrally tracked and analyzed data related to these projects. This lack of data hinders division management's ability to do the following: assess how effectively it is delivering projects for its client agencies, identify undesirable patterns, and adjust its processes accordingly. Further, although the Project Management and Development Branch (project management branch) and Construction Services Branch (construction services branch) assert that they do not have a backlog—projects that have never begun or are unnecessarily on hold—both were unable to prove this assertion because they do not centrally track the required data. Additionally, the acting deputy director of the division, who spoke on behalf of the Building and Property Management Branch (building management branch), explained that the branch does have a backlog of projects, but its data do not distinguish whether a project is construction or maintenance. Thus, this branch could not demonstrate whether it had a backlog of construction projects. Given the frequency with which the division exceeded its original time frames for the projects we reviewed, it is reasonable to conclude that other projects were not able to begin on time, which is one definition of a backlog.

The Division Frequently Exceeded Estimated Time Frames for Completing Projects

We found that the division exceeded its estimated time frames for the majority of projects we reviewed. Specifically, as shown in Figure 1 on the following page, the division exceeded its time estimates for 17 of the 21 projects we reviewed for which time frames had been prepared. Of those, six exceeded the initial estimate by more than 100 percent. Based on information provided by project managers and other available staff and our review of available project documents, we identified a variety of reasons for the project delays and some common contributing factors.

Figure 1
Summary of Selected Construction Projects Active Between January 1, 2011, and June 30, 2015, That Exceeded Time Frame Estimates



Sources: California Department of General Services' Activity Based Management System and available project documentation.

Notes: To select our test items, we weighted our project selection based on the relative volume of work conducted by each branch. The Project Management and Development Branch had a significantly larger number of construction projects; thus, we weighted our selection more heavily from that branch.

We excluded construction projects conducted by the Building and Property Management Branch from this figure because, according to its former acting chief, the branch does not have procedures for developing time frame estimates. Further, none of the project files we reviewed contained evidence that the branch developed estimates.

Table 6, which lists the 14 projects that exceeded their estimated time frames by more than 10 percent, shows that project delays were attributable to various factors, including design deficiencies, inadequate planning, site conditions, and client-requested scope changes. Our review of these projects found that in some cases the division may have been able to prevent the delays. We noted that in seven of the projects we reviewed, the project management branch overlooked key features in the respective project's planning, design, or both. For example, General Services requested that the project management branch renovate the interior and exterior of its landmark State Library and Courts building to regain its historic character. The project management branch initially estimated that the project would take approximately 5 ½ years; however, it actually took more than 9 years to complete, of which only about a year was due to a bond freeze on all bond-funded projects, with certain exceptions, ordered by the Pooled Money Investment Board in 2008 and therefore not within the project management branch's control. The project management branch initially planned to

Table 6
Primary Factors Contributing to Project Delays for Selected Construction Projects Active Between January 1, 2011, and June 30, 2015

RESPONSIBLE BRANCH AND CLIENT ENTITY	SUMMARY OF PROJECT	PERCENTAGE OVER ORIGINAL ESTIMATE	FACTORS IN PROJECT DELAYS					
			DESIGN DEFICIENCIES	INADEQUATE PLANNING	SITE CONDITIONS	CLIENT REQUEST	BOND FREEZE*	INSUFFICIENT DOCUMENTATION†
Project Management and Development Branch								
California Department of Forestry and Fire Protection‡	Replace building in Bautista Conservation Camp, including dormitories for inmates	248%	✓	✓		✓	✓	
Department of Motor Vehicles‡	Remove asbestos, perform a seismic retrofit, and renovate headquarters building in Sacramento	143	✓	✓				
California Department of Veterans Affairs	Build new veterans home in West Los Angeles	103	✓			✓		
California Department of General Services	Renovate library and courts building	68		✓			✓	
California Department of Transportation	Renovate Eureka District 1 office	49	✓	✓	✓	✓		
State Board of Equalization	Make office alterations at the San Jose district office	42						✓
Department of Motor Vehicles	Remove barrier and perform maintenance in existing office in Hawthorne	41				✓		
California Department of General Services, Office of State Publishing	Repair roof of state printing plant	41				✓		
Department of Motor Vehicles	Remove barrier and perform maintenance in existing office in El Cajon	39				✓		
Department of Toxic Substances Control	Construct a new pretreatment facility at the Stringfellow Hazardous Waste Site	35	✓					✓
California Highway Patrol	Construct a new office in Oakhurst	13	✓					
Construction Services Branch								
Department of Parks and Recreation	Retrofit restroom at California State Railroad Museum	502%			✓	✓		
California Department of Public Health	Install biological safety cabinet and make room alterations at Richmond lab	426				✓		
California Department of Fish and Wildlife	Convert existing lab into office space	113				✓		
Total Counts of Each Factor			6	4	2	9	2	2

Sources: Reports from the California Department of General Services' (General Services) Activity Based Management System, available project documentation, and interviews with General Services' Real Estate Services Division staff, including project managers.

Note: This table represents those construction projects we reviewed that exceeded the division's originally estimated time frame by more than 10 percent.

* During the State's financial crisis in 2008, the Pooled Money Investment Board ordered a temporary freeze, with certain exceptions, on all bond-funded projects.

† Although all of the projects we reviewed generally lacked sufficient documentation fully demonstrating all factors contributing to project delays, there were two instances in which neither the documentation nor division staff could explain certain significant delays. Specifically, although we could identify that deficiencies in design contributed to delays for the Department of Toxic Substances Control's project, neither documentation nor division staff could describe a significant portion of the delay. Further, the division could provide no documentation or explanation regarding why the State Board of Equalization project exceeded its estimated time frame.

‡ Unlike the other projects presented in this table, these two projects had noteworthy delays in the post-construction phase—the phase subsequent to construction being completed. Specifically, based on available documentation, these projects experienced warranty issues, among other issues, which contributed to the delays.

The project management branch initially estimated that a project for the DMV would take about four years; however, it actually took more than 10 years to complete with certain delays caused by inadequate planning and deficiencies in design.

perform the construction in phases in order to continue to occupy the building. However, a detailed analysis was later performed of the building's infrastructure systems and it was determined that maintaining occupancy was not feasible and General Services had to seek approval from the Department of Finance to relocate the tenants, adversely affecting the project schedule. Had this type of analysis been done to inform its initial project schedule, the project management branch could have developed a more accurate time frame estimate. The extent to which this inadequate planning contributed to the project's total delay is unclear because the project management branch does not adequately track the reasons for project delays and their overall impact on the project schedule.

In another example, the Department of Motor Vehicles (DMV) requested that the project management branch remove asbestos, perform a seismic retrofit, and renovate the offices at its headquarters building in Sacramento. The branch initially estimated that the project would take about four years; however, the project actually took more than 10 years to complete, which included addressing warranty-related issues during the more than two-year post-construction phase. Certain delays on this project were caused by inadequate planning and deficiencies in design. According to documents provided by a capital outlay program manager, delays for this project were due to quality issues with the planning documents, such as the project schedule and testing requirements, as well as issues with the project design, which had to be reworked and undergo additional review. According to the program manager and the terms of the contract, DMV did not incur additional costs related to these issues.

However, in other cases, project delays may have been outside of the division's control. For example, in our review of 21 projects for which the division prepared time frame estimates, we identified nine in which client agency requests contributed to project delays. For example, DMV requested that the project management branch perform a barrier removal and maintenance project at its existing office in El Cajon. The design phase took over 1 ½ years longer than estimated because the client requested additional work, such as reconfiguring a lobby and adding a perimeter fence. Similarly, for a room alteration at the California Department of Public Health's (Public Health) Richmond lab, the construction services branch completed the original scope of work, but Public Health then requested that the branch use the funds saved relative to its original estimate to purchase and install additional items, including a new roof exhaust motor

and dressing room bench. The division could not have predicted this additional request, which extended the completion date of the project.

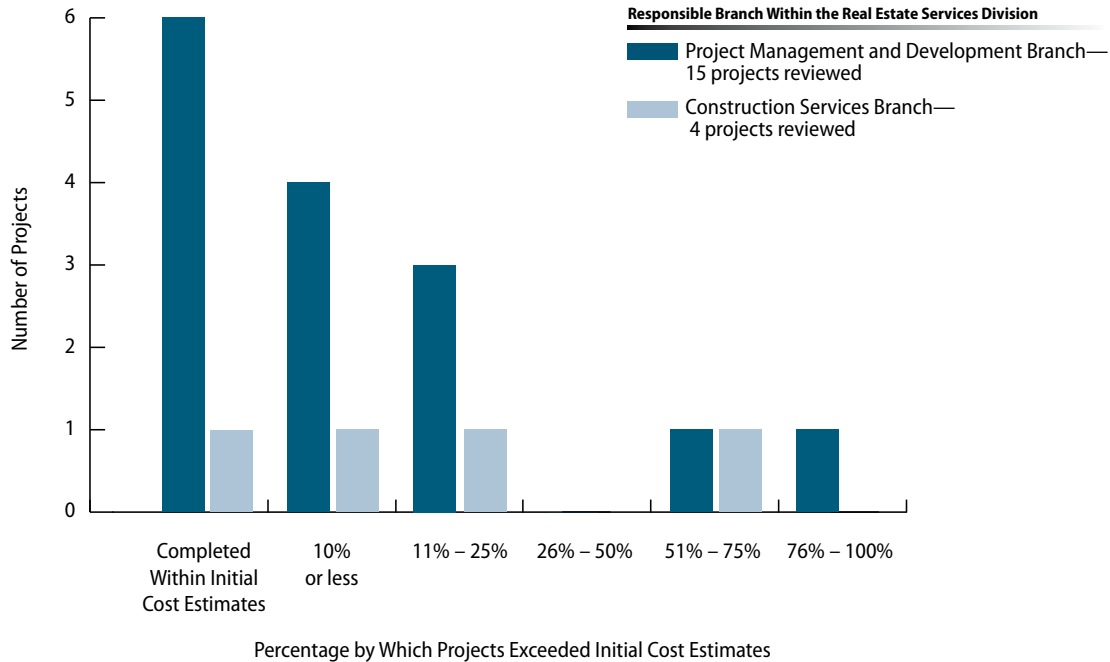
When the division exceeds estimated time frames for reasons within its control, it can negatively affect the client agencies' ability to effectively conduct business. In response to a satisfaction survey we distributed to the client agencies of the 21 projects we reviewed, 11 client agencies reported concerns about the division's time frames, and four noted delays that affected their agencies' operations. For example, the California Department of Transportation (Caltrans) requested that the project management branch renovate one of its district offices in Eureka. Ultimately, the project took two years to complete, or nearly 50 percent longer than its original estimate, some of which was because of client requested scope changes. In response to our survey regarding this project, Caltrans reported that the project management branch's continued extensions to the project completion date adversely affected employee morale, increased rental costs by a year for housing staff displaced during the project, and created additional workload for its headquarters' administrative staff. These types of delays result in dissatisfied customers, can cost client agencies additional money, and can ultimately affect the agencies' abilities to serve the public.

Project Costs Frequently Exceeded the Division's Estimates, and the Division Did Not Always Prepare Cost Estimates

Of the 25 projects we reviewed, we found that the division prepared cost estimates for only 19, and 12 of those ultimately exceeded the division's initial cost estimate, as shown in Figure 2 on the following page. Further, for seven of the 12 projects, the division exceeded its initial estimates by more than 10 percent, most of which was related to factors beyond the division's control. In the largest discrepancy between estimated and actual costs, the project management branch spent roughly \$115 million more than its initial estimate of about \$118 million for the construction of a veterans' home in West Los Angeles, although, as we describe later, this cost overage was primarily due to changes in the project's scope requested by the client agency. In another example, the project management branch initially estimated costs for the construction of a new California Highway Patrol area office in Oakhurst at just under \$11.3 million. However, the project ended up costing more than \$12.7 million, or nearly 13 percent more than the original estimate.

When the division exceeds estimated time frames for reasons within its control, it can negatively affect the client agencies' abilities to effectively conduct business.

Figure 2
Summary of Selected Construction Projects Active Between January 1, 2011, and June 30, 2015, That Exceeded Cost Estimates



Sources: California Department of General Services' Activity Based Management System and available project documentation.

Notes: To select our test items, we weighted our project selection based on the relative volume of work conducted by each branch. The Project Management and Development Branch (project management branch) had a significantly larger number of projects; thus, we weighted our selection more heavily from that branch.

We excluded construction projects conducted by the Building and Property Management Branch from this figure because, according to its former acting chief, the branch does not have procedures for developing cost estimates. Further, none of the project files we reviewed contained evidence that the branch developed estimates. Additionally, the project management branch did not prepare complete cost estimates for two projects.

We found several factors that contributed to projects' cost overages. As shown in Table 7, of the seven projects that exceeded the cost estimates by more than 10 percent, one overage occurred in part because there were deficiencies in design. Specifically, according to project documentation, the project costs for the California Highway Patrol's new area office in Oakhurst increased primarily due to inadequacies in the contractor's design for a communication tower, along with numerous small errors. Although we were able to identify this as a reason for the cost overage for one of the projects we reviewed, as we discuss later, the division cannot readily conduct an analysis for all of its projects to identify reasons for, and the impact of, cost overages because it does not centrally track this information. If it did, the division could better determine whether it might be able to improve its cost estimation process based on recurring deficiencies.

Table 7
Primary Factors Contributing to Cost Overages for Selected Construction Projects Active Between January 1, 2011, and June 30, 2015

CLIENT ENTITY AND RESPONSIBLE BRANCH	SUMMARY OF PROJECT	PERCENTAGE OVER ORIGINAL ESTIMATE	FACTORS IN COST OVERAGES		
			DESIGN DEFICIENCY	SITE CONDITIONS	CLIENT REQUEST
Project Management and Development Branch					
California Department of Veterans Affairs	New veterans' home in West Los Angeles	98%*			✓
Department of Motor Vehicles	Remove barrier and perform maintenance in existing office in El Cajon	61			✓
Department of Motor Vehicles	Remove asbestos, perform a seismic retrofit, and renovate headquarters building in Sacramento	22 [†]			✓
Department of Motor Vehicles	Remove barrier and perform maintenance in existing office in Hawthorne	18			✓
California Highway Patrol	Construct a new area office in Oakhurst	13%	✓		
Construction Services Branch					
Department of Parks and Recreation	Retrofit restroom at the California State Railroad Museum	60%		✓	✓
California Department of General Services	Repair balcony drain leaks and damages at the California State Archives	25		✓	
Total counts of each factor			1	2	5

Sources: Reports from the California Department of General Services' (General Services) Activity Based Management System, available project documentation, and interviews with General Services' Real Estate Services Division staff, including project managers.

Note: This table presents those construction projects we reviewed that exceeded initial estimated costs by more than 10 percent.

* This project experienced significant scope changes during the planning phase, including an increase of approximately 70,000 square feet to the facility plans.

[†] As of February 2016, this project was in the postconstruction phase and was scheduled to be completed on March 31, 2016. Until the postconstruction phase is complete, project costs may increase.

Although some factors contributing to inadequate cost estimates may be preventable, others may not, such as client agency requests. Of the seven projects that exceeded the division's initial cost estimates by more than 10 percent, five experienced client changes to the project scope that at least partially contributed to the increases. However, because of the limited documentation available, we could not fully quantify how much project scope changes added to their cost. For example, as we mentioned in the previous section, the DMV made several subsequent scope changes to its El Cajon project that affected not only the initial estimated time frames but the cost estimates as well. Similarly, for the DMV's headquarters in Sacramento, the project scope expanded after the original estimate to include replacement of the central plant cooling equipment, leading to higher estimated costs. Additionally, for the veterans' home example we described previously, the project scope expanded

after the original estimate to include roughly 70,000 additional square feet and a longer construction time frame. These changes primarily inflated the project's cost.

The issues we identified based on available documentation or interviews with division staff had varying effects on project time frames and costs. In some cases, projects that exceeded their time frames did not always have corresponding cost overages. For example, as shown in Table 6 on page 21, a project requested by the Department of Toxic Substances Control exceeded its original estimated time frame by 35 percent. Although the project management branch could not provide sufficient documentation or describe fully the reasons for the approximate one-year delay, it did cite design deficiencies as one primary factor in the delay. However, this project actually cost substantially less than the original cost estimate. In contrast, a balcony repair project at the California State Archives—a building owned by General Services—exceeded its original estimated costs by approximately 25 percent because of site condition issues. However, it only exceeded its estimated time frame by six days, or less than 10 percent; thus, we did not include this project in Table 6.

Differences between initial estimates and final project costs can have negative consequences for client agencies. As part of our survey of client agencies, we asked if they had any concerns with the costs of their projects. Seven of the 21 responses to this question indicated that they did have concerns. For example, the California Highway Patrol indicated that it had concerns regarding how it would pay for the additional project costs. We also asked client agencies whether they felt that the change in project costs affected their operations, including their abilities to provide services to the public. Of the 18 client agencies responding to this question, four indicated that the increase in costs had affected their agencies' operations. For example, the California Department of Forestry and Fire Protection replied that the changes in project scope and time frames for the replacement of buildings at its Bautista Conservation Camp, which the project management branch oversaw, had an adverse impact on the operational readiness and functionality of the camp, including the ability to adequately house the inmates who work at the camp.

For a total of six of the projects we reviewed, four lacked cost estimates altogether, and two had incomplete cost estimates.

Additionally, for a total of six of the projects we reviewed, four lacked cost estimates altogether, and two had incomplete cost estimates. Specifically, four of these projects were overseen by the building management branch, which we describe in the next section. The remaining two projects were completed by the project management branch, which did not develop complete cost estimates due to the unique nature of the projects, according to the respective project managers. For example, one project was

established to make roofing repairs on an as-needed basis on the building occupied by General Services' Office of State Publishing (State Publishing), which planned to move to another building in the future. Although the project management branch's contractor recommended that State Publishing retrofit its roof with a new roof system based on an examination of the roof's condition, and developed a cost estimate for the full replacement of the roof, the project manager explained that General Services' management at the time rejected replacing the roof and opted to continue patching and repairing the roof as needed. As a result, according to the project manager, the division conducted work upon request instead of developing an initial estimate for the entire project, the full scope of which was unknown. The construction services branch, which performed the construction work for the project, initially estimated that the repairs would cost roughly \$250,000; however, its estimate did not include the project management costs incurred by the project management branch, nor did it include subsequent repairs beyond the original project scope. Overall, State Publishing spent more than \$500,000 for these repairs and associated project management costs.

As part of our client agency survey, State Publishing indicated that it had concerns with the costs associated with these repairs and stated that the division rarely communicated project costs. Our review of the project manager's process for communicating costs for this project revealed, as we describe later in Audit Results, that the project manager did not share change orders with State Publishing. When we asked why he took this approach, the project manager told us that he typically reviewed State Publishing's request, confirmed there was enough funding to cover the request, and approved it. Despite the ad hoc nature of this project, we believe that each time a roof repair was conducted the project manager should have shared an estimate, including associated project management costs, with State Publishing so that it was aware of and could better anticipate each repair's cost.

For the other project, the project management branch provided oversight and other services for the Secretary of State's purchase and installation of shelving units for the California State Archives. The project manager provided the Secretary of State's Office with a basic estimate of the branch's project management, architectural, and structural engineering fees. According to the project manager, the project management branch did not estimate all costs for this project because the Secretary of State's Office handled negotiations with the vendor and the division had limited responsibility, mostly related to inspection and project management. Thus, it did not believe a full estimate was necessary. However, the project manager's estimate excluded the cost of the inspection services for which the division was responsible, and therefore it did not

provide the Secretary of State's Office with complete information. Additionally, the estimate was less than half of the nearly \$70,000 the project management branch ultimately charged the Secretary of State's Office for project management, design, and inspections. Despite the cost increases, the Secretary of State's Office did not raise issues in our client agency survey with the division's communication or cost estimates for the project, and rated its interactions with the division favorably.

The Building Management Branch Lacks a Process for Estimating Project Time Frames and Costs, and It Has Not Formally Evaluated the Adequacy of Its Structure or Staffing

As we mentioned in the previous section, we were unable to obtain time frames or cost estimates for the four projects we reviewed from the building management branch because, according to its former acting chief, the branch does not have procedures for developing such estimates. In fact, it is the only branch of the division that oversees projects but does not have cost estimators. Instead, according to the assistant chief in the building management branch, the costs for these projects are built into the tenants' rental rates. According to the building management branch's former acting chief, in lieu of estimating time frames and costs, project managers may share historic estimates for similar projects with clients; however, she acknowledged that the accuracy of these estimates is questionable. Further, none of the project files we reviewed contained evidence that the branch shared historic estimates with the client agencies. Without actual estimates, client agencies are likely hindered in their ability to adequately anticipate and plan for a project's duration. Additionally, by not estimating costs, the branch limits its ability to appropriately set its rental rates to meet ongoing building needs.

The building management branch has yet to conduct a review of its structure, including a staffing analysis, to determine whether it is organized in a manner that most effectively and efficiently meets the needs of its client agencies.

The building management branch's lack of estimating staff may be attributable to the fact that it has yet to conduct a review of its structure, including a staffing analysis, to determine whether it is organized in a manner that most effectively and efficiently meets the needs of its client agencies. In particular, the former acting chief of the building management branch explained that when the branch was last reorganized—in 1997—many state buildings were newer and less technologically complex than they are currently. She stated that due to the current age of the buildings and advances in technology, as well as an increase in the number of properties, the building management branch has a larger workload and more complex projects than it did previously. She acknowledged that the branch has yet to restructure to address this complexity and increase in workload. According to the acting deputy director of the division, he is currently evaluating the branch's structure, which

will include assessing its staffing. Although he could not provide a date as to when the evaluation would be complete, he indicated it would be done in the very near future. Nevertheless, given that the building management branch was last reorganized nearly 20 years ago and its workload has grown in size and complexity, we find it concerning that a formal evaluation of the branch's structure and staffing is just now being undertaken.

Without a process for estimating project time frames and designated staff to derive such cost estimates, the building management branch cannot provide client agencies with critical information regarding their projects, nor can it assess its own processes. Additionally, the branch cannot monitor how efficiently or effectively it delivers these projects without first estimating costs. For example, in response to our client agency survey, the Department of Water Resources (Water Resources) indicated that the building management branch took several years to complete a roofing project. Further, Water Resources explained that the project delay pushed construction into the rainy season, which resulted in rainwater leaking through the unfinished roof. Water Resources explained that this leak caused an unsafe work environment, and it was forced to move staff into a temporary location.

Although both the project management and the construction services branches have estimating staff, the building management branch does not seek the assistance of these staff, in part because, according to its acting chief, it does not want to pay the other branches who conduct work on a fee-for-service basis to perform this service. However, by investing additional funds to obtain actual cost estimates, the building management branch could better assess its performance, including its method for setting rental rates.

The Division Lacks the Data Necessary to Track and Analyze the Reasons for Project Delays and Cost Overages

Although the division has a data system—the Activity Based Management System (ABMS)—that it could use to track costs and time frames for its projects, none of the branches use the system to centrally monitor whether projects are on schedule or to identify the reasons for project delays or changes in cost. Instead, the project management branch and construction services branch expect their project managers to individually track projects using charts developed in Microsoft Project, which are not housed within ABMS. Further, the former acting chief of the building management branch stated that it has no process for its project managers to estimate project time frames or evaluate whether it delivers construction projects in a timely manner. The branches also lack procedures for identifying and tracking the reasons for time delays

By investing additional funds to obtain actual cost estimates, the building management branch could better assess its performance, including its method for setting rental rates.

and cost overages and leave this process up to the individual project managers. As a result, if division management needs details about a given project's delays or cost overages, it generally must contact the individual project manager. In using this approach, the division risks that project managers inconsistently document the reasons for cost overages and project delays, and it may not have the necessary project details in the event that project staff leave the division. In fact, our review of projects found that the reasons for time delays and cost overages were not always clearly documented or were missing altogether.

For example, the State Board of Equalization requested that the division perform office alterations, including the building of one hard-wall office, which the project management branch estimated would take approximately 1 ½ years; however, based on records in ABMS, it took more than two years to complete the project. A supervising architect within the project management branch stated that the planners and project manager responsible for this project are no longer with the division, and he could not provide any documentation explaining why the project exceeded its time frame. He also noted that based on typical time frames for these types of projects, it seems clear that the project experienced times of inactivity that did not add to the overall project cost. Although the supervising architect identified some reasons that may have contributed to the delay through the project notes—such as client review, quality assurance checks, and schedule conflicts with other projects—this process is not sufficient in the event that the project management branch must defend the reasons it exceeded estimated time frames or assess how to prevent these types of delays on projects in the future.

By not centrally tracking the reasons for project delays and cost overages, the branches are missing opportunities to evaluate and revise their processes and ensure that project estimates are as accurate as possible. As we discussed previously, with the exception of the building management branch, which does not develop estimates, both the construction services and project management branches frequently exceeded their respective projects' estimated time frames and costs. However, because all three branches fail to centrally track and analyze the reasons for project delays and cost overages, they cannot effectively identify whether there are common issues that they could systemically address. Further, the project management branch chief told us that the branch often contracts with private architecture and engineering firms to perform design services, and, as a result, it cannot readily assess to what extent these firms are introducing unnecessary delays due to, for example, design deficiencies.

Because all three branches fail to centrally track and analyze the reasons for project delays and cost overages, they cannot effectively identify whether there are common issues that they could systemically address.

During our review of 25 projects, we were able to identify some common factors contributing to project delays or cost overages for most projects—such as design deficiencies, planning inadequacies, site conditions, or client requests—based on reviewing available project documentation and interviewing roughly 30 different staff members, including project managers. Because the branches lack centralized data that contain the reasons for time frame delays and cost overages, they would need to perform similar time-intensive reviews and inquiries to determine how effectively they are delivering all construction projects. Further, because project managers are not required to clearly document the reasons for time delays and cost overages, the division’s evaluation of its effectiveness would be further hindered. If the branches centrally tracked the causes for delays and cost overages for their entire workload, they could readily assess how well they deliver services and revise their time frames and cost estimating practices accordingly.

The chief of the project management branch, who spoke on behalf of all of the division’s branches, explained that ABMS was designed only to track project costs and was not intended to be used as a project management tool. He further indicated that the division has added functionality to ABMS that would allow it to track some project time frames, such as the ability to record dates for all tasks associated with a project, specifically for the purpose of providing quarterly reports to the Legislature on the division’s capital outlay projects. However, he stated that the division did not add the functionality that would allow it to extract this data for global reporting purposes. When we questioned why the division did not request the addition of this functionality with the other system changes, the project management branch chief explained that it did not occur to the division to use those fields for project management purposes or to implement such a reporting function until we discussed it with them during the course of the audit. Branch management agreed that it should be tracking these data and using them to evaluate its processes.

The inability to track this critical project information is particularly surprising considering that the division has known since at least 2006 that it should make this a priority. Specifically, General Services commissioned a private consulting firm to evaluate the division’s organizational structure, and in January 2006 the consulting firm issued its report. One of the consulting firm’s main observations was that the division had weak reporting and few metrics to manage its business. To address this observation, the consulting firm made several recommendations, including that the division design and implement performance management practices, evaluate and improve its data management infrastructure, and strengthen its management reporting capability and performance metrics. Although the division currently has a

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Although the division has a strategic plan that covers 2014 through 2018, it lacks specific goals and objectives that would allow it to measure its performance in terms of delivering projects on time and within cost estimates.

strategic plan that covers 2014 through 2018, it lacks specific goals and objectives that would allow it to measure its performance in terms of delivering projects on time and within cost estimates. Further, as we discussed previously, it has not developed the data management infrastructure that would allow it to consistently and effectively evaluate its performance.

When we asked the division why it has not developed such an infrastructure or performance measurement given that the consulting firm recommended these improvements in 2006, a capital outlay program manager in the project management branch indicated that the division is in the process of implementing a new project management system called Primavera. He asserted that the division initially proposed this new system in 2007 and explained that turnover in General Services' information technology management delayed these efforts. Additionally, the program manager explained that General Services learned about the Financial Information System for California (FI\$Cal), which is a statewide business transformation project in the areas of budgeting, accounting, procurement, and cash management that will include implementing Primavera. He further indicated that the statewide implementation of Primavera is anticipated for July 2017. The division has contracted with a consultant to assist it in implementing Primavera, and, according to the program manager, is making recommendations to the statewide FI\$Cal project team to ensure the system meets the division's needs and provides it with the capability to implement our recommendations, and developing an implementation plan.

The lack of data also prevents division management from assessing its backlog of projects at various phases during the project life cycle. During our audit, the project management branch manually compiled a spreadsheet listing its current projects, at the request of General Services' director. According to the division's acting deputy director, General Services' director asked the project management branch to do this because he was interested in examining that branch's service delivery process and ways that it could be improved. He explained that because the director's concern was specific to that branch, he did not request that the other two branches—construction services and building management—compile a similar report. In response to the director's request, the project management branch separated this list by active, inactive, pending, and completed projects. Although the branch reported that, as of November 2015, it had roughly 250 projects listed as pending—which, according to branch management, are projects that are temporarily paused and may be waiting on one item, such as a client response, or newly requested projects that have yet to be assigned to a project manager—branch management confirmed that it could not readily identify why or how long each

of these projects had been pending without manually reviewing each project file. Additionally, the branch reported that it had more than 80 projects that were inactive, suspended, or on hold, which the chief explained are completely stopped and unlikely to ever move forward. For some of these projects, the spreadsheet indicates they are inactive because the branch is waiting for a response from the client agency or the project is pending funding or contract award. However, in most cases the spreadsheet does not specify the reasons why projects are inactive or, for any of the inactive projects, indicate how long they have had that status, because the division does not centrally track those data. Thus, it is possible that some of these projects were requested and never started.

None of the branches have policies for tracking their potential backlogs or determining the reasons that projects may be pending. Further, despite the fact that the project management and construction services branches do not track the necessary data, each branch's management asserted that they do not have backlogs. Specifically, the chief of the project management branch stated that the branch ensures it does not have a backlog by monitoring staff workloads through regularly scheduled meetings, for which they do not maintain minutes, and would know if any work had not been assigned or was pending. Further, the acting chief of the construction services branch stated that although the branch has an active project tracking spreadsheet that it reviews with its area managers on a monthly basis, this spreadsheet is not consistently updated and is missing key data for many of its projects, such as construction start and end dates, and does not contain the data elements necessary to track whether a project is on time, exceeding its time frame, or on hold. Moreover, such informal methods of monitoring workload fail to ensure that projects do not sit unnecessarily idle. Additionally, according to the acting deputy director of the division, who spoke on behalf of the building management branch, the branch has a growing backlog of projects, which may include some construction projects. However, he explained that the branch's data do not distinguish construction projects from other projects, such as maintenance. Thus, the building management branch could not demonstrate whether it had a backlog of construction projects. As a result, because the branches rely on informal manual processes at best, the branches cannot be certain that all of their projects are proceeding as they should.

None of the branches have policies for tracking their potential backlogs or determining the reasons that projects may be pending.

Adopting Job Order Contracting Could Reduce Overall Project Time Frames and Costs for Certain Types of Projects

Currently, the division must conduct competitive bidding for its construction contracts except under limited circumstances authorized by state law. When the division uses competition to

Competitive bidding may not be the most efficient procurement method for the division's smaller, frequently repeated types of construction projects.

award a contract, it must award it to the lowest responsible bidder. The *State Administrative Manual* indicates that this method of procurement could take the division up to six months to complete. However, this may not be the most efficient option for the division's smaller, frequently repeated types of construction projects. Of the 16 projects we examined that required competitive bidding and had adequate documentation regarding the length of this contracting process, we noted that the division took an average of nearly five months to complete this process. Although nearly five months may be reasonable for projects that are larger and more complex in nature, this procurement method may not always be necessary for less complex, recurring projects. Additionally, for these smaller projects, the up to six months needed to complete a competitive bidding process could be disproportionately long compared to the actual time required for construction.

However, there is a contracting method that certain public entities can use within the constraints of state law. Specifically, the Los Angeles Unified School District (Los Angeles Unified), the University of California (UC) Office of the President, and the California State University (CSU) Office of the Chancellor all use a contracting method referred to as *job order contracting* particularly for their smaller and more easily repeatable projects. Job order contracting is a procurement method intended to accelerate the completion of projects, lower costs, and reduce the complexity of the contracting process. Under job order contracting, contractors bid on prices for specific construction tasks, rather than for a specific project. Job order contracting is generally believed to be well suited for repetitive jobs and ill suited for large, complex construction projects that require extensive or innovative design or are likely to encounter changes and revisions during construction. According to Los Angeles Unified's assistant contracts administration manager, it first implemented job order contracting in 2005, while officials from the UC Office of the President and the CSU Office of the Chancellor indicated that they implemented this contracting method in 2008 and 2000, respectively.

This project delivery method allows entities to complete multiple projects through one master contract instead of seeking competitive bids for each project. For example, according to the director of construction services for the UC Office of the President, if a campus wanted to replace a number of dormitory doors over the next three years, it would hire the contractor using a job order contract. He explained that to bid the project, the campus would put together a *book* that describes the rates, materials, colors, and other details that the contractor would need to know to complete the project. The contractor would then develop a bid based on a percentage of the cost estimated and published in the book. Once

the UC Office of the President selects a contractor, the contractor can replace any number of dormitory doors the campus desires up to the time or money limit specified in the contract.

All three entities that use job order contracting described various savings a well-run program can provide. For example, the assistant contracts administration manager for Los Angeles Unified provided records indicating that the district had saved nearly \$700,000, or more than 5 percent, in quantifiable costs from its own cost estimates using job order contracting for projects approved between August and November 2015, not including any costs associated with saving staff time. Further, the officials we spoke with from Los Angeles Unified and the UC Office of the President's construction services indicated that job order contracting saved time for each project by enabling them to competitively bid one master contract. The director of construction services for the UC Office of the President stated that the university system completes hundreds of projects every year using its job order contracting program, with savings of up to eight weeks per project. For example, he stated that dorm rooms may become available unexpectedly or on short notice, and job order contracting allows these rooms to be renovated with just days of notice, in turn allowing the rooms to become available to students within two or three weeks. According to the director of construction services, the traditional competitive bidding method would take between six and eight weeks of advertising, bidding, and contract work before construction could even begin. In this example, he explained that job order contracting allows students to be housed sooner while also bringing in revenue without losing extra months of payments.

However, officials for all three entities described challenges with awarding job order contracts to the lowest responsible bidder, as required by state law for UC and CSU, and previously required for Los Angeles Unified. According to Los Angeles Unified's assistant contracts administration manager, in the beginning of the program, the district faced some challenges but has since resolved those issues. For example, she explained that some contractors bid too low on job order contracts and then did not have the appropriate level of staff or the ability to complete concurrent district-wide projects. Similarly, the UC Office of the President's director of construction services described situations in which contractors would underbid a job order contract to win the award, only to try to make up the difference later through the amount they billed per project. Los Angeles Unified's assistant contracts administration manager explained that since early 2013—due to a change in the law governing the district's job order contracting pilot program—the district has been authorized to award contracts to the most qualified and prequalified bidder. Under this model,

using preestablished criteria, the district may consider a bidder's qualifications, rather than awarding the contract based solely on the lowest bid.

The March 2015 report by the Legislative Analyst's Office (LAO), *The 2015–16 Budget: Addressing Deferred Maintenance in State Office Buildings*, which we describe in the Introduction, recommended that General Services be provided the authority to use job order contracting to streamline and add flexibility to its contracting process as one way to help prevent more deferred maintenance. The LAO defines *deferred maintenance* in its report as situations in which either routine maintenance—the recurring activities necessary to keep facilities in good condition—or larger maintenance projects, such as the replacement of building components when they reach the end of their useful lives, are not conducted as scheduled and are delayed. Although construction projects—the focus of our audit—are different from deferred maintenance, we believe that some of the less complex, recurring projects, such as adding a private office, making upgrades to comply with the Americans with Disabilities Act, or completing roof repairs, are similar to some of the deferred maintenance projects referenced in the LAO's report.

Allowing General Services to implement job order contracting could save the State time and money.

In our judgment, allowing General Services to implement job order contracting could save the State time and money. However, given the challenges we have noted throughout this report, we believe that if General Services were given the authorization to implement such a program, it would need to begin small and closely monitor its efforts, similar to the approach the Legislature took with Los Angeles Unified. Specifically, before authorizing the job order contracting method for all school districts in January 2016, the Legislature authorized Los Angeles Unified to implement job order contracting via a pilot program in January 2004. As part of this pilot program, Los Angeles Unified was required to regularly report using a consistent method its progress to the Legislature. Authorizing General Services to conduct such a pilot program with initial and consistent oversight from the Legislature throughout a trial phase would allow it to demonstrate that it is capable of managing such a program in a responsible manner while potentially saving time and costs for its client agencies.

When we asked the division's acting deputy director for his perspective on whether the division could benefit from implementing a job order contracting program, he stated that General Services has not taken an official position on the use of such a program. He explained that although the division would appear to benefit from another project delivery method, such as job order contracting, he suggested that a pilot program would be needed to verify certain benefits prior to full implementation.

The Legislature has previously considered allowing General Services to implement job order contracting for public works projects. In February 2010 legislation was introduced to authorize General Services to undertake public works projects by using job order contracting; however, the bill failed to pass. The American Federation of State, County, and Municipal Employees, the Association of California State Supervisors, and the California State Employees Association were among those that opposed the bill, and the written opposition to the bill stated that job order contracting does not properly serve the best interests of the California taxpayer. Those in opposition further asserted that the most cost-effective way to ensure that public safety, specific building codes, and inspections are met and held to high standards is to use the existing model of competitive bidding. However, as illustrated in the LAO's report and the experiences of other public entities within the State, when the division must competitively bid every construction project, especially those that are frequently requested and are less intricate in nature, it risks increasing the costs and length of time to complete such projects.

In 2010 legislation was introduced to authorize General Services to undertake public works projects by using job order contracting; however, the bill failed to pass.

The Project Management Branch Has Not Determined Why Its Rates Are Significantly Higher Than Those of Private Firms

The budgets of public works projects managed by the project management branch include costs relating to planning, project management, design, review, inspection, and administrative services.³ Many of these costs are charged through an hourly rate to client agencies and can drive up the cost of projects. In one specific example, the project management branch provided an estimate in response to the State Board of Equalization's request that it replace one of its file room doors. As seen in Table 8 on the following page, the construction portion of the cost estimate accounted for only \$3,000 of the more than \$17,000 total cost estimate that the project management branch provided to the State Board of Equalization in January 2015. The nearly \$14,000 remaining included costs for project management, architectural, and construction inspection services, as well as plan review services by the Division of the State Architect within General Services and plan review and inspection services by the Office of the State Fire Marshal. Ultimately, according to the State Board of Equalization, it chose to forgo this project because of the high cost estimate, but this example illustrates how a simple construction project can become costly for client agencies.

³ As we describe in the Scope and Methodology, we focused our review on the project management branch's rate because it had a significantly larger number of construction projects than the other two branches. Furthermore, unlike the other two branches, the project management branch maintains retainer contracts with private firms that conduct similar work for the State, allowing us to conduct such an analysis.

Table 8
Project Cost Estimate for New Door in Existing Opening for the State Board of Equalization

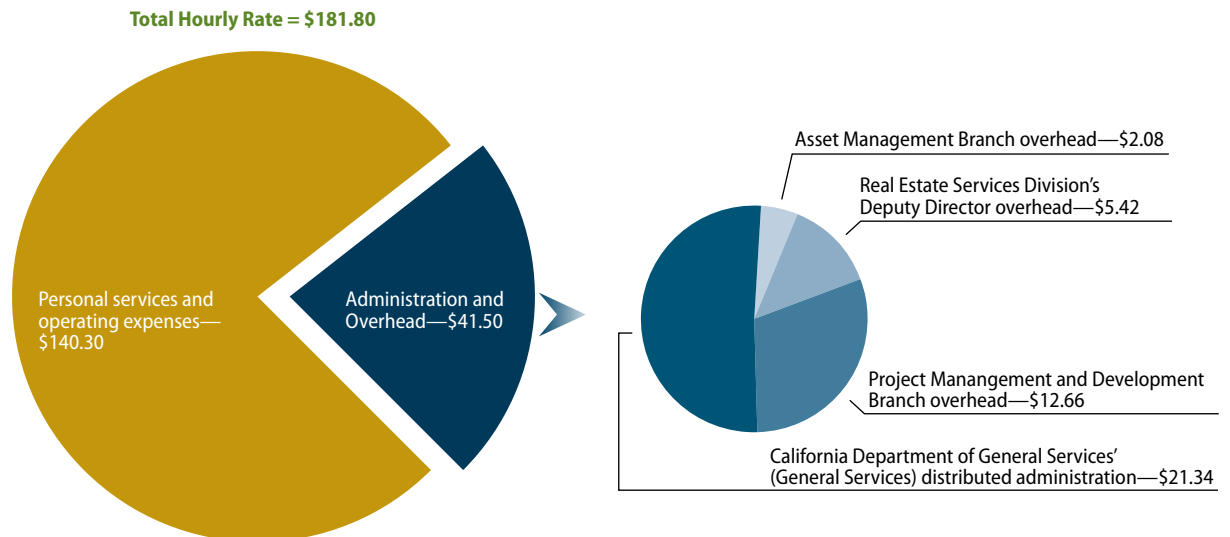
SERVICES PROVIDED	PROJECTED HOURS	HOURLY RATE	TOTAL
Services Provided by the Real Estate Services Division			
Project Management and Development Branch			
Project Management Services			
Request Activity Based Management System (ABMS) number, prepare form for fund transfer	2	\$182	\$364
Set up tasks, monitor ABMS, obtain mission-critical statement	2	182	364
Construction administration	2	182	364
Coordinate with Service Contracts Unit/prepare forms	2	182	364
Project closeout	2	182	364
Subtotals	10		\$1,820
Architectural Services			
Oversee working drawings preparation	8	\$182	\$1,456
Prepare technical specifications	1	182	182
Obtain Division of State Architect and State Fire Marshal approval	4	182	728
Review/approve contractors' submittals	1	182	182
Respond to contractors' Requests for Information	1	182	182
Coordinate change orders	1	182	182
Subtotals	16		\$2,912
Prepare Working Drawings	24	\$130	\$3,120
Construction Services Branch			
Quality inspections/closeout (includes travel expenses)	24	150	\$3,600
Services Provided Outside of the Real Estate Services Division			
California Department of General Services' Division of the State Architect			
Plan review/back check/approval			\$600
California Department of Forestry and Fire Protection's Office of the State Fire Marshal			
Plan review/back check/approval/inspections			1,800
Planning, Project Management, Design, and Review Services Total			\$13,852
Construction Cost Estimate			
Reuse existing door, new frame/hardware and paint			\$3,000
Architectural Revolving Fund assessment*			208
Project Cost Grand Total			\$17,060

Source: Project cost estimate prepared by the Project Management and Development Branch of the California Department of General Services' Real Estate Services Division, dated January 7, 2015.

* To recover the Architectural Revolving Fund (fund) deficit, the Budget Act of 2008 imposed a surcharge on nonfederal and nonbond-funded projects for which money is deposited into the fund.

In addition to the fact that nonconstruction costs can make up a large portion of the overall budget of a project, particularly for smaller projects, the project management branch's hourly rate for design, project management, and construction management services is much higher than comparable rates of private sector firms conducting similar work for the State. Administrative and overhead expenses make up a sizable portion of this hourly rate. As seen in Figure 3, the project management branch charged nearly a \$182 hourly rate in fiscal year 2014–15 for these services. According to a manager within General Services' Office of Fiscal Services, Budgets and Planning section, the office works in conjunction with the project management branch to recalculate its hourly rate annually to account for multiple costs, including the salaries, wages, and benefits of employees directly related to design, project management, and construction management as well as operating costs for the branch, division, and departmental levels. Specifically, she explained that these costs include various administrative and overhead costs, such as those relating to General Services' executive staff and various central service offices, and those for executive and support staff within the division and project management branch. Figure 3 shows that administrative and overhead costs make up roughly \$42, or nearly 23 percent, of the project management branch's hourly rate.

Figure 3
Composition of the Project Management and Development Branch's Hourly Rate for Project and Construction Management Services
 Fiscal Year 2014–15



Source: Documentation provided by General Services' Office of Fiscal Services, Budget and Planning section.

An internal analysis of contract rates charged by 26 private firms found that these firms charged an average hourly rate of \$136, or 25 percent less than the \$182 hourly rate charged by the project management branch.

When we asked the project management branch whether it had conducted any analysis of how its costs compare to those of private firms performing similar work for the State, it pointed us to a report dated February 2015 that it provided to the former deputy director of the division. Specifically, the project management branch prepared a *Rate Analysis Report* that analyzed how its hourly rate compared to those of 26 private architectural and engineering firms and proposed strategies to maintain its price competitiveness in the marketplace. The analysis of contract rates charged by the 26 private firms found that these firms charged an average hourly rate of \$136, or 25 percent less than the \$182 hourly rate charged by the project management branch. The project management branch concluded that it was pricing itself out of the market and emphasized that administrative and overhead costs have largely contributed to increases in its hourly rate over the last several years.

We conducted our own analysis of how the branch's hourly rate, after excluding administrative and most overhead costs, compared to that of two private firms' contracts the branch had on retainer during fiscal year 2014–15 that contained the most comparable positions to those included in the branch's hourly rate, and found the rates were similar. Specifically, we determined the branch's hourly rate was \$153 after we excluded the administrative and most overhead costs shown in Figure 3.⁴ We then calculated the average hourly rates charged by the two private firms for only those comparable positions included in the branch's hourly rate to reach an average hourly rate of \$149. Based on this comparison, it appears that the project management branch's administrative and most overhead costs at least contribute to its higher hourly rate.

Although our analysis points to administrative and most overhead costs as one driver of the project management branch's higher hourly rate, the branch itself has not fully ascertained why its rates are so much higher than those of private firms. As we described in the Introduction, the project management branch manages its workload by frequently contracting with private architecture and engineering firms to perform design and construction management work for its projects. The project management branch's *Rate Analysis Report* indicates that a primary reason for its higher hourly rate is that the branch is not recovering the costs of the administrative services it provides to private firms when they contract with General Services. Consequently, because the project management branch recovers its administrative and overhead costs only from clients whose projects it is solely responsible for completing, these clients are absorbing the costs for administrative

⁴ We included the project management branch's overhead in this analysis, as the chief stated that this charge is similar to certain senior management rates we included in our analysis of private firm rates.

services the branch provides on projects contracted out to private firms. In its *Rate Analysis Report*, the project management branch contemplates collecting fees from client agencies whose work the branch outsourced to private firms to recoup the administrative expenses, such as legal and fiscal services, incurred as a result of these projects. Specifically, the project management branch proposes charging the client agency an 8 percent fee on architecture and engineering services contracts, as well as a 0.6 percent charge on construction contracts. In its report, the project management branch contends that by collecting these fees from the client agency it could reduce its hourly rate by \$9.

If the project management branch were to adjust its method for recovering administrative and overhead costs related to its architecture and engineering services contracts as well as its construction contracts and lower its hourly rate as it proposed, that rate would still be \$173, which is \$37, or 27 percent, higher than the \$136 average that it calculated for the 26 private firms' hourly rates. Thus, the project management branch's *Rate Analysis Report* is inadequate because it does not fully explain the reasons that the project management branch's hourly rate remains considerably higher than those of private firms providing similar services.

The project management branch could not provide us with the number of projects it annually outsources to private firms, and without this information it cannot identify the amount of administrative and overhead costs it could recover from the client agencies for whom it outsources work. Further, the branch could not describe how it arrived at the 8 percent charge it proposed assessing on the work completed by private firms. In fact, the project management branch chief stated that the charge may need to go as high as 15 percent. This lack of certainty illustrates the inadequacy of the project management branch's *Rate Analysis Report*, as the changes it proposed to recoup its administrative costs from the client agencies it outsources work for are not sufficiently supported. To further illustrate this point, the budget officer in General Services' Office of Fiscal Services stated that the office tried but could not validate the figures used by the project management branch in this report. When the project management branch does not fully analyze the reasons its hourly rate remains higher than those of private firms providing similar services to state agencies, it cannot ensure that its rates are competitive for its client agencies and that it is providing the State with the best value.

When we asked the Director of General Services (director) whether he believes there is value in conducting a formal analysis of the project management branch's hourly rate in comparison to those of private firms performing similar work for the State, he contended that a different analysis would be more meaningful. Specifically,

When the project management branch does not analyze the reasons its hourly rate remains higher than those of private firms, it cannot ensure its rates are competitive and that it is providing the State with the best value.

the director described an analysis that would compare the branch's staffing and consulting costs on a given project relative to the total construction costs for that project and, using that computed proportion, compare it to the staffing and any subcontractor costs of the private firms. However, he indicated that the data needed to conduct such an analysis is not available at this time. We believe there is value in conducting such an analysis and acknowledge that a formal analysis of its hourly rates is only one way to assess whether the project management branch's hourly rates are competitive with private firms. Nevertheless, we believe that without such an analysis General Services will not be certain of the various factors that may contribute to its hourly rate being higher than those of private firms.

The Division Could Improve Its Approach for Communicating Project Status to Client Agencies

The division does not establish clear expectations for how its project managers are to communicate changes in project costs and time frames to its client agencies and other stakeholders; rather, it leaves this up to the discretion of each project manager. To understand how the division's communication styles affect the client agencies, we conducted a client agency survey inquiring about various aspects of the project life cycle, including the division's communication of project time frames, project costs, and billing practices. The responses to this survey showed that the division could improve its communication methods in several areas. For example, eight out of 20 respondents indicated that the division *sometimes* or *rarely* adequately explained the reasons for project time frame changes. If the division does not effectively communicate with client agencies, client agencies may lack critical information regarding project status and be hindered in their ability to adequately anticipate and respond to project delays or escalating costs.

The policies of the three branches do not require project managers to promptly relay information such as time frame delays, costs changes, or change orders to client agencies.

Further, the policies of the three branches do not require project managers to promptly relay information such as time frame delays, cost changes, or change orders to client agencies. For example, the project management branch's policy manual states that the level of reporting to client agencies may vary depending on the level of involvement desired by the client agency and the level of technical expertise within the client agency. According to the chief of the project management branch, project managers, along with the client agency, have the discretion to establish a communication plan, typically through a project management plan, that they feel best fits the project's and client agency's needs. Examples of project management plans we saw included weekly or biweekly meetings with the client agency and contractor to ensure that all parties are

updated on project status. However, by not requiring a minimum level of communication, the division risks that project managers are not communicating with client agencies as effectively as they could be.

In fact, we identified four instances—three in the project management branch and one in the building management branch—in which project managers could not demonstrate that they communicated crucial project information to client agencies. We reviewed a selection of change orders associated with the 20 projects we reviewed that had change orders to determine whether the division approved them and communicated their existence to the client agency. In one case, the project manager did not share a change order of nearly \$18,000 with the DMV because he discussed change orders with the client agency only if they involved client-requested revisions or were especially extensive. However, in our client agency survey, the DMV stated that the division *sometimes* notified it of change orders on a timely basis and told us that it had concerns with the project’s time frame, indicating that room for improvement exists in the division’s communication of project changes. In one of the other three cases, the project manager indicated that she had communicated the changes to the client agency but was unable to provide documentation demonstrating that communication. In another example, the project manager for the State Publishing project told us that he typically reviewed the change order, confirmed there was enough funding to cover the request, and approved it. In the final instance, the current building manager, who was not in his position when the project was active, was unable to find documentation regarding the division’s communication of the change order. Without standard procedures for communication, including communicating change orders to client agencies and documenting that communication, project managers may not share all pertinent information with client agencies.

In terms of its communication with client agencies, the division generally received moderate reviews on our client agency survey. However, client agencies had suggestions for ways the division could improve communication overall. For example, when we asked the survey respondents to rate the division’s *overall communication of project progress*, they gave the division an average score of 3.5 out of 5. Similarly, survey respondents on average rated the division 3.6 and 3.5 out of 5 when asked whether the division clearly communicated project time frames and project costs, respectively. We further inquired whether the client agencies had suggestions for how the division could improve its client communications overall, and 10 provided feedback. For example, the California Highway Patrol recommended that division staff respond to client questions in a timely manner, while the California Department of Insurance

We identified four instances in which project managers could not demonstrate that they communicated crucial project information to client agencies.

suggested that division staff set up regularly scheduled meetings to keep client agencies updated and projects moving forward. This feedback indicates that the division's policy for allowing individualized methods of communicating with client agencies could be improved.

We also asked the client agencies for the projects we reviewed—to the extent they had previously obtained delegation authority to complete a project using private contractors instead of the division—about how their experience using private contractors compared to using the division to complete projects. As we explain in the Introduction, client agencies can do this under certain circumstances. Ten of the client agencies we surveyed indicated that they had used a private contractor in lieu of the division to complete a capital outlay or tenant improvement project. Overall, seven of the 10 respondents indicated that their experience using a private contractor was better than their experience using the division. Further, all 10 client agencies responded that the private contractor clearly communicated estimated project costs *always* or *most of the time*, compared to 13 of the 19 client agencies responding to a similar question about their experience with the division. Similarly, all 10 client agencies indicated that the private contractor communicated changes in estimated time frames *always* or *most of the time*, as opposed to 13 of the 21 client agencies that responded to a similar question about the division. This disparity in client agencies' experiences in working with the division versus private contractors indicates that room for improvement exists in the division's process for communicating with client agencies.

Finally, we asked client agencies about their experiences in receiving bills or invoices from the division for work performed on the respective project. The capital outlay program manager explained that the project management branch does not believe a final bill or invoice is necessary because the client agency is able to calculate the final cost using the bid estimate and augmentations. He did state that a client agency may request itemized costs. Similarly, instead of a bill or an invoice, the construction services branch provides its client agencies with a project completion notification; however, this notification does not itemize the expenses for the client agency.

Nine of the 21 client agencies indicated that the division had not provided bills or invoices that clearly reflected the work for which they were charged.

When we asked the client agencies if the division provided them with bills or invoices that clearly reflected the work for which they were charged, nine of the 21 respondents indicated that it had not. Five of the nine responded that they were not confident that their agency knew what work it had been charged for, suggesting that the division had not informed them of their project costs through other means. For example, State Publishing indicated that it did not receive details regarding the work for which it had been charged. Although eight of these nine respondents, including State

Publishing, knew that they could request a bill if they wanted one, we believe client agencies should not need to request a bill for services rendered and should not be confused about the work for which they are charged. As an example supporting our belief, the California Department of Parks and Recreation indicated in the survey that it made numerous requests for billing information and received only occasional responses. When we asked the construction services branch about this concern, its acting chief could confirm only that the project file did not contain any requests for detailed cost information and beyond that could only speculate as to the reasons for the department's survey response. Without knowing, at a minimum, the final cost of a project, the client agency cannot be certain whether it has any funds remaining that could be used for other purposes or that it was appropriately charged for the work performed.

Without knowing the final cost of a project, the client agency cannot be certain whether it has any funds remaining that could be used for other purposes or that it was appropriately charged for the work performed.

The Division Lacks Meaningful Goals and Adequate Training Related to Project Delivery

The division has not developed adequate goals or meaningful metrics by which to measure its progress in delivering projects on time and within estimated costs. This is of particular concern given that the division frequently exceeded estimated time frames and costs for the projects we reviewed. Specifically, it has developed a strategic plan for the years 2014 through 2018 that, according to the division, is focused on guiding the division toward excellence in its core responsibilities. Given that one of the division's core responsibilities is to manage the delivery of construction projects, we expected to find goals and objectives pertaining to this core responsibility; however, the strategic plan contains no such elements. Further, although one of its goals is "we are customer centered," its objectives for determining whether it achieves this goal are based on a customer satisfaction survey of client agencies that, according to available documentation provided by the division, has been inconsistently administered across the division. Additionally, when we asked the division's acting deputy director why the strategic plan lacks meaningful goals and objectives that are focused on its effective and efficient delivery of projects—such as a goal of delivering 75 percent of projects within estimated time frames—he speculated that the strategic plan reflected the division's priorities at the time of its development. While this may be true, given that project delivery is one of the division's core responsibilities, we are concerned by the absence of goals and measurable objectives in its strategic plan to help it gauge whether it is fulfilling this responsibility.

We are concerned that without a formal training program that targets the effective and efficient delivery of projects, the overages in time frames and costs we identified will continue.

Because it has not developed meaningful goals and objectives to assess its performance in terms of project delivery, the division is missing a key opportunity to obtain information critical to developing effective training for its staff. Thus, it is not surprising that we found the training the division does provide to staff—with the exception of a new training program implemented by the construction services branch—to be inadequate and infrequent. Currently, although the project management and building management branches asserted that their employees attend some trainings, the examples they cited included lunchtime sessions regarding changes to building codes, monthly forums to discuss a variety of branch-specific topics, and mandatory training in line with the training for all other General Services' employees, such as ethics training. Because the trainings cited do not specifically focus on the timely and effective delivery of projects, we question how these two branches have any assurance that their staff, particularly their project managers, are receiving consistent and effective training on how best to manage the projects they are responsible for delivering. In fact, the documentation these two branches provided regarding their staff trainings fell short of constituting any type of formal training program. According to the project management branch chief, the branch has established subjects for a planned training program including project management. However, the branch has not established the training dates or curriculum. Given that the majority of construction projects we reviewed exceeded their estimated time frames and costs, we are concerned that without a formal training program that targets the effective and efficient delivery of projects, the overages we identified will continue.

In contrast, the construction services branch recently hired an external consultant to implement a new training program tailored for that branch's construction supervisors, who we refer to as project managers in this report. The program includes a variety of topics—examples of which relate to managing small projects, communicating effectively, and managing risk. The construction services branch held its first training session in October 2015. However, as of February 2016, the acting chief of the construction services branch stated that this branch had only 95 staff—less than 5 percent of the division's total staff—and that it manages just a small portion of the division's capital outlay construction projects. Although this branch is part of the overall division, we are concerned that it is the only branch to implement a formal training program. The acting chief of the construction services branch explained that the branch implemented these trainings because it recognized that its project managers had different skill sets and backgrounds, and it wanted to help ensure that its project managers had a common knowledge base from which to successfully manage projects.

When we asked for the division's perspective regarding why it does not impose training requirements on its staff as it relates to project delivery, the chief of the project management branch spoke on behalf of the division and explained that it hires experienced employees who meet extensive minimum qualifications and who receive on-the-job training. Further, he indicated that if a staff member were insufficiently trained, management would, among other things, receive complaints. However, as mentioned previously, although the division states that it conducts a survey of its client agencies to help inform whether it is achieving its strategic goal of being customer centered, according to available documentation, the division has not consistently administered this survey to its client agencies. We believe this is an inadequate approach to receiving feedback, including complaints, regarding the performance of its staff. Even with experienced professionals, it is a best practice to consistently refresh their skills and inform them of effective project management techniques and strategies.

Additionally, the project management branch has numerous positions requiring staff to maintain a valid certificate of registration as an architect or engineer. The California Board for Professional Engineers, Land Surveyors, and Geologists does not require any continuing education for certified engineers, and the California Architects Board requires only five hours every two years specifically related to the disability access requirements. Because the division's project management staff are not required to receive extensive training as a part of their licensing requirements, the burden falls to the division to ensure that it has properly trained staff. Without a formal training program that incorporates mechanisms to evaluate the division's processes, identify any gaps that require improvement, and provide the needed training related to project delivery, we question how the division can claim that its staff are adequately trained.

Recommendations

Legislature

To improve efficiencies and reduce some costs for less complex and easily repeatable projects, the Legislature should authorize the division to create and implement a pilot program for job order contracting for appropriate projects, including a requirement that the division award contracts to the most qualified responsive bidders. The division should report to the Legislature on its progress within two years of implementing the pilot program, including, at a minimum, information regarding the time and cost savings the pilot program provided the State.

Division

To ensure long-term efficient and effective delivery of projects, the division, in its planned implementation of its new project management system in July 2017, should do the following:

- Ensure that the project management system can centrally track and extract all data regarding project status, including time delays, cost overages, and the reasons for each.
- Track the reasons that projects are pending to identify its true backlog of projects. In doing so, it should develop a process to follow up on those projects that are pending to ensure that they are not on hold unnecessarily and are appropriately moving forward.
- At least annually, use the centrally tracked data to identify common themes in the causes for project delays and cost overages and develop solutions to address these issues. Further, it should report the results of its review to General Services' executive management.

Until the division implements its planned project management system, it should, by September 2016, develop a process to, at a minimum, identify project status and reasons for project delays as well as cost overages. Using these data, the division should modify its project management processes to ensure the efficient and effective delivery of projects.

The division should develop and implement a process for preparing reasonable time frames and cost estimates for its projects within the building management branch. To better inform the development of this process, the division should evaluate the branch's structure, which should include a staffing analysis, to determine whether it is effectively organized and whether it should add cost estimator positions.

To ensure that client agencies are paying equitable rates, by December 2016 General Services should develop and implement a strategy for allocating its administrative costs equally among all the projects it completes for client agencies, including those portions outsourced to private firms.

To ensure that the project management branch charges its client agencies a competitive hourly rate, by December 2016 and every two years thereafter, the division should conduct a rate analysis that fully accounts for differences between the project management branch's rate and private firms' rates. If it finds that the rates are

not competitive, the division should identify and implement strategies to ensure that the project management branch's rates are as competitive as they can be with those of its private firm counterparts. Further, the division should explore and implement any other reasonable methods to ensure that it is delivering projects as cost effectively as possible.

To improve its communication with client agencies, the division should do the following:

- Ensure that project managers are using consistent procedures by providing specific expectations related to communicating and documenting time delays, cost changes, and change orders, at a minimum.
- Develop a process for providing periodic detailed bills and invoices to client agencies clearly describing the work for which it is charging.

To effectively evaluate the performance of its branches in delivering projects, the division should develop meaningful goals and objectives and a method of measuring its success in achieving them as part of its strategic plan that is focused on ensuring that projects are delivered on time and within budgeted cost estimates.

To ensure that its project management staff are adequately trained and have the information necessary to deliver projects as efficiently and effectively as possible, the division should do the following:

- Conduct a comprehensive survey every other year of all of its client agencies to inform necessary improvements to its processes and training program and, in the interest of transparency, make the survey results public.
- Develop and implement by December 2016 a periodic training program for staff within its project management and building management branches. This training program should include updated information that reflects any processes it revises based on its review of critical project status data and its progress toward meeting its goals.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to 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 specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: March 15, 2016

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.



CALIFORNIA GOVERNMENT OPERATIONS AGENCY

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Governor

MARYBEL BATJER
Secretary



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February 25, 2016

Elaine M. Howle, State Auditor*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: CALIFORNIA STATE AUDITOR'S REPORT NO. 2015-117

Pursuant to the above audit report, enclosed are the Department of General Services' comments pertaining to the results of the audit.

The Government Operations Agency would like to thank the state auditor for its comprehensive review. The results provide us with the opportunity to better serve our clients and protect the public.

Sincerely,

Marybel Batjer, Secretary
Government Operations Agency

Enc

* California State Auditor's comments appear on page 59.



MEMORANDUM

Date: February 25, 2016

To: Marybel Batjer, Secretary
Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

From: Daniel C. Kim, Director
Department of General Services

Subject: RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2015-117

Thank you for the opportunity to respond to the California State Auditor's (state auditor) Report No. 2015-117, which addresses recommendations to the Department of General Services (DGS) resulting from its audit of the Real Estate Services Division (RESD). The following response addresses each of the recommendations.

OVERVIEW OF THE REPORT

DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2015-117. DGS will take appropriate actions to address the state auditor's recommendations.

In summary, the state auditor identified a number of areas for improvement in RESD's project management process including the need for a: (1) central project tracking system, (2) consistent client communication activity; (3) strategic planning process that more effectively measures the division's performance in delivering projects; and, (4) more robust staff training program.

Since my appointment in June 2015, I have focused extensive efforts on reviewing RESD's operations. Through my review, I found that the division has highly professional and committed management and staff. I also have found that RESD can provide greater customer service through more focused and streamlined project delivery, real estate management and facility maintenance functions and activities. The state auditor's findings and recommendations will assist the department in meeting this goal.

- ① Recently, DGS began the process of reorganizing RESD to improve the efficiency and effectiveness of its real estate operations. In part, the extensive reorganization will create two divisions: (1) a new Facility Management Division that primarily includes the facility maintenance and direct construction functions and activities that were previously performed by the Building and Property Management branch and the Direct Construction Unit, respectively;

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and, (2) a new RESD with extensive revisions to the previous organizational structure including consolidating all real estate broker functions under the Asset Management Branch. As part of the reorganization, executive management will be tasked with ensuring that a high priority is placed on fully addressing the issues raised in the state auditor's report.

DGS appreciates the state auditor's in-depth audit and is fully committed to promptly and completely addressing the issues identified in the audit report. In general, the actions recommended by the state auditor have merit and will be promptly addressed.

RECOMMENDATIONS

- RECOMMENDATION # 1:** *To ensure long-term efficient and effective delivery of projects, the division, in its planned implementation of its new project management system in July 2017, should do the following:*
- *Ensure that the project management system can centrally track and extract all data regarding project status, including time delays, cost overages, and the reasons for each.*
 - *Track the reasons that projects are pending to identify its true backlog of projects. In doing so, it should develop a process to follow up on those projects that are pending to ensure that they are not on hold unnecessarily and are appropriately moving forward.*
 - *At least annually, use the centrally tracked data to identify common themes in the causes for project delays and cost overages and develop solutions to address these issues. Further, it should report the results of its review to General Services' executive management.*

DGS RESPONSE # 1:

RESD plans to implement a new project management system¹ which will allow management and staff to more effectively plan, manage, and control projects. As noted in the report, the new system (Primavera) is part of FI\$Cal. Currently, FI\$Cal has scheduled Primavera's statewide implementation for July 2017.

When combined with a new project costing financial system² (also part of FI\$Cal) being implemented in July 2016, the new project management system should address all of the issues recommended by the state auditor. Specifically, the new system will include provisions that allow project management to: (1) centrally track and extract all relevant data regarding project status; (2) identify and follow-up on pending projects; and, (3) centrally track common themes for project delays and cost overages. RESD will also ensure that DGS executive management

¹ Oracle's Primavera project control and contract management solutions.

² Oracle's PeopleSoft project costing financial management application.

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are kept informed of significant project issues, including the results of its analysis of common themes impacting project timeliness and cost.

RECOMMENDATION # 2: *Until the division implements its planned project management system, it should, by September 2016, develop a process to, at a minimum, identify project status and reasons for project delays as well as cost overages. Using these data, the division should modify its project management processes to ensure the efficient and effective delivery of projects.*

DGS RESPONSE # 2:

By September 2016, RESD will implement an interim system that allows the identification of project status and reasons for project delays as well as cost overages. As part of this system, which will be developed using division expertise and department information technology staff support, a management reporting component will be implemented that allows common themes in the causes for project delays and cost overages to be identified and addressed in a timely manner.

RECOMMENDATION # 3: *The division should develop and implement a process for preparing reasonable time frames and cost estimates for its projects within the building management branch. To better inform the development of this process, the division should evaluate the branch's structure, which should include a staffing analysis, to determine whether it is effectively organized and whether it should add cost estimator positions.*

DGS RESPONSE # 3:

① DGS is in the early stages of an extensive reorganization of RESD, including the creation of a new Facility Management Division (FMD). Along with other programs and functions, FMD will be responsible for performing the duties of the previous Building and Property Management Branch. FMD will ensure that an efficient and effective process is developed for preparing time frame and cost estimates for its projects, including, if deemed necessary, the use of department estimating staff³.

RECOMMENDATION # 4: *To ensure that client agencies are paying equitable rates, by December 2016 General Services should develop and implement a strategy for allocating its administrative costs equally among all the projects it completes for client agencies, including those portions outsourced to private firms.*

³ Estimating staff exist within the Project Management and Development Branch and the Direct Construction Unit.

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DGS RESPONSE # 4:

In consultation with department budget staff, DGS will fully consider the state auditor's recommendation to implement a new strategy for allocating its administrative costs to architectural and engineering (A&E) and construction contracts. However, DGS notes that, while this proposal may reduce costs for DGS clients who do not contract with private A&E firms, it will increase project costs for DGS clients who do contract with private A&E firms. Therefore, changing the allocation of administrative costs does not reduce costs overall to the state. Accordingly, DGS proposes to focus on the state auditor's larger point that it find ways, where feasible, to reduce the department's overall project costs and complete projects in a more timely manner.

②

RECOMMENDATION # 5: *To ensure that the project management branch charges its client agencies a competitive hourly rate, by December 2016 and every two years thereafter, the division should conduct a rate analysis that fully accounts for differences between the project management branch's rate and private firms' rates. If it finds that the rates are not competitive, the division should identify and implement strategies to ensure that project management branch's rates are as competitive as they can be with those of its private firm counterparts. Further, the division should explore and implement any other reasonable methods to ensure that it is delivering projects as cost effectively as possible.*

DGS RESPONSE # 5:

Based on state policy and practice, DGS is limited to setting rates based on a cost recovery model. That is, DGS sets its hourly rate based on its cost to perform the work, and this cost is largely determined by the salaries established through collective bargaining. Therefore, the department is restricted in the actions it can take to adjust project management rates based on a comparison with private firms' rates. Nevertheless, DGS will compare its rates to those charged by A&E firms under contract with the department.

In addition, DGS will focus its efforts on another analysis that we believe will be more meaningful. Specifically, as discussed in the report, DGS will obtain the data needed to perform a comparison of project management branch staffing and consulting costs on a given project relative to the total construction costs for that project. Using the computed proportion of costs, DGS will compare those costs against applicable private sector expected costs for a similar project. Based on the results of that analysis, DGS will explore and implement reasonable and applicable methods to ensure that it delivers projects as cost effectively as possible. While DGS believes this analysis will prove helpful, our intent is not to match our costs to those of private firms but to find ways to lower our overall cost to complete construction projects.

③

RECOMMENDATION # 6: *To improve its communication with client agencies, the division should:*

- *Ensure that project managers are using consistent procedures by providing specific expectations related*

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to communicating and documenting time delays, cost changes, and change orders, at a minimum.

- *Develop a process for providing detailed bills and invoices to client agencies clearly describing the work for which it is charging.*

DGS RESPONSE # 6:

In the near future, RESD will update its policy manual and provide additional guidelines addressing expectations for project managers to communicate significant project issues to clients in a timely manner.

In consultation with department accounting staff, RESD will also implement policies and procedures that ensure that clients are provided detailed project and cost information on a more routine basis. Further, the new project management system (See Recommendation # 1) scheduled for implementation in July 2017 will allow clients to have direct online access to project status information, including cost data.

RECOMMENDATION # 7:

To effectively evaluate the performance of its branches in delivering projects, the division should develop meaningful goals and objectives and a method of measuring its success in achieving them as part of its strategic plan that is focused on ensuring that projects are delivered on time and within budget.

DGS RESPONSE # 7:

Currently, DGS is in the process of developing its 2016 Strategic Plan that includes a theme addressing efficiency, which is defined as doing what we do better, faster and cheaper. To date, RESD has developed an objective to implement a pilot construction management project with soft costs reduced to 20 percent of overall construction costs. Soft costs represent those costs incurred in designing, inspecting and managing a capital outlay project. In the near future, RESD and FMD will develop additional goals and objectives that are focused on ensuring that projects are delivered on time and within budgeted cost estimates.

RECOMMENDATION # 8:

To ensure that its project management staff are adequately trained and have the information necessary to deliver projects as efficiently and effectively as possible, the division should:

- *Conduct a comprehensive survey every other year of all of its client agencies to inform necessary improvements to its processes and training program and, in the interest of transparency, make the survey results public.*
- *Develop and implement by December 2016 a periodic training program for staff within its project*

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management and building management branches. This training program should include updated information that reflects any processes it revises based on its review of critical project status data and its progress towards meeting its goals.

DGS RESPONSE # 8:

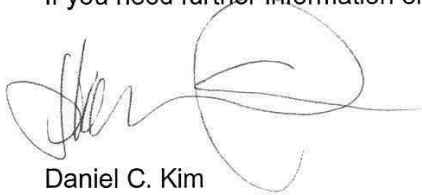
In consultation with subject matter experts located in DGS' Office of Strategic Planning, Policy & Research, RESD will implement a comprehensive client survey process which will routinely survey clients of each of our construction management projects. The results will also be published on DGS' website.

In addition, by December 2016, RESD will initiate a training program for project management and building management staff. The training will ensure that staff is trained in a timely manner on the knowledge, skills and abilities needed to deliver projects as efficiently as possible.

CONCLUSION

DGS is firmly committed to effectively and efficiently managing its operations implemented to plan, design, and construct capital outlay projects. As part of its continuing efforts to improve those processes, DGS will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this issue, please contact me at (916) 376-5012.



Daniel C. Kim
Director

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA DEPARTMENT OF GENERAL SERVICES

To provide clarity and perspective, we are commenting on the response to our audit report from the California Department of General Services (General Services). The numbers below correspond to the numbers we placed in the margin of General Services' response.

During the course of our audit work, the acting deputy director of the Real Estate Services Division (division) informed us that he was currently evaluating the Building and Property Management Branch's structure but could not provide a date when the evaluation would be complete, as we describe on pages 28 and 29 of our audit report. However, at no time during the audit, until this response, did General Services inform us that it was in the process of reorganizing the entire division. We look forward to General Services' 60-day response to further explain this reorganization and how it may assist General Services in implementing our recommendations.

①

As stated in our recommendation on page 48, the purpose of this recommendation is to ensure that client agencies are paying equitable rates. The division's current methodology, as described in our report on pages 40 and 41, requires the client agencies whose projects are completed solely by the Project Management and Development Branch to absorb the costs for administrative services General Services provides on projects contracted out to private firms. This creates an inequitable distribution of these administrative costs regardless of the net impact on the State. Thus, we stand by our recommendation.

②

At our exit conference, in which we shared our draft report with General Services, its director described this additional analysis and, accordingly, we included this perspective on pages 41 and 42. We also acknowledge on page 42 that there is value in conducting the analysis the director of General Services describes and, in our recommendation on pages 48 and 49, we state that General Services should explore and implement any other reasonable methods to ensure it is delivering projects as cost effectively as possible. However, as stated in our report on page 42, we believe that without conducting an analysis of its hourly rates, General Services will not be certain of the various factors that may contribute to its rate being higher than those of private firms. Such an analysis may lead to additional efficiencies and cost savings and is, thus, meaningful.

③