STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

DEPARTMENT OF GENERAL SERVICES

INCLUDING

STATE PROCUREMENT COMMISSION,
ADVISORY COUNCIL ON STATE PROCUREMENT, AND
STATE PROTEST COMMITTEE

Performance Audit Report

November 2016

Justin P. Wilson, Comptroller

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November 28, 2016

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Bob Oglesby, AIA, LEED AP, Commissioner
312 Rosa L Parks Avenue
William R. Snodgrass Tennessee Tower, 22nd Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of General Services, including the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee for the period August 1, 2013, through July 31, 2016. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed certain findings which are detailed in the Audit Conclusions section of this report. Management of the Department of General Services has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Department of General Services should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/jw
16/127

Division of State Audit

Department of General Services Performance Audit November 2016

Our mission is to make government work better.

AUDIT HIGHLIGHTS

Department of General Services' Mission

Serving as a valued business partner delivering strategic general services for state government.

We have audited the Department of General Services for the period August 1, 2013, through July 31, 2016. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

Scheduled Termination Date:
June 30, 2017

Audit Period:
August 1, 2013, through July 31, 2016

- State of Tennessee Real Estate Asset Management's (STREAM) responsibilities for leases, the state's facilities management contract with Jones Lang LaSalle, capital projects, and pre-planning funds;
- Central Procurement Office's (CPO) responsibilities for subrecipient monitoring and procurement training;
- CPO's and the department's responsibilities for payment cards;
- the Surplus Property program; and
- the Law Enforcement Support Office and its administration of the federal 1033 program.

Key Conclusions

Findings

- STREAM executive leadership did not establish adequate processes, did not maintain updated policies and procedures, and did not provide adequate direction to staff relating to state leasing processes (page 15).
- When executing lease procurements, STREAM management did not comply with State Building Commission Policy or department policies and procedures (page 19).

- STREAM’s lease management team failed to effectively track and address the state’s leases before they expired (page 25).

- STREAM management did not always ensure Jones Lang LaSalle submitted all monthly reports and performed property inspections as required by the facilities management contract (page 30).

- Without an effective method to identify and track the state’s grant recipients and subrecipients and their expenditures, state agencies cannot ensure subrecipients receive Single Audits as required by federal regulations (page 39).

- The Surplus Property program did not retire inventory in Edison as property was sold and/or disposed (page 54).

Observations

The following topics are included in this report because of the effect on the operations of the Department of General Services and the citizens of Tennessee: Overall, state agencies expressed satisfaction with services provided by the department (page 10); the department should define allowable pre-planning activities (page 36); Central Procurement Office management did not complete the reviews of state agencies’ internal payment card policies (page 46); the Central Procurement Office must report all payment card fraud to the Office of the Comptroller of the Treasury (page 47); and information system contracts do not require service organization control audit reports (page 48).

Performance Audit
Department of General Services

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INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Department of General Services, including the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee, was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-238, the Department of General Services, the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee are scheduled to terminate June 30, 2017. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the Department of General Services, the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee should be continued, restructured, or terminated.

Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury, or his designee. Those responsibilities include serving as a member of the State Procurement Commission, the Advisory Council on State Procurement, and the State Building Commission. We do not believe that the Comptroller's service in these capacities affected our ability to conduct an independent audit of the Department of General Services.

BACKGROUND

Created in 1972 under Section 4-3-1101, *Tennessee Code Annotated*, the Department of General Services merged the state's general support services originally under the control of two separate departments into a single department. As described in Section 4-3-1103, the department provides a broad range of services to other state agencies and departments across the state, including real estate management; procurement of goods and services through the Central Procurement Office; motor vehicle management; printing and media services; postal services; and warehousing and distribution. The department's business units are described on the following pages.

The department's organizational chart is on page 7.

BUSINESS UNITS THAT REPORT TO THE COMMISSIONER

The **Office of General Counsel** provides legal advice to the Commissioner and all department business units on a variety of legal matters, such as

- representing the department in matters with outside parties and other governmental agencies and officials;
- ensuring the department is in compliance with state statutes, rules, regulations, and policies;
- providing guidance and support to all of the department's attorneys;
- assisting in formulating requests for proposals and defending contract protests; and
- pursuing and collecting monetary damages from claims involving state personal and real property.

The **Office of Internal Audit** is the department's independent appraisal function and is responsible for examining and evaluating departmental activities. The office

- conducts limited reviews of departmental activities;
- performs contract compliance audits;
- evaluates the department's enterprise risk management activities to ensure risks are managed appropriately and internal controls are operating effectively;
- conducts special investigations;
- provides advisory services; and
- serves as a liaison to the Office of the Comptroller of the Treasury.

The **State of Tennessee Real Estate Asset Management (STREAM)** unit is responsible for operating, managing, and maintaining the state's real estate assets (except for assets located at the state's higher education institutions) and for handling all issues of land, lease, and construction on behalf of the State of Tennessee. STREAM works under the authority and policies of the State Building Commission to carry out its mission to serve all state agencies with their capital and real estate needs. STREAM also oversees the state's facilities management contractor, Jones Lang LaSalle. For the results of our audit work relating to STREAM, see page 14.

BUSINESS UNITS THAT REPORT TO THE DEPARTMENT'S CHIEF OF STAFF

Legislative and Communications Offices

The **Office of Legislative Affairs** is responsible for creating and implementing the legislative strategy for the department. This includes championing bills that will allow the department to do its jobs more efficiently and effectively, averting legislation that could negatively impact the department, and handling all legislative constituent requests.

The **Office of Communications** is responsible for handling all media requests for information on anything pertaining to the department. The Assistant Commissioner serves as the department's Public Information Officer.

Vehicles and Asset Management

Motor Vehicle Management is responsible for establishing and implementing rules and regulations for the acquiring, using, assigning, and maintaining vehicles and equipment. It also manages the Enterprise and CarShare programs, the state vehicle misuse program, the state employee shuttle service, the state employee vanpool program, the executive motor pool program, and the Fuelman and Voyager fuel card programs.

When state departments and agencies possess outdated or unused property, they can declare the property as surplus using the process established by the department's **Surplus Property program**. The program is responsible for disposing of outdated or unused state and federal (including U.S. Department of Defense) property declared as surplus by either 1) selling it to an authorized governmental, nonprofit, educational, or law enforcement agency or 2) selling it to the public via internet auction if the property is not needed by those organizations. See page 53 for our work relating to the Surplus Property program.

Vehicles and Asset Management includes

- Motor Vehicle Management,
- Surplus Property Program, and
- Law Enforcement Support Office (LESO).

Law Enforcement Support Office

Also known as the 1033 program, the National Defense Authorization Act authorized the Secretary of U.S. Department of Defense (DOD) to transfer DOD-surplus military property to local law enforcement agencies with special emphasis given to counter-drug and counter-terrorism activities. The DOD's Defense Logistics Agency established the federal Law Enforcement Support Office (LESO) to work exclusively with states and local law enforcement agencies to carry out this program.

Through an agreement with the Defense Logistics Agency, Tennessee's LESO State Coordinator operates the 1033 program within the Department of General Services. The department established its own LESO office, under the direction of the LESO State Coordinator who serves as the liaison between local law enforcement agencies, the state, and the federal LESO office. Eligible law enforcement agencies may participate in this program by submitting to LESO an application and annual agreement and by paying a fixed fee based on the number of POST[1]-sworn officers.

[1] Peace Officers Standards Training.

Law enforcement agencies must use any surplus military property they receive within one year, and the property must remain in use for at least 12 months. Local law enforcement agencies are required to complete documentation certifying that the property was used. The property is subject to physical inspection by federal and state LESO offices. For more information concerning LESO, see page 50.

Communication, Publishing, and Distribution

Printing and Media Services is responsible for the in-house printing and media needs of state government. The primary function is to print forms, manuals, brochures, newsletters, reports, letterhead stationery, envelopes, mailers, training materials, posters, graphic design, and photography on a timely basis and at competitive rates. Other services that support the printing function include design and layout of such material, technical consultation, development of specifications, cost estimation, and service to state agencies in matters pertaining to forms and publication approvals.

Communication, Publishing, and Distribution includes

- Printing and Media Services,
- Postal, and
- Warehousing and Distribution.

Postal provides centralized mail services for state agencies in Davidson County and contains the following sections:

- Incoming Mail Services,
- Outgoing Mail Services, and
- the Contract Station Post Office.

Incoming Mail Services is responsible for sorting, delivering, and picking up U.S. mail and interoffice messenger mail for all state departments, institutions, and agencies located in Davidson County. Outgoing Mail Services provides centralized postage metering, inserting, and pre-sorting mail for all departments, institutions, and agencies located in Davidson County. The Contract Station Post Office operates under a written agreement with the United States Postal Service (USPS) and operates in accordance with all applicable USPS rules and regulations.

Warehousing and Distribution is a centralized supply distribution and warehousing operation that purchases, warehouses, and distributes forms, envelopes, and other printed materials essential to the operation of agencies across the state.

Chief Financial Officer

Overseen by the Chief Financial Officer, the **Office of Financial Management** is responsible for coordinating budget activities for the department and for providing accurate, clear, and concise information through sound budgetary analysis and fiscal reporting to department management. Its goal is to facilitate management's decision-making by providing relevant, appropriate, and timely information to the department's leadership team. Furthermore, this office is responsible for overseeing attendance and leave transactions and processing employee payroll for the department.

In addition, the **Office of Administrative Services** provides the department's centralized procurement support through Edison, the state's accounting system, and the Virtual Purchase Cards.[2] The staff also audit, upload, and process all of STREAM's monthly lease payments; provide centralized support for vendor billings; and provide governance for key department contracts.

PROCUREMENT-RELATED ENTITIES

State Procurement Commission, Advisory Council on State Procurement, and the State Protest Committee

Although not under the department's supervision, the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee are part of the state's procurement process, which is the department's responsibility. For more information on these entities, see page 49.

Central Procurement Office

Administratively attached to the Department of General Services, the Central Procurement Office was created by Section 4-56-104, *Tennessee Code Annotated*, to streamline and centralize procurement functions in an effort to create cost savings and efficiencies while ensuring transparency and accountability in the procurement and contracting process. The office is headed by the Chief Procurement Officer, who is also a member of the Commissioner of Department of General Services' executive team. All procurement-related functions, however, are solely the responsibility of the Chief Procurement Officer.

The Central Procurement Office also operates the Governor's Office of Diversity Business Enterprise, which facilitates greater opportunity for small, minority-owned, woman-owned, and service-disabled veteran-owned business enterprises within the State of Tennessee's procurement and contracting activities. The Governor's Office of Diversity Business Enterprise was not part of the scope of this audit.

ASSISTANCE FROM OTHER STATE AGENCIES

The Department of General Services contracts with the Department of Finance and Administration (F&A) for general accounting functions. F&A performs the following functions for the department:

- recording accounting transactions;
- reviewing and approving the department's state payment card purchases;

[2] A virtual purchase card is a unique account number embedded within Edison and assigned to a state agency to use to pay vendors who have an existing relationship with the state.

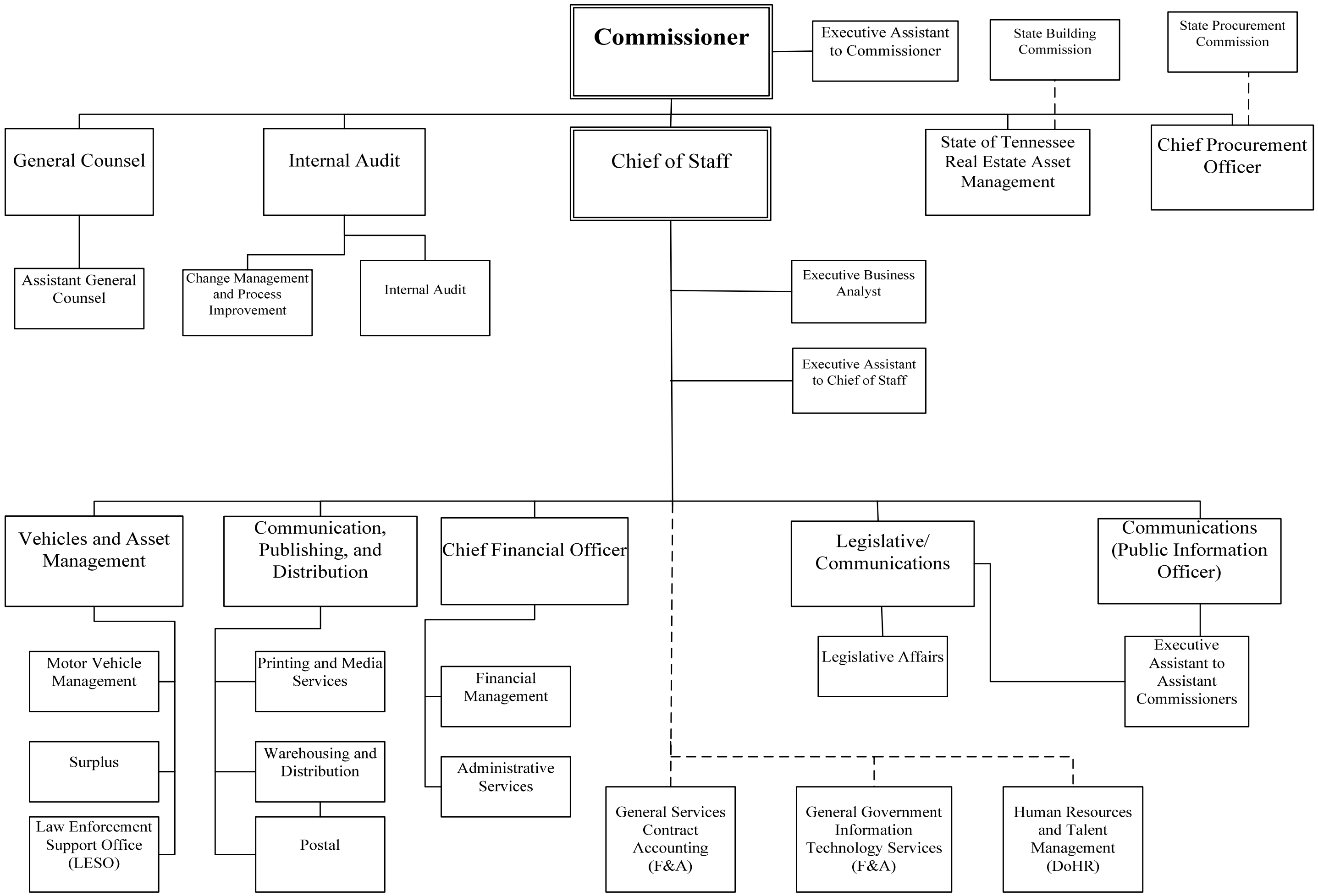
- maintaining accounts receivable;
- monitoring collection efforts; and
- determining monthly agency cost allocations and labor distributions.

In accordance with Executive Order No. 39, in an effort to consolidate workstation support for 21 executive-branch agencies, the department's Office of Information Technology Services transferred to F&A's Strategic Technology Solutions effective August 1, 2014.

Effective January 1, 2016, the department's human resources and talent management responsibilities transferred to the Department of Human Resources (DOHR) as part of the Governor's new Shared Services initiative. The staff are now under the respective leadership of human resources and talent management business partners within DOHR, but they are still housed in the Department of General Services' office space.

An organizational chart of the Department of General Services is on the following page.

Department of General Services
Organizational Chart
August 2016



F&A – Department of Finance and Administration
DoHR – Department of Human Resources
Source: Department of General Services' management.

AUDIT SCOPE

We have audited the Department of General Services for the period August 1, 2013, through July 31, 2016. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts in the following areas:

- State of Tennessee Real Estate Asset Management's (STREAM) responsibilities for leases, the state's facilities management contract with Jones Lang LaSalle, capital projects, and pre-planning funds;
- the Central Procurement Office's (CPO) responsibilities for subrecipient monitoring and procurement training;
- CPO's and the department's responsibilities for payment cards;
- the Surplus Property program; and
- the Law Enforcement Support Office and its administration of the federal 1033 program.

Management of the department is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Although our sample results provide reasonable bases for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in the individual sections of this report.

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

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report dated November 2013. The Department of General Services filed its report with the Comptroller of the Treasury on May 1, 2014. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of General Services has corrected all previous audit findings concerning

- the Central Procurement Office's failure to ensure that state agencies submitted payment card documentation in accordance with payment card policies and procedures;
- the department's failure to properly document the issuance of payment cards to its employees;
- the State of Tennessee Real Estate Asset Management (STREAM) entering into a contract that was overly broad in scope, pursuing contract amendments to refine that scope, and creating an organizational conflict of interest;
- STREAM and the Central Procurement Office's failure to adequately document the decision to exclude a vendor from negotiations of the state's facilities management services contract; and
- the department's failure to follow information systems procedures and maintain proper information systems controls.

AUDIT CONCLUSIONS

CUSTOMER SATISFACTION

Because the Department of General Services provides many services to state agencies, we conducted surveys to determine the agencies' level of customer service satisfaction with the department's services. We prepared and distributed four surveys that address four of the department's key service areas:

- the Central Procurement Office (see Appendix 7 on page 70);
- the Surplus Property program (see Appendix 8 on page 73);
- leasing services provided by the State of Tennessee Real Estate Asset Management (see Appendix 9 on page 75); and

- facilities management services provided by Jones Lang LaSalle (see Appendix 10 on page 76).

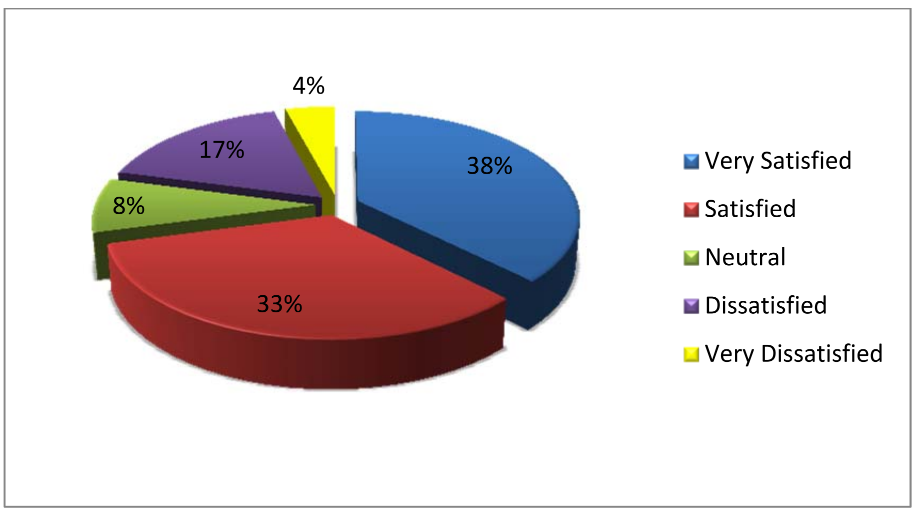
<u>**Observation 1** – Overall, state agencies expressed satisfaction with services provided by the department</u>

<u>Survey Results</u>

Central Procurement Office

We surveyed 44 individuals charged with state agency-level procurement responsibilities, representing 44 agencies, and we received 24 responses. The survey covered areas such as the knowledge and professionalism of Central Procurement Office (CPO) staff, various aspects of the procurement process, and the office as a whole. See Figure 1.

Figure 1
Central Procurement Office
Overall Customer Satisfaction



Overall, we received positive comments concerning CPO. Respondents complimented CPO's responsiveness and willingness to help agencies. One respondent in particular stated,

> Our department has very few contracts. However, they are specialized in nature. CPO staff have been helpful in assisting [with] processing contracts when requested since this isn't something we do often. Additionally, we have had one CPO review this year and the team provided valuable feedback.

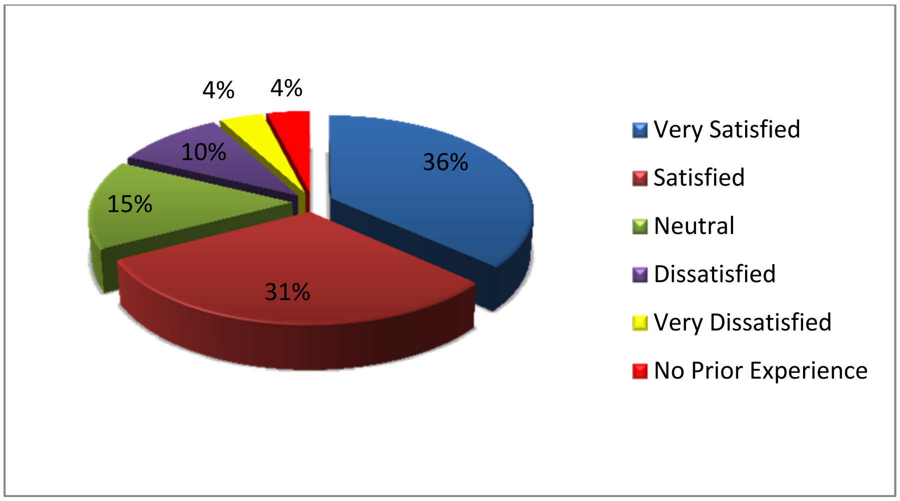
In terms of areas for improvement, respondents were primarily critical of communication of policy and contract template changes, as well as the frequency of the changes, stating that the templates changed too often, and some procurement processes were becoming increasingly time consuming.

For more information regarding our audit work of CPO, see page 37.

Surplus Property Program

To evaluate state agencies' experience with the Surplus Property program, we surveyed 260 individuals who had access to AssetWorks, the department's asset management software, representing 66 agencies, and we received 101 responses. The survey covered areas such as knowledge and professionalism of surplus staff, various aspects of the surplus process, and the surplus process as a whole. See Figure 2.

Figure 2
Surplus Property Program
Overall Customer Satisfaction



Respondents consistently offered positive remarks about the professionalism of the Surplus Property program's staff, offering feedback such as "When you get to who you need to talk to they are very helpful and professional," and "The customer service is great. Every time that I needed a password reset, had a question about a form, etc., it was always done in a polite, professional manner."

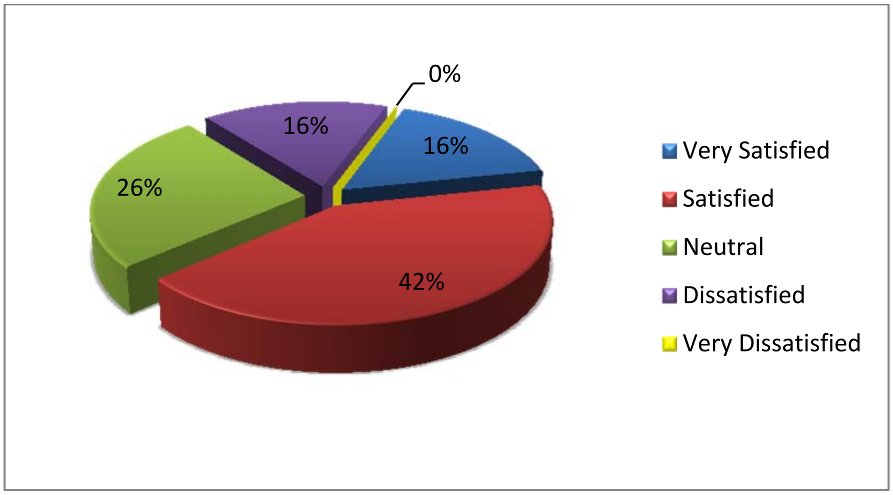
Respondents provided both positive and negative feedback regarding the user-friendliness of AssetWorks. Other criticisms focused on the difficulty and slow pace of the surplus process, stating, "Approval of [surplus] requests could be quicker without having to call and tell them you have one pending," and "The disposal of equipment in Edison [the state's accounting system] once the equipment is sold or destroyed . . . [it] takes several months to get these items off Edison and several reminders to get it done."

We addressed management's disposal of equipment in Edison during our audit fieldwork. For more information, see Finding 6 on page 54.

Leasing Services

We surveyed 80 individuals from 38 agencies that the department designated as state agency contacts for leasing services, and we received 31 responses. The survey covered areas including Project T3 (Transforming Tennessee for Tomorrow), satisfaction with the leasing process and with leased properties, and overall services provided by State of Tennessee Real Estate Asset Management (STREAM). See Figure 3.

Figure 3
STREAM
Customer Satisfaction of Leasing Services Provided by STREAM or Their Agents/Contractors



Respondents focused their comments on the leasing staff's communication and customer service, providing such feedback as, "We recently transitioned to AWS [Alternative Work Site] and the STREAM personnel were very responsive in getting us into new space and terminating the leases on all of our field space. Communication has been excellent."

The criticisms also highlighted communication and understanding agency needs as some areas for improvement. One respondent stated, "Management needs to understand state government and our needs. Bringing people in with no knowledge is counterproductive. The state is not a business, no matter how people try to make it a business."

See page 17 for our audit work relating to leasing services.

Facilities Management Contract – Jones Lang LaSalle

To determine state agencies' satisfaction with facilities management services provided by Jones Lang LaSalle (JLL), we surveyed all 451 individuals statewide who submitted a service request to JLL from August 1, 2013, through April 29, 2016, and we received 251 responses. The survey covered areas including JLL's responsiveness to service requests and the quality of its completed work. See Figures 4 and 5.

Figure 4
Jones Lang LaSalle
Timeliness to Address Service Requests

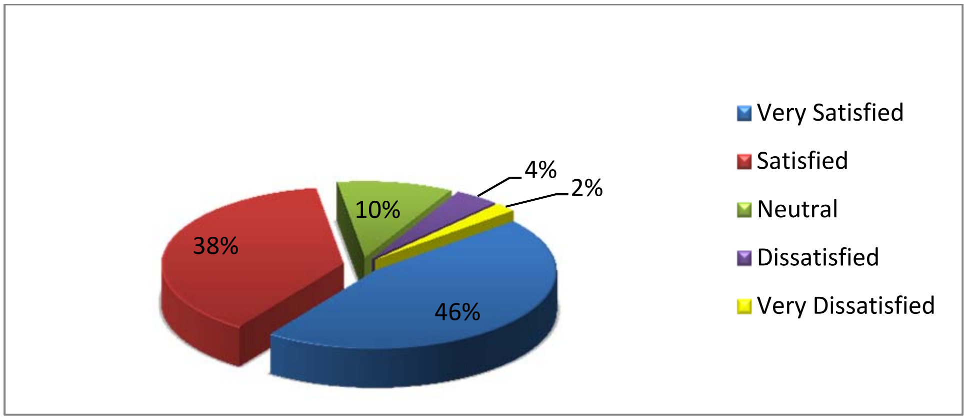
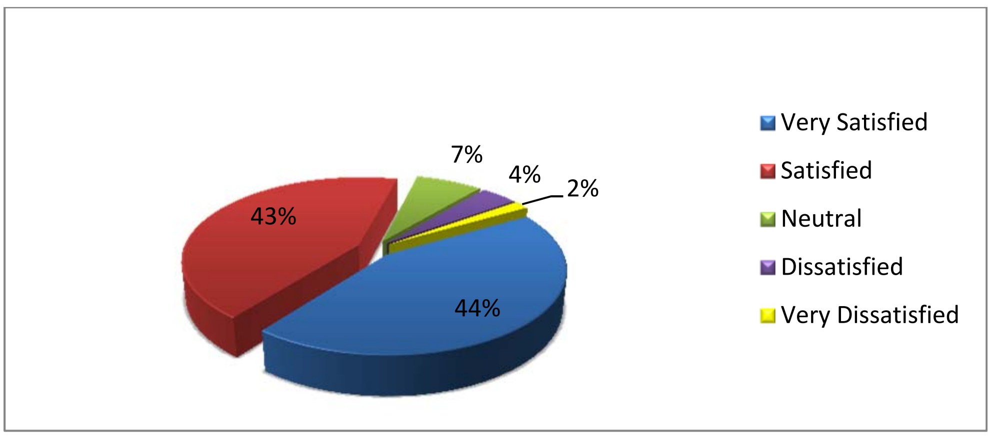


Figure 5
Jones Lang LaSalle
Customer Satisfaction with Service Completed



Respondents consistently praised the professionalism, timeliness, and quality of services provided by JLL. One respondent stated, "They always respond quickly and get the job done correct the first time. Friendly and professional at all times."

Many respondents did not offer any criticism regarding JLL's work, but some consistently criticized janitorial services in their buildings and commented on the need for improved communication between JLL and the agencies regarding the status of outstanding work orders.

For more information regarding our audit work related to JLL, see page 27.

STATE OF TENNESSEE REAL ESTATE ASSET MANAGEMENT OPERATIONS

Overall STREAM Operations

State of Tennessee Real Estate and Asset Management (STREAM) is responsible for operating, managing, and maintaining the state's real estate assets to ensure a comfortable, safe, and efficient working environment for the state's tenants, employees, and guests.[3] Specifically, STREAM concentrates its efforts in the following major areas:

- lease management,
- facilities management,
- asset management,
- capital improvements,
- tenant services,
- energy and sustainability,
- land transactions, and
- interior design.

Pursuant to Section 4-15-102, *Tennessee Code Annotated*, the State Building Commission (SBC) has the power and authority to approve and supervise all projects for which the state has an interest that involve the acquisition, construction, improvement, and disposal of real property and has the authority to approve contracts involving real property, including leases.[4]

In order to comply with SBC's statutory authority, STREAM must follow the *By-Laws, Policy and Procedure of the State Building Commission of Tennessee* (SBC Policy). STREAM's Deputy Commissioner is responsible for implementing all policies and procedures related to STREAM and for communicating them to his staff.

During our audit, we evaluated STREAM's overall effectiveness by examining three areas of STREAM's operations: the procurement and management of the state's leases, the monitoring of the facilities management contract and its contractor, Jones Lang LaSalle; and the management of capital projects. See each section below for specific objectives for these areas.

Audit Results

Audit Objective: Did STREAM management implement controls to ensure it achieved effective and efficient operations and complied with state statute, SBC Policy, and department policies and procedures?

[3] STREAM is not responsible for real estate assets at the state's higher education institutions.
[4] SBC does not have authority over projects and contracts procured by the Tennessee Department of Transportation.

Conclusion: We found that STREAM had not established controls to ensure it achieved effective and efficient operations and complied with state statute, SBC Policy, and department policies and procedures (see **Finding 1**).

<u>Finding 1 – STREAM executive leadership did not establish adequate processes, did not maintain updated policies and procedures, and did not provide adequate direction to staff relating to state leasing processes</u>

<u>Condition</u>

State of Tennessee Real Estate Management's (STREAM) leadership did not establish an adequate lease tracking process; did not maintain updated internal lease procurement policies and procedures; and did not provide adequate direction to staff, all of which impacted staff's ability to perform their required tasks effectively and efficiently and to follow State Building Commission (SBC) policy and departmental policies and procedures for lease management. As a result of leadership's inadequate process, outdated policies and procedures, and lack of clear instruction to staff, we found that the department's lease tracking process was not effective (see Finding 3) and that the procurement process was not adequately documented and staff did not comply with all state requirements (see Finding 2).

<u>Criteria</u>

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies, including state agencies. According to Section 3, "Establish Structure, Responsibility, and Authority,"

> Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
>
> Management develops an organizational structure with an understanding of the overall responsibilities, and assigns these responsibilities to discrete units to enable the organization to operate in an efficient and effective manner, comply with applicable laws and regulations, and reliably report quality information.
>
> As part of establishing an organizational structure, management considers how units interact in order to fulfill their overall responsibilities. Management establishes reporting lines within an organizational structure so that units can communicate the quality information necessary for each unit to fulfill its overall responsibilities. Based on the nature of the assigned responsibility, management chooses the type and number of discrete units, such as divisions, offices, and related subunits. Reporting lines are defined at all levels of the organization and provide methods of communication that can flow down, across, up, and around the structure. Management also considers the entity's overall responsibilities to

external stakeholders and establishes reporting lines that allow the entity to both communicate and receive information from external stakeholders.

Management develops and maintains documentation of its internal control system.

Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

Cause

According to the STREAM Deputy Commissioner, the current policies and procedures are outdated and require amendments; however, SBC must approve all amendments to STREAM policies and procedures before STREAM can adopt and implement the amendments. According to the Deputy Commissioner, the formal process to receive SBC approval requires an inordinate amount of time. We spoke with the Secretary of State and the State Treasurer, who are both SBC members. They both stated that they do not know the basis for the Deputy Commissioner's statement relating to SBC's approval of STREAM leasing policies and procedures, and they will support and assist STREAM management to address STREAM's leasing needs.

Effect

By failing to provide appropriate leadership and direction, STREAM's leadership increased the risk of inappropriate and inefficient business practices. Management's failure to ensure that STREAM maintained and implemented updated internal policies and procedures for leasing increased the risk that STREAM would not operate in accordance with state policies.

Recommendation

We recommend that the Commissioner of the Department of General Services and STREAM's Deputy Commissioner establish an effective lease tracking process, update STREAM's leasing policies through the SBC, and ensure all staff are aware of these updates.

Management's Comment

We concur. Please refer to specific instances noted in response to the separate findings related to this issue (Finding 2 and Finding 3).

LEASE PROCUREMENT

State agencies and their employees generally occupy state-owned property, but where necessary, State of Tennessee Real Estate Management (STREAM) may procure leased space to meet an agency's needs. STREAM's Lease Management team administers a portfolio of approximately 475 active leases. The State of Tennessee procured approximately 340 leases, representing approximately 3.5 million square feet, from third parties. The remaining 135 active leases involve leases between two state entities for state-owned space. Lease Management's mission is to provide state agencies with exceptional tenant representation, make prudent real estate decisions on behalf of Tennessee taxpayers, and present a fair, transparent, and competitive opportunity for Tennessee property owners to do business with the state. Sections 12-2-114 and 12-2-115, *Tennessee Code Annotated*, as well as SBC Policy, govern the responsibilities of Lease Management.

<u>Lease Procurement Process – Background</u>

As described by the Director of Lease Management, lease procurements begin when a state agency submits a space needs analysis to STREAM to demonstrate that the agency requires new space or needs to renew an existing lease. Once STREAM receives a state agency's space needs analysis, STREAM's Leasing Administrator determines the minimum amount of usable square feet that the agency needs along with any other site-specific needs (e.g., a locked file room or hearing rooms). The Lead Business Analyst, within STREAM's Strategic Planning Group, determines whether state-owned or current state-leased space is available to meet the agency's needs and informs the Leasing Director, who assigns the best space option to the state agency.

If the Lead Business Analyst cannot find state-owned or state-leased space, the Leasing Director assigns the appropriate regional STREAM leasing agent to work with the state agency to further refine its specific space needs and conducts market research to find available space options within the geographical area and within the rental allowances. If the Leasing Director determines that it is necessary to procure a new lease,

- the leasing agent prepares the request for proposals (RFP);
- the Leasing Director reviews the proposal; and
- the Real Estate Procurement Coordinator advertises the proposal with local newspapers and emails the following individuals in the region where the leased space is requested:
    - applicable members of the legislature;
    - mayors;
    - county executives; and
    - all persons currently leasing property to the state or persons who have expressed interest in leasing property to the state within the previous 12 months.

After the leasing agent receives all timely submitted lease proposals, the leasing agent

- evaluates the proposals;
- selects the best proposal based on price and the agency's needs; and
- makes a recommendation to STREAM's Deputy Commissioner and the Leasing Director.

The Lease Management team then works with the lessor to finalize the lease, obtain the necessary approvals, and execute the lease.

Lease Procurement – Conflict-of-Interest Requirements

According to SBC Policy, "the lease procurement process shall be objective, impartial, transparent, and consistent in its application." To meet these requirements, SBC Policy requires each person involved in the lease procurement process to complete a written conflict-of-interest disclosure documenting his or her independence. STREAM management is required by SBC Policy to review and maintain the written disclosures in the lease procurement file.

Audit Results

1. **Audit Objective:** Did STREAM management effectively and efficiently procure leases on behalf of state agencies?

   Conclusion: Based on testwork performed, STREAM management did not comply with all state requirements when procuring leases on behalf of state agencies, resulting in an ineffective and inefficient lease process (see **Finding 2**).

2. **Audit Objective:** Do the leases procured meet the needs of the state entities?

   Conclusion: As described in **Observation 1** on page 10, state agencies have expressed satisfaction with STREAM's leasing services.

3. **Audit Objective:** For the state's real estate broker and STREAM employees charged with procuring leases, did management ensure potential conflict-of-interest forms were obtained, reviewed, and maintained within the lease procurement files?

   Conclusion: STREAM management did not document evidence of the broker's and employees' potential conflicts of interest (see **Finding 2**).

Methodology To Achieve Objectives

To meet our objectives for lease procurement and tracking, we obtained an understanding of STREAM's role in procuring and tracking state leases through interviews and detailed walkthrough procedures with STREAM's leasing staff. We reviewed STREAM's leasing policies and procedures, SBC Policy, and applicable state statutes. We reviewed both STREAM and State Building Commission conflict-of-interest policies and documents to gain an understanding of the requirements. We also surveyed 80 individuals who STREAM identified as agency contacts for leasing services and evaluated the 31 responses we received to determine if STREAM met agency leasing needs.

We obtained a list of 17,555 lease expenditures from Edison for the period August 1, 2013, through December 31, 2015, and filtered the list to identify 479 unique lease numbers for this period. We filtered the list again to obtain a population of 80 leases that STREAM procured. We tested a sample of 25 active leases and the preceding lease for the same property to determine the following:

- *Lease Procurement* – whether management complied with applicable state statutes, SBC Policy, and STREAM policies and procedures when procuring leases, including compliance with conflict-of-interest requirements.
- *Lease Tracking* – whether management effectively tracked expiring leases in order to initiate the lease renewal or procurement process timely. Specifically, we examined the sampled lease and the preceding lease and reviewed the prior lease deadlines and the subsequent dates of lease renewals, extensions, and re-procurements. We noted any sampled lease or preceding lease that went into holdover status. Our lease tracking audit results are on page 24.

Finding 2 – When executing lease procurements, STREAM management did not comply with State Building Commission Policy or department policies and procedures

Cause, Condition, and Criteria

Based on our review of the lease files, we determined that for 17 of 25 current lease files reviewed (68%), with annual lease amounts totaling approximately $11,078,164, the Lease Management team failed to comply with five applicable lease procurement requirements. We noted the following deficiencies.

1. During our testwork, we found that 13 sampled leases required requests for proposals. For 6 of these leases, the Lease Management team failed to obtain and maintain required conflict-of-interest disclosures for external parties involved in the lease procurement process.

   According to Section 7.01 of the State Building Commission (SBC) Policy,

   > No individual, company, or other entity involved in the evaluation or negotiation of proposals should have a financial interest or have the appearance of a conflict of interest unless disclosed and addressed. . . . A written conflict of interest disclosure documenting the independence of each person involved must be completed and retained as part of the procurement file.

STREAM's *Real Estate Asset Management Lease Procurement Methods Policy and Procedures* further states,

> All individuals involved with the development of the RFP [requests for proposals], proposal reviews, analysis, negotiations, recommendation for award or any other portion of the procurement process shall complete a disclosure of conflicts of interest and statement of understanding of non-disclosure of information during the procurement process and until the file is open for public inspection.

The employees handling these leases did not include the conflict-of-interest forms in the lease files.

2. During our testwork, we found that 11 sampled leases contained original or amended lease terms that were longer than 5 years or had lease amounts that totaled more than $150,000 per lease year, thereby requiring approval from SBC prior to executing the leases. For these 11 leases, we determined that 2 were emergency leases,[5] and STREAM management and staff failed to obtain the required approval from SBC.

   Pursuant to Section 7.02A of the SBC Policy,

   > Amendments to leases originally submitted to and recommended by the Commission shall receive Commission approval prior to execution of such amendments. Further, any amendment to a lease which was not submitted and approved by the Commission because the term was less than five years or the annual rent due to the lessor was less than $150,000, but due to the amendment or the aggregate effect of amendments now exceed those limits, shall be submitted to the Commission for approval prior to the execution of the lease amendment.

   STREAM management agreed that they should have obtained SBC approval.

3. For three leases, management failed to include the clause in the lease agreements describing the state's right to terminate the lease for convenience.

   Section 7.01 of the SBC Policy states,

   > All leases shall be terminable for convenience by the State on not more than 120 days written notice, unless approved by the Commission. Any request to deviate from the requirement of the preceding sentence shall be submitted in writing by the Head of the SPA [State Procurement Agency] making such request to the Commission together with a justification supporting such request for a deviation. For leases with terms of (i) less than 1 year, including renewal and extension options, or (ii) 5 years or less with a total annual rental amount of less

[5] According to management, emergency leases are leases with terms of one year or less.

than $150,000, the authority to approve such a request for a deviation from the 120 day requirement is delegated to the Commissioner of the Department of General Services.

Management believed that these terms were included in the standard lease template and did not understand why they were not included.

4. Management failed to maintain the minimum required procurement documentation in all 25 lease files tested.

According to the "Procurement File of the Procurement Process" section of the *Real Estate Asset Management Lease Procurement Methods Policy and Procedures*,

> A procurement file shall be maintained for every RFP [request for proposals] for leased space. Such file shall include, at a minimum, the following documentation, if applicable:
>
> - a copy of the RFP and any amendments or clarifications thereof;
> - any conflict of interest disclosure documentation;
> - any evaluator attestations;
> - a list of all vendors solicited to participate in the procurement;
> - a copy of each evaluated response;
> - a copy of each evaluation sheet;
> - a copy of any clarifications sent to respondents;
> - a copy of negotiation documentation as specified in STREAM's Lease Communications and Negotiations Policy;
> - a copy of all correspondence between the vendor and the State regarding clarifications or negotiations;
> - a copy of any cost proposal analysis performed during the procurement;
> - any completed proposal score summary matrix;
> - a copy of all technical scores;
> - a copy of all cost scores;
> - the evaluation notice/file open for public inspection letter;
> - a copy of the protest procedures and the exact dollar amount of the protest bond;
> - documentation of any decision to determine a response bypassed or non-responsive;
> - any correspondence or documentation detailing the evaluation process, clarifications, and negotiations; and

- a copy of any pre-proposal conference and site-visit sign-in sheets.

During our audit work, in addition to the lack of the conflict-of-interest forms previously noted, we also found that the lease files we tested did not contain documentation, including

- a copy of the request for proposals and any amendments or clarifications;
- the leasing agent's analysis of the lease proposals;
- any correspondence or documentation detailing the evaluation process, clarifications, and negotiations; and
- documentation of any decisions to determine a bypassed response or a non-response.

Management believed that all required information was available; however, management could not definitively state where all information should be maintained and ultimately did not provide the documentation we requested.

After our fieldwork ended, the department informed us that it utilizes two separate files that contain lease documentation: the lease files and the lease procurement files. According to management and our review of SBC policy, we found two types of lease procurements that do not require requests for proposals and, therefore, would not require a CPO lease procurement file:

- emergency leases; and
- negotiated leases, which are leases with an annual rent of less than $50,000.

Because management is not required to advertise either emergency or negotiated leases, only 13 of the 25 leases we tested required a lease procurement file.

5. Based on our review of CPO's 13 lease procurement files, we determined that management did not provide us with 6 of the 13 (46%) lease procurement files. Based on our review of the remaining 7 lease procurement files, 5 lease procurement files (71%) did not contain all of the required documentation specified in the "Procurement File of the Procurement Process" section of the *Real Estate Asset Management Lease Procurement Methods Policy and Procedures* (see the required documentation list on page 21), including

   - advertisement documentation; and
   - any correspondence or documentation detailing the evaluation process, clarifications, and negotiations.

   A detailed exhibit of the deficiencies noted is located in Appendix 4 on page 66.

Effect

Management's failure to document and review conflict-of-interest disclosure forms increases the risk that an individual may act out of self-interest rather than in the state's best interest.

Management's failure to obtain SBC approval for leases longer than five years or totaling more than $150,000 prevents SBC from overseeing the state's leases and ensuring that all transactions are in the state's best interest.

Without proper lease agreements, including termination clauses, the state's options for canceling leases no longer needed or no longer in the state's best interest are legally more difficult.

Management's failure to maintain the minimum required documentation is negligent and could result in legality concerns.

Recommendation

The Commissioner should ensure that conflict-of-interest forms for all parties, including staff and contractors, are obtained, reviewed, and maintained as a part of all lease-related files. Additionally, the Commissioner should communicate with SBC to ensure that STREAM and SBC agree on the interpretation of which leases require SBC approval. The Commissioner should ensure that all future leases include the terminable for convenience clause. Lastly, the Commissioner should ensure that STREAM management document and maintain the minimum required documentation in one master lease file or in all lease-related files.

Management's Comment

We concur in part. As is noted below, we concur with some of the SBC Policy violations cited and do commit to following the recommendation above that we should communicate with the SBC to assure agreement is reached on policy interpretations. As for the internal policy or procedure discrepancies, we concur and will be taking immediate action to make sure that minimum lease requirements are sufficiently documented and communicated. We do not concur that either of these violations pose legality concerns. We have structured our responses below in reference to the numbers assigned in the "cause, condition, and criteria" section for this finding.

1. Management concurs that all external parties' conflict-of-interest forms should be retained and also asserts that they have been obtained. Improvements will be made to our internal procedures to address this documentation weakness. Conflict-of-interest forms for state employees are signed annually as part of their employment status, and management contends these forms are not required to be maintained within the lease or procurement files.

2. Management contends that two of the leases were not required to be approved by the SBC because they were "emergency leases" and did not meet the threshold levels according to policy. Management concurs that the remaining nine leases within the

sample also did not meet the threshold levels requiring approval by the SBC at the onset, but with extensions to the original agreement should have gone back to the SBC for approval. Internal process improvements will be implemented to reduce the risk that this occurs again.

3. Management acknowledges that the standard state lease contains a termination for convenience clause. Due to market conditions and demands to acquire lease space, there are instances where the termination for convenience provision has been removed. Management contends in the three leases that did not contain the standard termination for convenience clause, it was not appropriate or warranted for the state to insist on this provision. This is an area we would like to discuss with the SBC for clarification as to expectations going forward.

4. Management concurs that not in all instances the entire list of lease documents were contained in every lease file. As stated earlier, immediate action will be taken to address this weakness.

Auditor Comment

Management stated in Item 2 of their comment that the two leases noted were emergency leases. These leases each had an original term of less than one year. Before the leases expired, management extended the leases, resulting in annualized lease payments totaling $270,000 and $190,500. We believe the extension of these two leases triggered the required SBC approval.

LEASE TRACKING

As described by the Leasing Administrative Manager, she tracks the state's leases in an Excel spreadsheet. In August of each year, staff identify leases that will expire during the next fiscal year (July through June). At least six months prior to a lease's expiration, the leasing staff begin the procurement process as follows:

- the Leasing Administrative Manager sends a list of upcoming lease expirations to the Department of Finance and Administration's Budget Office in order to obtain a certification that funding will be available to renew and replace expiring leases; and
- a leasing administrator uses the list to notify state agencies of the upcoming lease renewals.

When necessary, State of Tennessee Real Estate Management (STREAM) may grant lease extensions (temporary holdover agreements) to allow state agencies to remain in leased properties after the agencies' leases expire. According to the Leasing Director, many leases are held over on a month-to-month basis due to a variety of factors, such as uncertainties with state agency funding and staffing levels. While some holdover leases may be necessary, STREAM's mission is to arrange for permanent lease agreements. In the November 2013 audit report, we reported that STREAM relied on temporary holdover agreements instead of procuring new leases. In that prior observation, we determined that the state had 91 leases in holdover status. To address the holdover lease issue, management contracted with Jones Lang LaSalle (JLL) to minimize the holdover option by improving the lease process and procuring new leases quickly. During the current audit, however, we determined that JLL did not minimize the use of holdover leases, resulting in 167 leases in holdover status as of February 2016. STREAM management subsequently moved lease management in-house.

Audit Results

1. **Audit Objective:** Did STREAM effectively track the leases for the various state agencies that it serves?

   Conclusion: STREAM has not developed policies and procedures to ensure it effectively tracks leases of the various state agencies that it serves so that new lease arrangements are finalized quickly (see **Finding 3**).

2. **Audit Objective:** Did STREAM management rely on holdover agreements rather than renew or procure new leases for state agencies?

   Conclusion: STREAM relied on holdover agreements rather than focusing efforts to promptly finalize new leases or lease renewals (see **Finding 3**).

Methodology To Achieve Objectives

The methodology used to achieve our objectives is described on page 18.

Finding 3 – STREAM's lease management team failed to effectively track and address the state's leases before they expired

Cause and Condition

To determine if the Lease Management team negotiated and executed new leases or lease renewals timely, we selected a sample of 25 current leases, with an annual rent amount totaling approximately $969,169, for testwork. We also reviewed the immediate preceding lease for each property, and we determined that 21 of 25 leases tested (84%), with an annual rent amount totaling approximately $862,228, had the following significant deficiencies:

1. For 6 of 25 leases (24%), State of Tennessee Real Estate Management (STREAM) failed to maintain and document communications with state agencies regarding lease expirations. According to management, they communicated with the agencies as required; however, they did not document this communication.
2. For 13 of 25 leases (52%), STREAM failed to execute a lease extension prior to the expiration of the lease, resulting in the use of holdover agreements. Management did not always document the justification for using holdover agreements.

3. For 2 of 25 leases (8%), STREAM failed to both maintain and document communications with state agencies regarding lease expirations and failed to execute a new lease prior to the lease expiration, resulting in the use of holdover agreements.

According to management, the leases did not expire, because the leases have the following clause:

> In the event of holding over by Tenant [the state] after the expiration or termination of the Term of this Lease, Tenant shall pay rent at the then-current rate for rent as set forth in the Lease, on a monthly basis and the Term of this Lease shall be automatically extended for successive periods of one (1) year each.

Although this clause allows the state to extend leases, management stated that lease extensions may not always be the most cost-effective method to procure space. In addition, lease extensions may shift the negotiating leverage from the state to the lessor. STREAM and Jones Lang LaSalle (JLL) are charged with effectively and efficiently negotiating the best lease options for the state and, while a holdover arrangement guarantees the space availability, STREAM and JLL have not performed due diligence to ensure the state has procured or renewed leases in the state's best interest.

A detailed exhibit of the deficiencies noted is located in Appendix 5 on page 67.

Criteria

Principle 12.03 of the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), which serves as a best practice for non-federal entities, states,

> Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation and operating effectiveness . . . Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

Effect

Failure to procure new leases and lease renewals before the preceding leases expire increases the risk that STREAM is

- not addressing each state agency's specific needs,
- exposing state agencies to possible eviction from current properties, and
- paying higher monthly lease payments.

Recommendation

To ensure transparency through the lease renewal or re-procurement process, the Commissioner should ensure that the Lease Management team maintains all communication with state agencies regarding the status of the agencies' leases. Additionally, the Commissioner should ensure that STREAM initiates the procurement process for expiring leases prior to transition into holdover status, thereby providing the Department of General Services with leverage in the lease negotiations and ensuring that the state leases are the most cost effective.

Management's Comment

We concur in part. We acknowledge that improvements need to be made in documentation maintained in lease files; however, it is important to note that, because of protective clauses contained in the lease templates, no leases have ever expired. Under current regulations, there are two options available at the end of a respective lease term:

1. initiate the holdover provision provided in the lease agreement, which obligates the lessor and lessee to honor the original lease terms, including the monthly lease amount, while extending the lease period for a defined period of time, or
2. initiate a procurement for a new lease, which takes many months to complete the process to execute a new lease agreement.

Due to several factors, it is often in the state's best interest to continue under the terms of the original lease instead of entering into a new procurement. Efforts will be made in the future to provide additional documentation in the lease files to justify decisions made.

STREAM management has initiated an improved lease tracking system within the Archibus software which will improve tracking and documentation deficiencies noted during the previous audit period. This new system is expected to be available by the end of 2016.

FACILITIES MANAGEMENT

Background of the Original and Current Contract

On January 23, 2012, the State Building Commission (SBC) approved a Statewide Facility Assessment, Master Planning, and Facility Management Services Contract to Jones Lang LaSalle (JLL). When SBC approved the award of the contract, SBC and the Executive Subcommittee of SBC did not authorize the facilities management portion. In order to obtain these needed services, the Central Procurement Office competitively procured the facilities management contract, which was awarded to JLL, effective April 1, 2013.

According to the contract, JLL is currently responsible for the following areas:

- Operational Facilities Management Services – services and goods that are usual and customary for a property's day-to-day operations. These services include, but are not limited to, interior and exterior cleaning; unarmed security; furniture, fixture, and equipment maintenance and repair; and landscape maintenance and grounds care.
- Service Work Through Call Center – maintaining a call center system to deal efficiently and promptly with service requests and complaints from facility occupants and tenants.
- Preventative Maintenance – implementation and management of a long-term preventative maintenance program designed to maintain each facility and its equipment.
- Additional Facilities Management Components – includes move management, project management, pre-planning, occupancy planning, shipping, and receiving/dock management.

Additionally, JLL is responsible for notifying landlords of leased facilities of any service requests and complaints from facilities' occupants and tenants.

According to the facilities management contract, JLL must prepare and submit monthly reports to the state. These reports include

- Energy Consumption Based on Paid Invoices,
- Financial Variance Analysis,
- Financial Trend Analysis,
- Minority Spend Analysis,
- Work Order Trend Analysis,
- Work Order – Customer Satisfaction, and
- Key Performance Indicator (KPI) Reports.

The facilities management contract also requires JLL to conduct property inspections on a quarterly or annual basis, depending on the size of the property and whether the property is owned or leased. According to Section A.9.e of the contract, owned and leased properties with greater than 20,000 square feet are required to receive inspections at least quarterly. Additionally, leased properties with less than 20,000 square feet are required to receive inspections at least annually.

Audit Results

1. Audit Objective: Did the department sufficiently monitor JLL to ensure JLL complied with contract requirements?

Conclusion: Based on testwork performed, the department monitored the facilities management contract with some exceptions, such as it did not always ensure that JLL submitted all required monthly reports or that JLL conducted property inspections as required by the contract (see **Finding 4**).

2. Audit Objective: Were state entities satisfied with JLL's facilities management services?

Conclusion: Overall, state entities that completed surveys expressed satisfaction with JLL's facility management services (see **Observation 1** on page 10).

3. Audit Objective: Did the department process the most recent contract amendments in accordance with Central Procurement Office policies?

Conclusion: All recent contract amendments were processed in accordance with the policies.

Methodology To Achieve Objectives

To gain an understanding of the department's facilities management contract monitoring responsibilities, we interviewed JLL's Vice President of Corporate Solutions and the Department of General Services' Facilities Management Director. We obtained and reviewed the JLL contract and all amendments.

To determine whether the department sufficiently monitored the JLL contract, we obtained a population of state-owned and -leased properties and performed testwork to determine if JLL completed the facility inspections as required. We obtained and reviewed all monthly reports prepared and submitted by JLL from August 2013 through December 2015.

Property Description	Population	Testwork Performed
Owned and greater than 20,000 ft^2	43	25 properties sampled (nonstatistical/random)
Leased and greater than 20,000 ft^2	23	All 23 properties tested
Leased and less than 20,000 ft^2	400	25 properties sampled (nonstatistical/random)

We reviewed JLL's customer satisfaction reports for the period July 1, 2015, through June 30, 2016. We also surveyed all 451 individuals statewide who submitted service requests to JLL from August 1, 2013, through April 29, 2016, and we reviewed the 251 responses we received to determine the respondents' level of satisfaction with JLL's services. We compared the responses to JLL's customer satisfaction reports with the survey responses to corroborate the information provided by JLL.

<u>Finding 4 – STREAM management did not always ensure Jones Lang LaSalle submitted all monthly reports and performed property inspections as required by the facilities management contract</u>

<u>Cause and Condition</u>

Monthly Reports

Based on our review of contract-required monthly reports, State of Tennessee Real Estate Management (STREAM) did not ensure Jones Lang LaSalle (JLL) submitted the Energy Consumption Based on Paid Invoices Report for 17 of 28 months reviewed (61%). For 17 months, JLL provided a narrative of energy-saving initiatives; however, the progress narrative was not a sufficient alternative to the required report. For the remaining 11 months, the department provided JLL's table of current energy expenses versus a baseline for a period of time that we agreed met the reporting requirement.

According to STREAM management, at the time the department executed the facilities management contract, STREAM considered using JLL's Utility Management System to manage and pay the state's utility bills, which would have required STREAM management to rely on JLL's Energy Consumption Based on Paid Invoices Reports to oversee the payments. After the contract's execution, STREAM management decided to utilize its own Energy Team for this function, rendering the Energy Consumption Based on Paid Invoices Report unnecessary, and necessitating a contract amendment to remove the reporting requirement.

Facility Inspections

Based on testwork performed, our review of property inspections revealed that JLL failed to perform inspections as required by the contract.

Table 1
Summary of Late Inspections Performed

Property Description	Inspections Reviewed	Number of Late Inspections	Number of Days Inspections Were Late
Owned and greater than 20,000 ft^2	240 quarters	127 (53%)	Quarterly inspections were 16 to 461 days late.
Leased and greater than 20,000 ft^2	81 quarters	57 (70%)	Quarterly inspections were 26 to 957 days late.
Leased and less than 20,000 ft^2	43 annual	22 (51%)	Annual inspections were 10 to 381 days late.

According to the Facilities Management Director, who serves as the contract's administrator, department management had not assigned an employee the responsibility to accept, review, and ensure JLL's compliance with the contract's property inspection requirement.

Effect

Failure to obtain and review JLL's required monthly reports limits the department's ability to ensure that JLL has met its contract requirements and increases the risk that department management will not have the appropriate information to make decisions regarding the state's properties.

STREAM management's failure to ensure JLL performs timely facility inspections may cause a delay in certain repairs that may be overlooked during routine, preventative maintenance visits and work orders and may increase the risk that deficiencies within state-owned or -leased properties will not be addressed promptly.

Recommendation

The Commissioner and STREAM management should promptly assign specific responsibilities for monitoring the facilities management contract and for communication as necessary to appropriate staff and the Facilities Management Director. The Facilities Management Director should ensure that JLL complies with the contract terms by reviewing all monthly reports and ensuring JLL completes facility inspections as required by the contract.

Management's Comment

We concur. It should first be noted that the intent of the building inspections is to confirm and document that previously identified issues have been addressed and assess the overall condition of the property. The primary purpose of the inspection and related reports is not to identify issues in the facilities that require immediate attention. STREAM management and the facilities management contractor utilize the work order system available online and accessible to all state employees to address the daily issues that arise requiring a corrective action. In addition, a preventative maintenance plan has been established by the contractor to inspect building systems regularly and maintain them in good working condition.

To ensure that inspection reports are prepared by the contractor, STREAM management has assigned an additional employee to assist in monitoring vendor performance regarding the facility management contract. The responsibilities delegated to this employee include overseeing compliance with facility inspections, as well as making field visits to the related facilities to validate items included on the inspection reports.

In regard to the "energy consumption based on paid invoices" report which was not provided by the contractor, as noted above by State Audit, the contract initially contemplated that the vendor system would be used to manage and pay the state's utility bills. After the contract was executed, however, it was determined that this function would remain with the state. Given that fact, all information required to be included in the report is generated by STREAM staff and utilized by STREAM management. While we do not feel the additional report provides any additional benefit, to maintain contract compliance it has been included in the monthly reports prepared by the vendor since November 2015.

CAPITAL PROJECTS AND PRE-PLANNING FUNDS

Capital Projects – General Background Information

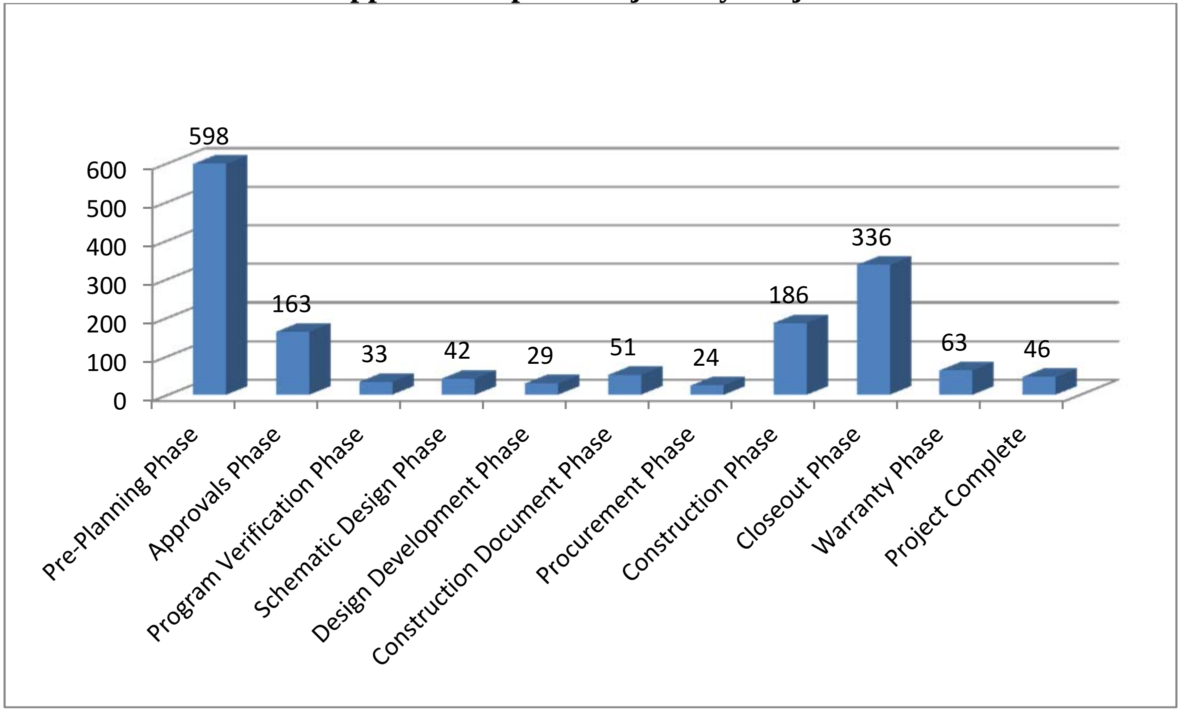
State of Tennessee Real Estate Management (STREAM) is responsible for the direct oversight, management, and maintenance of the state's capital projects (with the exception of the state's higher education institutions), including projects that involve the maintenance, demolition, or construction of real property. In addition, STREAM staff assist in other projects authorized by statute or mandated by the judicial or federal branches of government. As promulgated in Section 4-15-102, *Tennessee Code Annotated*, the State Building Commission (SBC) is responsible for approving the acquisition, construction, disposal, and demolition of the state's real property.

The Department of Finance and Administration classifies the state's capital projects as either capital maintenance or capital improvement. Capital maintenance is the renovation, remodeling, and/or upgrading of a building or property. Capital improvement is the construction of a new building or property. In general, from creation to completion, capital projects progress through the following phases (for a detailed description of each phase, see Appendix 6 on page 68):

- pre-design, which includes pre-planning activities and approvals;
- design, which includes program verification, schematic design, design development, and construction document;
- procurement;
- construction;
- closeout; and
- warranty.

Based on STREAM's weekly capital projects report, as of July 15, 2016, STREAM was responsible for 1,571 SBC-approved capital projects in one of the previously mentioned phases. Using this report, we summarized the 1,571 capital projects by project phase and exhibited the results in Figure 6.

Figure 6
SBC-Approved Capital Projects by Project Phase



Source: Information obtained from the STREAM Weekly [Capital Projects] Report dated July 15, 2016, and compiled by audit staff.

<u>Capital Project Scheduling and Review of Ongoing Projects</u>

STREAM's oversight of capital projects includes providing assistance to state agencies, including instructions to create a centralized file (called a project Excel workbook) for the following data:

- a business justification for the capital project;
- construction costs and funding;
- costs for operating facility after completion;
- project financing; and
- movable equipment needs, such as computer servers and industrial printers, for each of its proposed capital projects.

STREAM management collects the project Excel workbooks, reviews the compiled data, and ranks the proposed capital projects based on various criteria, such as safety concerns, costs, and importance to an agency's function. After its review, STREAM submits the project rankings to the Department of Finance and Administration, who evaluates and adjusts the rankings as needed based upon available funding in the next budget cycle. STREAM then submits the final project list to the Governor's Office for a final review and provides the project ranking to SBC for approval.

Once SBC approves a project, SBC assigns the project an SBC identification number and STREAM selects a designer. A designer, as defined by *the State of Tennessee Real Estate Asset Management (STREAM) Designer's Manual*, in Appendix 2, "Bidding Documents," of is "the licensed prime design professional or firm lawfully practicing architecture, landscape architecture, or engineering." A designer is responsible for establishing the functional objectives, including space requirements and relationships; time and budget constraints; and other special criteria for the project. The designer and their consultants prepare the drawings, specifications, and other documents that show the design, location, and dimensions of construction work in order to execute the capital project.

Based on STREAM management's statements, the designer's monitoring and oversight responsibilities include conducting site visits, coordinating progress meetings, and conducting inspections in order to determine the date of substantial completion[6] and the date of final completion.

The contractor is the person or entity, or their authorized representative, who is responsible for supervising and directing all work related to completing the project and is solely responsible for, and has control over, construction means, methods, techniques, sequences, and procedures for completing the project, unless otherwise stated in the contract. After a contractor is awarded the contract to complete a project, they are expected to prepare and submit a construction schedule to STREAM and the designer.

Upon the project's substantial or final completion, the designer conducts an inspection to determine the status and quality of the work. If the designer notes any issues, the designer prepares a list of items for the contractor to correct or complete. The contractor is required to fix any issues found within one year of the project's completion.

Audit Results

Audit Objective: Is STREAM effectively monitoring ongoing projects?

Conclusion: Based on our audit work, STREAM management monitors ongoing projects by assigning project monitoring responsibilities to contracted project designers, architects, and construction contractors. STREAM's Capital Projects Director monitors the project designers, architects, and construction contractors and requires project status updates on a regular basis.

Methodology To Achieve Objective

To obtain an understanding of capital projects, project scheduling, and STREAM's requirements to monitor and track capital projects, we interviewed the Executive Director of Capital Projects and the Technical Services Director and reviewed the SBC Policy and the STREAM Designer's Manual. We obtained a population of 28,391 project transactions processed during the period August 1, 2013, through April 27, 2016, and selected a sample of 25

[6] "Substantial completion" is when the capital project is sufficiently complete in accordance with its contract and ready for the occupants to use it for its intended purpose.

transactions. We initially attempted to filter the population to obtain a list of unique projects; however, we found transactions for projects that were in a project phase before SBC approval and thus were not yet assigned a project ID. In addition, we noted that these transactions did not contain a unique identifier to establish their current project phase, which further prevented us from obtaining a complete population of ongoing capital projects. As a result, we pulled our sample of 25 transactions from the population of 28,391 transactions. To test our sample of 25 projects, we reviewed the monitoring and performance documentation for each project associated with the sample of transactions to determine whether STREAM management effectively monitored ongoing projects.

Pre-Planning Funds

In fiscal year 2013, the General Assembly established the capital project pre-planning account, codified in Section 12-4-109, *Tennessee Code Annotated*, to fund the pre-planning of all capital projects undertaken by state departments and agencies. Statute also states that

> The account shall be reimbursed for the pre-planning cost of a capital investment project from the appropriations allocated to that project. Any funds remaining in the account at the end of any fiscal year shall be carried over to the succeeding fiscal year and expended only for the purpose specified in this section.

Additionally, Section 41, Chapter 453 of the Public Acts of 2013 (Fiscal Year 2014 Appropriations Bill) addresses pre-planning funds; specifically, it states,

> The appropriations . . . to the Department of General Services, State Facilities Pre-Planning program are for the purpose of properly preparing capital outlay projects for funding consideration. Work of the program includes project scope development, project budget development, risk analysis, business case studies, design services through the construction-document phase (full planning), schedule development, and other services related to pre-construction project services.

The department's State Facilities Pre-Planning Administrative Procedures memo further defines the process and states

> Common reimbursable items include STREAM pre-authorized labor costs, and relate expenditures such as travel costs . . . [R]eimbursable expenses will be incurred by contractors or agency staff as they conduct pre-planning activities during development of the agency's Capital Budget submission. . . . Final determination of what constitutes an expense that is eligible for reimbursement from the State Facilities Pre-Planning Program will be made by STREAM.

As described in the aforementioned criteria, the following list defines pre-planning activities[7] in general terms:

[7] See Appendix 6 on page 68 for more information.

- accessing the need for maintenance, demolition, or construction of real property;
- developing the project's scope and budget;
- developing the project charter or project management plan;[8] and
- obtaining the General Assembly's and Governor's approvals.

Audit Results

Audit Objective: Is STREAM properly using pre-planning funds to fund current projects?

Conclusion: Based on our audit work, we determined that STREAM management used pre-planning funds in accordance with the broad terms of state statute. Because the pre-planning cost guidance defined by the department and in Chapter 453 of the Public Acts of 2013 is too broad to identify the specific types of costs that are allowable to charge to the pre-planning account, we were unable to determine that all costs charged to the pre-planning account were allowable (see **Observation 2**).

Methodology To Achieve Objective

To meet our objective, we interviewed STREAM's Director of Capital Projects and the Department of Finance and Administration's Controller for the Department of General Services to obtain an understanding of pre-planning funding, including the types of costs considered allowable and how the fund is replenished. To determine if management appropriately charged pre-planning activities to the pre-planning account, we obtained a list of 254 pre-planning expenditure items from Edison and tested a nonstatistical, random sample of 25 items.

Observation 2 – The department should define allowable pre-planning activities

According to the Director of Capital Projects, while a project is in the pre-planning phase, the pre-planning account provides funding for project expenditures, such as feasibility studies, State of Tennessee Real Estate Management (STREAM) pre-authorized labor, and travel expenses. Capital Projects staff initiate the charges to the pre-planning account during the pre-planning phase. Once SBC approves the capital project and transitions the project from the pre-planning phase to the construction phase, SBC assigns the project an SBC identification number. The General Assembly appropriates project funding, which ultimately replenishes the pre-planning account.

During our review of pre-planning expenditures, we determined that the guidance provided in the Fiscal Year 2014 Appropriations Bill and in the department's State Facilities Pre-Planning Administrative Procedures memo does not provide clear descriptions or specific

[8] The project charter is a document that formally authorizes a project. A project management plan is used to guide project execution, document project planning assumptions, document project planning decisions, and facilitate communication.

examples of allowable pre-planning program expenditures. Although the expenditures that we reviewed appeared to be reasonable, we found instances of ambiguity in both sources, thereby increasing the risk that management may charge the pre-planning account for expenditures that are not truly pre-planning related. According to Department of General Services management, the state established the pre-planning account to provide funding for projects in the initial research and planning stage; therefore, the department may permit charges to the pre-planning account for projects that STREAM management and SBC ultimately determine are not viable or necessary to the state's mission.

Department management, in coordination with the State Building Commission, should work to clarify the policy and procedure and define the intended purposes and uses of the pre-planning account by clearly describing the possible activities that are considered pre-planning, including examples of activities that are not allowable.

CENTRAL PROCUREMENT OFFICE

Background Information

The Central Procurement Office (CPO) is housed administratively within the Department of General Services; however, CPO performs its procurement responsibilities independent from departmental oversight. Procurement personnel responsible for procuring the state's goods and services include the Chief Procurement Officer and all persons acting on his behalf, whether such persons are located in the CPO, within a state agency, or under a delegated authority. The Chief Procurement Officer has the authority to enter into contracts on behalf of other state executive agencies and to manage all procurement solicitation types. All procurement duties promulgated in state statute, including the central purchasing authority for goods, non-professional services, and professional services for the State of Tennessee are the responsibility of the office. The office also manages the delegated purchase authority of procurements valued at $50,000 and below.

Subrecipient Monitoring Responsibilities

According to federal regulations, a subrecipient is a non-federal entity that receives federal grant funds from a pass-through entity, such as a state agency, to carry out part of a federal program. Pursuant to "Audit Requirements," Title 2, *Code of Federal Regulations*, Part 200, Section 501, a non-federal entity that spends $750,000 or more in federal funds during the non-federal entity's fiscal year must have a Single Audit[9] conducted. The state also recognizes non-federal entities as subrecipients when it enters into grant agreements involving state funds. Management of the granting state agency can also require subrecipients to obtain independent audits as a requirement of the grant agreement.

[9] The purpose of the Single Audit is to provide assurance to the federal government that states, local governments, and nonprofit organizations are managing and using its funds for its intended purposes.

Section 4-56-105(4)(C), *Tennessee Code Annotated,* assigns the Chief Procurement Officer with the responsibility to develop rules and regulations; standards; policies; and procedures that establish a central grant management process to help state agencies identify grant recipients and subrecipients for monitoring purposes. CPO created the Grants Manager position to oversee this responsibility and partnered with the Department of Finance and Administration and the Office of the Comptroller of the Treasury to develop a standard query within Edison, the state's accounting system, that would enable state agencies identify and determine if their subrecipients require a federal Single Audit or an audit based on other state requirements. For the purposes of this audit, we focused primarily on CPO's process to ensure the subrecipients receiving federal funds were identified as requiring a Single Audit.

Additionally, Section 9.2 of CPO Policy 2013-007, "Grant Management and Subrecipient Monitoring Policies and Procedures," requires state agencies to submit an annual subrecipient monitoring plan to CPO for review and approval by October 1 of each year. If a state agency subsequently makes changes to a CPO-approved subrecipient monitoring plan, the state agency must also submit the revised plan to CPO for approval.

Audit Results

1. Audit Objective: Did CPO management implement an effective process as required by Section 4-56-105(4)(C), *Tennessee Code Annotated*, to identify all statewide subrecipients that received at least $750,000 in federal funds so that state agencies can determine if the subrecipient is required to have a Single Audit?

Conclusion: CPO management began discussions with representatives from the Department of Finance and Administration and the Office of the Comptroller of the Treasury in 2011 to develop an effective process to identify all statewide subrecipients; however, as of September 8, 2016, the process has not been fully developed or implemented (see **Finding 5**).

2. Audit Objective: Did CPO management implement an effective process to review and approve state agencies' subrecipient monitoring plans?

Conclusion: Based on our audit work, CPO management implemented an effective process to review and approve state agencies' subrecipient monitoring plans, with a small number of minor exceptions noted.

<u>Methodology To Achieve Objectives</u>

We interviewed CPO management and staff, as well as personnel from the Department of Finance and Administration and the Office of the Comptroller of the Treasury's Division of Local Government Audit, to obtain an understanding of CPO's progress made toward developing a central grants management process to identify federal and state grant recipients and subrecipients. We also interviewed CPO staff to obtain an understanding of the process for approving subrecipient monitoring plans. We obtained a population of 28 subrecipient monitoring plans (which included revised plans) submitted by 23 state agencies for fiscal years 2015 and 2016. We also reviewed the state agencies' subrecipient monitoring plans submitted for fiscal year 2016, the most recent plans submitted, to ensure CPO management approved each one.

Finding 5 – Without an effective method to identify and track the state's grant recipients and subrecipients and their expenditures, state agencies cannot ensure subrecipients receive Single Audits as required by federal regulations

Background, Condition, Criteria, and Cause

Since the inception of the Single Audit Act in 1984, the state's Department of Finance and Administration (F&A) provided oversight to state agencies to ensure federal compliance requirements were met. In coordination with F&A, the Office of the Comptroller of the Treasury provided assistance to state agencies by tracking the federal and state expenditures passed from state agencies to subrecipients to ensure that the subrecipients obtained both required federal and state audits. With the 2009 implementation of Edison, the state's current accounting system, neither F&A nor the Office of the Comptroller of the Treasury had the capability to track expenditures across all state agencies to determine if the state's subrecipients met the federal program expenditure threshold,[10] thereby requiring them to obtain a Single Audit. In 2012, state statute transferred the grants management and tracking responsibility to the Central Procurement Office (CPO).

In order to carry out the requirement promulgated in Section 4-56-105(4)(C), *Tennessee Code Annotated,* to establish a central grants management process to identify federal and state grant recipients and subrecipients, CPO, in partnership with F&A and the Comptroller of the Treasury, determined that developing a query to extract subrecipient payment information from Edison was the best method to meet the requirement. The Edison query would allow CPO to extract a list of federal grant recipients and subrecipients and related expenditures in a given fiscal year. The Chief Procurement Officer assigned the task to help develop the Edison query to the Grants Manager. Since 2012, CPO has experienced significant turnover in the Grants Manager position and has employed four different people in the position; each new Grants Manager did not possess specific accounting or grants management expertise. The continued turnover prevented CPO from maintaining consistent institutional knowledge regarding the intricacies of the state's grant management requirements, resulting in further delays in query development.

According to the F&A Director of Edison, staff developed a query in 2013 and placed it into Edison's user testing environment so that CPO staff could determine if the query's results met CPO's and state agencies' needs. In March 2016, the query was still in Edison's user testing environment when F&A initiated an Edison system upgrade. We met with F&A management after the Edison upgrade, and, according to the Director of Edison, he learned that the upgrade process unintentionally deleted the query.

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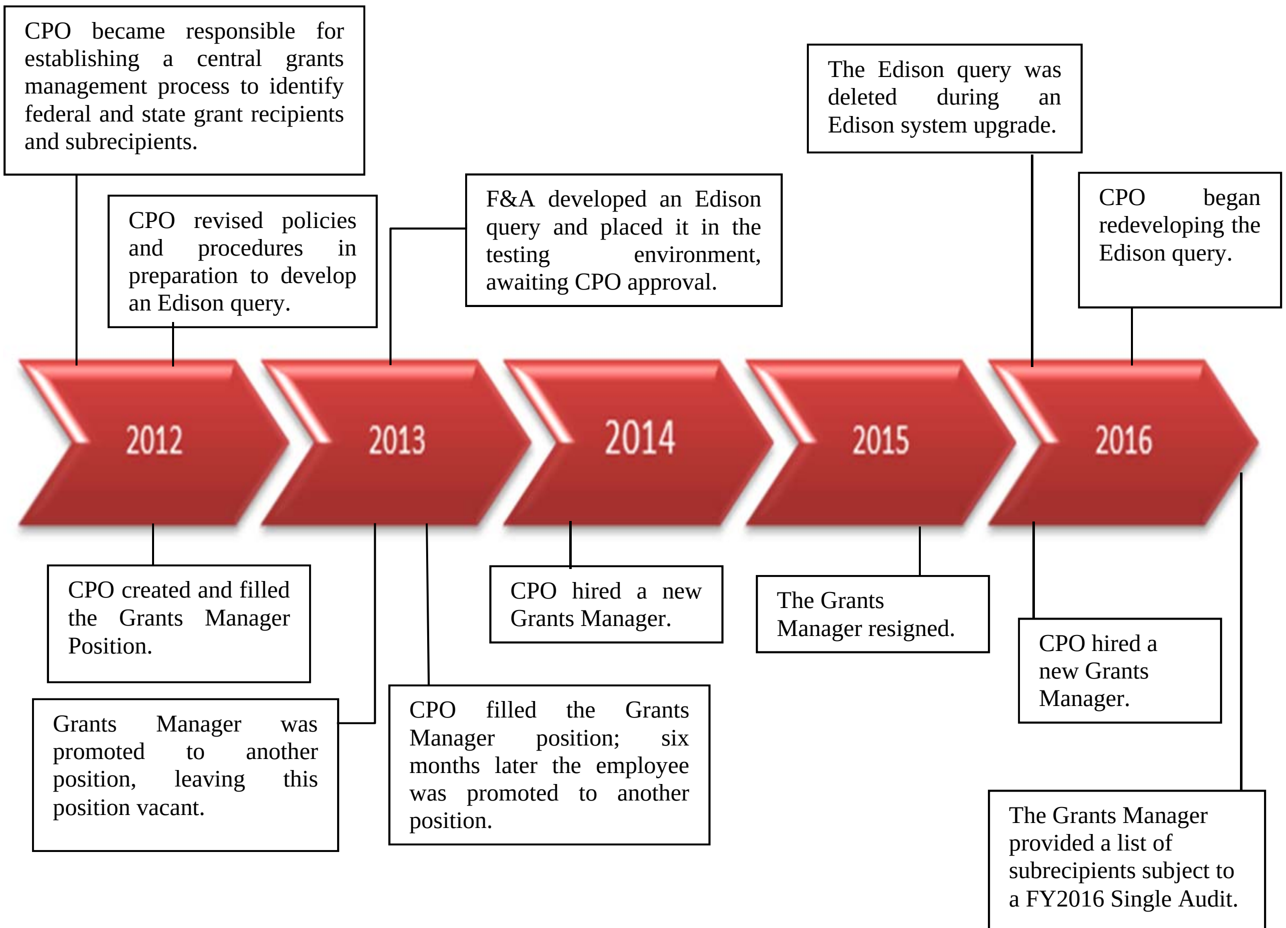
[10] From fiscal year 2009 through fiscal year 2015, the federal program expenditure threshold amount was $500,000; beginning in fiscal year 2016, this amount increased to $750,000.

In August 2016, CPO and its partnering agencies began working to redevelop the query. In the interim, CPO's Edison Content Team developed three separate Edison queries to extract a list of subrecipients potentially subject to a Single Audit for fiscal year 2016. On September 30, 2016, the Grants Manager provided us with the list of subrecipients. Based on our preliminary review of the list, however, we determined that it was not complete. Figure 7 illustrates the timeline of events.

Figure 7
Database Query and Grants Manager Position Timeline



<u>Effect</u>

Without an effective method to identify and track the state's grant recipients and subrecipients and their expenditures, state agencies cannot ensure subrecipients receive Single Audits as required by federal regulations; this federal noncompliance could be problematic for both the state and the state's subrecipients and could result in loss of federal funding.

Recommendation

The Grants Manager should continue to work with partnering state agencies to develop a comprehensive method to identify grant recipients and subrecipients and track the federal pass-through grant payments by fiscal year so that all federal audit requirements are met.

Management's Comment

We concur in part. The CPO can and does assist state agencies in identifying subrecipients subject to audit, but we also acknowledge that there are opportunities to improve the grant management process.

In the past six months alone, the CPO has independently developed entirely new queries for identifying subrecipients that have met the fiscal threshold. Additionally, the CPO has worked with F&A's Edison staff toward finalizing and implementing a comprehensive, single-query answer to the issue of subrecipient monitoring. The three-query process currently in use is an interim measure and an indicator of progress toward a broader ultimate goal.

It should also be pointed out that the CPO has been utilizing other effective methods of improving grantee and subrecipient awareness of the single audit requirement found in Title 2, *Code of Federal Regulations,* Part 200, Section 501. The CPO has included special provisions in the grant contract templates used by all state agencies for this purpose. These provisions help subrecipients understand what their responsibilities are under the *Code of Federal Regulations*, give them detailed instructions for determining whether they are subject to the federal Single Audit requirement, and how to comply with that requirement. In particular, the CPO's Grant Manager has been utilizing two audit-related documents that each subrecipient completes and submits to the following email address: cpo.auditnotice@tn.gov. The "Notice of Audit Report" and the "Parent Child Form" were approved in conjunction with revised grant contract language related to the audit report for the GG [governmental grants] and GR [cost-reimbursement grants] Templates. These forms were approved by the Procurement Commission on July 16, 2015.

For example, the standard contract language in the GR Template for Section D.19, "Audit Report," notifies the grantee of their obligation and states in pertinent part:

> At least ninety (90) days before the end of its fiscal year, the Grantee shall complete Attachment [reference the Notice of Audit Report document] to notify the State whether or not Grantee is subject to an audit. The Grantee should submit only one, completed document during the Grantee's fiscal year. Any Grantee that is subject to an audit and so indicates on Attachment [reference the Notice of Audit Report document] shall complete Attachment [reference the Parent Child Information document]. If the Grantee is subject to an audit, Grantee shall obtain the Comptroller's approval before engaging a licensed, independent public accountant to perform the audit. The Grantee may contact the Comptroller for assistance identifying auditors.

In addition, the CPO has queries to check to see if any grantees have fiscal years approaching within 90 days (the trigger for compliance with the Notice of Audit Report). The Edison database, the queries that can be run in Edison, the Notice of Audit Report, the Parent Child Form, and the special audit contract provision are all tools the Central Procurement Office uses to sustain and improve Single Audit compliance.

Admittedly, there have been delays in fully utilizing Edison's capabilities through the use of queries. Two factors have contributed to the delay in the CPO's ability to access Edison information on subrecipient payments: (1) Grant Manager turnover in the CPO; and (2) allocation of resources (i.e., availability of Edison) given the need for resource intensive projects such as upgrades to the Edison system. In the early days of the CPO, there was no Grant Manager position. Over the past several years, there have been at least three different Grant Managers. Each time the Grant Manager changes, institutional knowledge is lost and progress towards the grant management database is also lost.

Edison is the chosen platform for the grant management database as the state has not allocated resources to establish a database separate and apart from Edison. The Edison staff's involvement in this project has been limited by the essential role it serves in maintaining and upgrading the state's enterprise resource planning system. Given the Edison staff's finite resources, there has been difficulty achieving progress on the subrecipient monitoring single-query project. The CPO continues to work with Edison leadership toward developing a more effective way to access the subrecipient payment information contained in Edison.

The CPO has established a strong working relationship with several partner agencies within state government and with divisions within the Office of the Comptroller of the Treasury, which has resulted in the development of an interim process for generating a list of subrecipients subject to audit, which is a vast improvement over previous practices. Additionally, this collaboration has given the CPO a better understanding of how to improve its ability to fulfill statutory duties with regard to subrecipient monitoring data. We welcome the continued assistance and participation of our partner agencies in our ongoing effort to make subrecipient monitoring process improvements.

PAYMENT CARDS

CPO's Responsibilities

The state established the payment card program in 2002 to provide an efficient payment option for qualifying purchases. In December 2011, statewide administrative responsibility transferred from the Department of Finance and Administration to the Department of General Services' Central Procurement Office. The State Payment Card Program Administrator and two State Payment Card Program Assistants within CPO administer the payment card program statewide and are responsible for ensuring that state agencies comply with the state's payment card policies. CPO and state agencies that use payment cards must follow CPO Policy 2015-010, "Statewide Purchasing Card Policies and Procedures" (payment card policies).

The State Payment Card Program Administrator and Assistants oversee the statewide payment card program by

- establishing and enforcing payment card policies;
- reviewing each state agency's internal policies;
- assisting state agencies in opening new payment card accounts, when requested;
- providing payment card training to payment card users and approvers;
- working with state agencies to handle payment card transaction errors as they arise in Edison and to ensure the errors are corrected and approved;
- working with the payment card contractor (currently Citibank) and state agencies to resolve disputed and fraudulent transactions; and
- handling the accounting for payment card purchases for cardholders across the state.

The State Payment Card Program Administrator and Assistants also have the ability to approve transactions in Edison in place of the agency approver in cases of error resolution or reported fraudulent/disputed transactions.

State Agencies' Responsibilities

State agency Payment Card Coordinators' and other state agency staff's responsibilities include, but are not limited to,

- developing supplementary payment card policies tailored to the specific agency's needs;
- identifying employees who need payment cards;
- obtaining necessary documentation when issuing payment cards;
- evaluating payment card spending limits;
- approving transactions, which includes verifying that transactions are properly documented and supported;
- reconciling payment card transactions; and
- terminating payment card accounts that are no longer necessary.

Follow-Up Results of Prior Audit Work

In a finding we reported in the Department of General Services' November 2013 performance audit report, we found that CPO management did not ensure that state agencies submitted payment card documentation to CPO in accordance with CPO policies, including transaction logs, individual cardholder billing statements, agency billing statements, cycle certification memos certifying completeness of the documentation, and lists of any transactions that were not permissible under payment card policies and the planned corrective actions. Specifically, we reported that multiple state agencies failed to submit any payment card documentation to CPO or submitted the documentation late. We recommended that CPO management ensure state agencies submit payment card documentation to CPO, as required by policy, and suspend new accounts for agencies who fail to submit proper documentation until such agencies complete corrective action.

We also reported in the November 2013 audit that department management did not properly document the issuance of payment cards to its employees, so we could not determine if the payment cards were issued in accordance with payment card policies. Prior to issuing a payment card, the department must obtain a completed and signed application, signed cardholder and approver agreements, and evidence that the cardholders and approvers had completed training. We noted missing signatures on cardholder applications, cardholder agreements, and approver agreements. We also noted the department did not have evidence that cardholders and approvers had completed training.

Management concurred with both findings and stated the department had taken steps to remedy the problems identified in the findings. Management's subsequent corrective action stated that all documentation exceptions had been corrected, and in April 2014, a LEAN[11] group comprised of personnel from the Central Procurement Office, the Department of Safety, the Department of Agriculture, and the Department of Correction evaluated the payment card program.

The LEAN group recommended changes to the state's payment card policies, and CPO included the changes in a revised edition of the payment card policies, which were approved by the Procurement Commission on February 19, 2015. Specifically relating to our prior finding, the group found the program difficult to use because its documentation requirements were bureaucratic and burdensome. The revised policy called for agencies to retain payment card documentation instead of forwarding it to CPO on a monthly basis, and for agencies to develop internal (agency-specific) payment card policies. CPO provided a template to state agencies to assist them in developing their internal policies; the State Procurement Commission approved the template on May 21, 2015. We examined this process during the current audit.

Current Audit Results

1. Audit Objective: Did the Central Procurement Office (CPO) ensure that state agencies submitted payment card documentation in accordance with payment card policies?

Conclusion: Subsequent to the LEAN evaluation, CPO modified its payment card policies, delegating responsibility for retaining payment card documentation to state agencies. Within the revised policy, we found that state agencies must submit internal (agency-specific) payment card policies to CPO for review. These policy changes enabled CPO to provide a higher level of payment card review, subsequent to the state

[11] The Department of Finance and Administration's Office of Consulting Services defines LEAN as a philosophy and a set of tools that helps agencies focus on business processes to maximize customer value and minimize roadblocks.

agencies' review and approval of specific payment card transactions. Based on our review, we determined that the policy changes were acceptable; however, based on inquiry with CPO management and review of documentation, we determined that although 42 agencies submitted internal payment card policies to CPO for review, as of August 11, 2016, CPO management had not reviewed 33 submissions (see **Observation 3**).

2. Audit Objective: Did the department's Payment Card Coordinator properly document the issuance of payment cards to employees and the closure of payment card accounts to employees who separated from the department?

Conclusion: Based on testwork performed, department staff properly documented the issuance of payment cards to employees and the closure of payment card accounts to employees who separated from the department, with some minor exceptions.

3. Audit Objective: Did the department address the risks related to the issuance of payment cards in its most recent annual risk assessment?

Conclusion: Based on our review, department staff addressed the risks related to the issuance of payment cards in its most recent annual risk assessment.

Methodology To Achieve Objectives

To obtain an understanding of CPO's revisions to the payment card policies in response to the prior findings, current documentation requirements, and CPO's current role as the payment card program's statewide administrator, we

- interviewed staff within the Central Procurement Office, the Department of General Services, and the Office of the Comptroller of the Treasury;
- reviewed the January 2008, February 2015, and January 2016 versions of CPO Policy 2015-010, "Statewide Purchasing Card Policies and Procedures"; and
- reviewed the CPO policy template created to aid state agencies in developing their own internal policies.

We also obtained a list of 42 agencies that submitted agency-specific (internal) payment card policies to CPO for review, as well as CPO's review status for each submitted policy. Since CPO is no longer responsible for receiving and maintaining payment card transaction documentation, we reviewed payment card transaction approvals to ensure CPO staff did not approve a significant amount of transactions (i.e., in excess of 5%) in place of agency approvers.

To obtain an understanding of processes to issue payment cards to current department employees and to close payment cards for employees who separated from the department, we interviewed department staff and reviewed the January 2008, February 2015, and January 2016 versions of CPO Policy 2015-010, "Statewide Purchasing Card Policies and Procedures." We obtained a list of 23 payment cards the department issued to its employees from August 1, 2013, through December 31, 2015. To determine if the department properly documented the issuance of payment cards, we reviewed the applications, cardholder and approver agreements, and training documentation for the 13 cardholders[12] who received a payment card during this period and were still active as of March 11, 2016. To determine if department management documented the closure of payment card accounts upon an employee's separation, we obtained a list of 112 employees who separated from the department during the period August 1, 2013, through January 31, 2016; 15 of these employees were payment cardholders. We reviewed the final payment card statements and reports generated from Citibank to determine when the payment card accounts were closed.

Finally, we reviewed the department's 2014, 2015, and 2016 annual risk assessments to determine if department staff addressed the risk related to the issuance of payment cards in its annual risk assessments.

Observation 3 – Central Procurement Office management did not complete the reviews of state agencies' internal payment card policies

Subsequent to a LEAN evaluation in 2014, CPO revised the payment card program. The revised CPO Policy 2015-010, "Statewide Purchasing Card Policies and Procedures," approved by the Procurement Commission in February 2015, now requires each state agency to "develop its own internal policy and procedures" in order to address areas not covered in the statewide policy. Section 5.2 of the policy assigned responsibility for reviewing these internal policies to the State Payment Card Program Administrator, a CPO employee. CPO provided a template for state agencies to use to develop their internal payment card policies or controls, and the Procurement Commission approved the template on May 21, 2015. Between June 2, 2015, and September 28, 2015, 42 agencies submitted their own internal payment card policies to CPO for review. One agency subsequently withdrew its submission, leaving 41 internal payment card policies submitted for CPO review.

As of August 11, 2016, we found that CPO management failed to review 33 of 41 internal payment card policies submissions (80%). Based on our review of the template, the state agencies' internal payment card policies are meant to enhance the statewide payment card policies and to allow the agencies to tailor the policies to their specific needs. The statewide payment card policies were in place, however, for agencies to follow while their internal policies were under review.

Based on our observations, we recommend that CPO should identify which state agencies need additional internal payment card policies, whether due to complexities of the agencies' operations or other risk factors, and review those agencies' internal payment card policies. CPO should also consider working with state agencies to determine if agencies with less complex

[12] We only tested 13 cardholders because their payment card accounts were still active at the time of our testwork and thus presented a risk to the department. The remaining 10 payment card accounts had been closed.

operations need additional payment card policies, or if the statewide policy already in place will suffice.

Observation 4 – Results of Other Audit Work: The Central Procurement Office must report all payment card fraud to the Office of the Comptroller of the Treasury

As stated above, the Central Procurement Office (CPO) is responsible for ensuring that state agencies comply with CPO's payment card policies. One of CPO's responsibilities is to work with Citibank and state agencies to resolve disputed and fraudulent payment card transactions. According to Section 8-4-119(a), *Tennessee Code Annotated*,

> Any state agency having determined that a theft, forgery, credit card fraud or any other intentional act of unlawful or unauthorized taking, or abuse of public money, property, or services, or that other cash shortages have occurred in the state agency, shall report the information to the office of the comptroller of the treasury.

During our work to follow up on the prior audit findings relating to payment cards, we identified that CPO staff reported instances of state-employee-related payment card fraud to the Office of the Comptroller of the Treasury but did not report non-state-employee-related payment card fraud, most likely resulting from payment card security breaches and fraudulent purchases. According to the Comptroller of the Treasury's Assistant General Counsel's interpretation of state statute, CPO staff should report fraudulent acts committed using the state's payment cards regardless of whether or not the perpetrators were state employees.

We recommend that CPO revise its policy to assign payment card fraud reporting responsibilities to appropriate staff to ensure all fraudulent acts are reported to the Comptroller of the Treasury.

PROCUREMENT TRAINING AND CREDENTIALING

Pursuant to Section 4-56-105(5), *Tennessee Code Annotated*, the Chief Procurement Officer is responsible for developing and conducting procurement training to promote professional development and certification within state procurement. CPO revised its procurement training in 2014, certifying CPO procurement personnel and procurement personnel in other state agencies who completed all training courses offered. The CPO courses are voluntary and cover the following procurement topics:

- introduction to state procurement,
- customer service and ethics,
- strategic sourcing,
- creating requisitions and purchase orders,

- writing procurement specifications, and
- using Microsoft Excel.

In addition to providing training and certification, CPO maintains a webpage[13] that provides information about the Governor's Office of Business Diversity Enterprise, bidders and vendors, local government purchasing and procurements, and state agency purchasing and procurements.

Audit Results

Audit Objective: Did the Central Procurement Office staff provide sufficient assistance and guidance to adequately train state agency procurement staff to meet the procurement needs of their state agencies?

Conclusion: Based on our audit work, Central Procurement Office staff provided sufficient assistance and guidance to adequately train state agency procurement staff to meet the procurement needs of their state agencies.

Methodology To Achieve Objective

To meet our objective, we interviewed CPO management and staff associated with procurement training, and we reviewed publically available CPO procurement guidance and policies and compared the content to CPO's training materials. We reviewed prior state audit reports to determine the types of procurement issues that existed in other state agencies and if multiple agencies experienced similar issues, which could have indicated potential lapses in training. We compiled a list of state agencies listed in the 2016 state budget and compared it to lists of individuals who completed any CPO-provided training from January 1, 2014, through March 31, 2016, to determine if all state agencies were represented. We surveyed state agency procurement officials to determine if CPO has been meeting the agency's procurement needs.

Observation 5 – Results of Other Audit Work: Information system contracts do not require service organization control audit reports

Many state agencies contract with information system vendors to process and maintain the state's data. To run systems, vendors may use separate locations to process and house (or host) data.[14] To ensure these vendors have adequate internal controls in place to protect the state's data at the processing and host sites, the state must rely on vendors' and applicable third parties' service organization control (SOC) audit reports. These reports are internal control reports of services provided by a service organization and provide information that users need to assess and address the risks associated with an outsourced service. While several different types of SOC reports exist, the SOC 1 Type 2 and the SOC 2 Type 2 reports provide the most information to management regarding the design and effectiveness of internal controls. The

[13] https://www.tn.gov/generalservices/section/central-procurement-office.

[14] Information system vendors may contract with third parties to host a state agency's data.

former focuses on internal control over financial reporting, and the latter focuses on data security, availability, processing, integrity, confidentiality, and/or privacy.

While performing audit work in other state agencies, we have noted that the state agencies that contract with information system vendors have not obtained SOC reports relative to their data because the state agency either did not establish this requirement in the contract or the contract template did not include the requirement. When procuring information systems, state agencies should require SOC reports from vendors responsible for processing and hosting data.

We recommend that CPO work with the appropriate parties, including the Comptroller of the Treasury and the Department of Finance and Administration's Strategic Technology Solutions, to develop standard contract language requiring that information system vendors provide state agency management with SOC reports and include this language in the contract template for all information system procurements.

STATE PROCUREMENT COMMISSION, ADVISORY COUNCIL ON STATE PROCUREMENT, AND THE STATE PROTEST COMMITTEE

State Procurement Commission

The Central Procurement Office operates under the oversight of the State Procurement Commission, as created by Section 4-56-102, *Tennessee Code Annotated*. The commission is composed of the Commissioner of the Department of General Services, the Commissioner of the Department of Finance and Administration, and the Comptroller of the Treasury. The commission is responsible for reviewing and approving all proposed policies, procedures, rules, and statutes related to procurement.

Advisory Council on State Procurement

Created by Section 4-56-106, *Tennessee Code Annotated*, the Advisory Council on State Procurement is responsible for reviewing and issuing a formal comment on all procurement policies, standards, guidelines, and procedures established by the Chief Procurement Officer. Additionally, when requested by the Chief Procurement Officer, the council may conduct studies, research, and analyses, and make reports and recommendations with respect to subjects or matters within the authority and duties of the Chief Procurement Officer.

The twelve-person council is made up of five voting members and seven non-voting members. The voting members include the Chief Procurement Officer, two members appointed by the Commissioner of the Department of General Services, one member appointed by the Commissioner of the Department of Finance and Administration, and one member appointed by the Comptroller of the Treasury. The non-voting members include two members appointed by the Governor, two members appointed by the Lieutenant Governor, two members appointed by the Speaker of the House, and one member appointed by the Fiscal Review Committee Chairman.

State Protest Committee

Created by Section 4-56-103, *Tennessee Code Annotated*, the State Protest Committee is a three-member committee that is responsible for hearing appeals from vendors who disagree with determinations made by the Chief Procurement Officer relative to protests of a procurement process or intended award of a contract. The committee consists of the Commissioner of the Department of General Services, the Commissioner of the Department of Finance and Administration, and the State Treasurer.

Audit Results

Audit Objective: Did the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee uphold their statutory responsibilities?

Conclusion: Based on our review of video and audio recordings of each entity's meetings, as well as approved minutes, the State Procurement Commission, the Advisory Council on State Procurement, and the State Protest Committee met their responsibilities.

Methodology To Achieve Objective

To meet our objective, we reviewed the video recordings of the September 14, 2015, and January 21, 2016, State Procurement Commission meetings, as well as the approved minutes of the September 14, 2015, meeting. We reviewed the video recordings of the October 25, 2015, and January 6, 2016, Advisory Council on State Procurement meetings, as well as the approved minutes of the October 25, 2015, meeting. For the State Protest Committee, we reviewed the audio file for the June 3, 2014, meeting, the most recent meeting, and the agendas for the August 7, 2013; October 14, 2013; and June 3, 2014, meetings.

VEHICLES AND ASSET MANAGEMENT

Law Enforcement Support Office

Created by the National Defense Authorization Act of Fiscal Year 1997, the federal 1033 program is operated by the federal government's Defense Logistics Agency and allows for the transfer of surplus military property to civil law enforcement agencies (LEAs) that may not have funds readily available to purchase the property. LEAs can obtain surplus military property to support law enforcement, for purposes such as counter-drug, counter-terrorism, homeland security, and emergency response activities. Items available to LEAs through this program are classified as either

- uncontrolled military surplus property, such as life preservers or ballistics goggles; or

- controlled surplus military property, such as firearms, magazine cartridges, and ammunition.

Through its Memorandum of Agreement with the Defense Logistics Agency, the Department of General Services' Law Enforcement Support Office (LESO) is responsible for managing the 1033 program in Tennessee. LESO facilitates the transfer of surplus military property to LEAs and holds the LEAs accountable through an agreement called the State Plan of Operation, which outlines the terms and conditions LEAs must agree to and comply with to participate in the program.

<u>LEAs' Responsibilities</u>

To participate in the federal 1033 program, LEAs must apply and receive approval from the state and the Defense Logistics Agency, pay annual fees, and agree to comply with the State Plan of Operations, which include

- the process to obtain surplus military property and the property's specific purposes;
- documentation requirements for different types of surplus military property;
- LEA's annual inventory requirements;
- the U.S. Department of Defense's Program Compliance Review requirements;
- records management requirements;
- property disposition requirements; and
- LEAs' reporting requirements for missing, lost, stolen, damaged, or destroyed surplus military property.

Based on management's description of the process, once LEAs are approved to participate in the program, LEAs can review available surplus military property in the Defense Logistics Agency's Federal Excess Property Management Information System (FEPMIS). When an LEA finds surplus military property it is interested in obtaining for current use, the LEA submits a request to the department's State LESO Coordinator and provides a justification describing how the property will be used. Once the State Coordinator approves the request, either the Defense Logistics Agency ships the surplus military property or the LEA makes arrangements for pickup. In order to continue obtaining and using surplus military property, the LEA must

- verify annually whether each piece of inventory is still in the LEA's possession;
- ensure surplus military property received is in use within one year of receipt;
- ensure it only uses the surplus military property for the approved law enforcement purposes; and
- report any missing, lost, stolen, damaged, or destroyed surplus military property to the LESO State Coordinator and the Defense Logistics Agency.

The Defense Logistics Agency permanently retains the title to all controlled surplus military property. Prior to disposing any controlled surplus military property, the LEA must submit a written request to the State Coordinator. Once approved, the disposal must comply with state and local laws, rules, and regulations pertinent to the disposal of public property. LEAs must return controlled surplus military property to a federal distribution site, typically military bases across the country, through the Department of General Services, or transfer it to another LEA. The Defense Logistics Agency transfers the title of non-controlled surplus military property to LEAs after the property has been in the LEA's possession for one year.

Department's Responsibilities

Within the department, LESO is responsible for maintaining a paper file on each LEA who has participated or is currently participating in the 1033 program. These files contain the applications for participation, signed agreements, invoices, signed inventories, documentation describing property the LEAs received or returned, and any correspondence between the LEAs and the state LESO. All surplus military property assigned to LEAs is documented in FEPMIS, including photographs and serial numbers where required.

The department's LESO State Coordinator is also responsible for ensuring that each LEA active in the 1033 program annually verifies their possession of each piece of inventory assigned to them. Once the LEAs have completed their annual inventories, the State Coordinator certifies to the Defense Logistics Agency that the inventory has been completed for the State of Tennessee. Additionally, LESO pulls a sample of LEAs each year and completes program compliance reviews and tests part or all of the LEAs' inventories to ensure that the LEAs complied with the State Plan of Operations. LESO is also responsible for facilitating the Defense Logistics Agency's biannual program compliance reviews.

Audit Results

1. Audit Objective: Was the department's LESO inventory process for the 1033 program sufficient?

Conclusion: Based on our review, the department's LESO inventory process for the 1033 program was sufficient.

2. Audit Objective: Did LESO meet the federal 1033 program's recordkeeping requirements?

Conclusion: Based on our review, LESO met the 1033 program's recordkeeping requirements.

3. Audit Objective: Did LESO have a process in place to ensure it receives notification of local government audit findings from LEAs involving the misuse of property acquired through the 1033 program?

Conclusion: We determined that LESO does not have a process in place to ensure it receives notification of local government audit findings from LEAs involving the misuse of property acquired through the 1033 program. We did determine, however, that LESO performs annual compliance reviews of a sample of LEAs and their property, and the Defense Logistics Agency performs biannual compliance reviews on a sample basis. These reviews enable LESO and the Defense Logistics Agency to identify instances of 1033 program property misuse.

Methodology To Achieve Objectives

To meet our objectives, we performed a walkthrough with LESO management to gain an understanding of the 1033 program's inventory process and of the 1033 program's recordkeeping and reporting requirements. We also interviewed Tennessee's federal LESO contact at the Defense Logistics Agency to further our understanding of recordkeeping requirements for the 1033 program. From a population of 12,639 inventory items issued to LEAs that were either on the property books as of February 23, 2016, or removed from property books between March 24, 2014, and February 23, 2016, we tested a sample of 25 items for compliance with serial number, photograph, and transfer documentation requirements, as applicable. From a population of 250 LEAs, we tested a sample of 25 LEA records to ensure compliance with recordkeeping requirements. We obtained and reviewed certifications from the federal Defense Logistics Agency verifying that Tennessee completed its 1033 program inventory for fiscal years 2013, 2014, and 2015. We reviewed prior local government audit reports to determine if auditors noted any instances of noncompliance with the 1033 program, and verified whether LEAs reported these instances to the LESO State Coordinator.

SURPLUS PROPERTY PROGRAM

Once a state agency no longer has any use for property, such as computers or printers, the Surplus Property program staff either sells the surplus property to authorized governmental, nonprofit, educational, and law enforcement agencies, or to the public via internet auction if the property is not needed by these entities. If the property is not in a usable condition, program staff is responsible for properly disposing the property.

When a state agency no longer has a use for property, the Surplus Property program is responsible for determining the best utility of that property, which could include interagency transfer, redistribution, sale, or destruction. State agencies use a system called AssetWorks to submit property to the surplus division and provide a detailed description of the type and condition of the property submitted for surplus. Surplus Property program staff evaluate the property to determine if it is usable by another division or if it should be destroyed. Program staff provide the required documentation to the agency and, based on the division's evaluation, the agency then transfers the property to the surplus warehouse or destroys it. Once program staff obtain all signed documentation, they manually retire the property from the state agency books by retiring the property in AssetWorks and in Edison.

The Surplus Property program does not receive state appropriations, but its operations are funded through handling fees charged to agencies that return or receive surplus property.

Audit Results

1. **Audit Objective:** Did the Surplus Property program implement sufficient surplus property guidelines for state agencies to follow?

   Conclusion: The Surplus Property program has developed and implemented sufficient surplus property guidelines.

2. **Audit Objective:** Were state agencies satisfied with the services provided by the Surplus Property program?

   Conclusion: Through our survey of state agencies, we determined that 82% of respondents were satisfied with the Surplus Property program; however, we determined that Surplus Property program staff were not retiring property in Edison when they received the documentation from state agencies, resulting in a backlog of items requiring retirement in Edison (see **Finding 6**).

Methodology To Achieve Objectives

To gain an understanding of the state's Surplus Property program and its guidelines, we interviewed surplus management, conducted walkthroughs of the surplus process, and reviewed the *Tennessee State Agency for Surplus Property, State Plan of Operations* and the *Surplus Property Manual*. We also interviewed employees from the Comptroller's Office who are involved in surplusing Comptroller property to obtain an understanding of the surplus process from an agency's perspective. We sent a survey to 260 individuals responsible for their agency's surplus property, representing 66 agencies, to gain an understanding of the agencies' expectations for the Department of General Services' Surplus Property program and to determine if program staff are meeting the agencies' expectations. We received 101 responses to the survey. We also reviewed a report produced by management showing the number of surplus property items that were sold or otherwise disposed of but had not been retired in Edison as of June 30, 2016.

Finding 6 – The Surplus Property program did not retire inventory in Edison as property was sold and/or disposed

Condition and Cause

According to Surplus Property program management's description, in their efforts to move toward virtual warehousing, where agencies will maintain possession of property submitted from Surplus until the agencies sell or otherwise dispose of the property, the Surplus Property program staff quickly sold and/or disposed of much of the surplus property in its warehouse in 2015. As of our discussion with management in June 2016, Surplus staff did not retire the property in Edison at the same rate they sold and/or disposed of property, contributing to a backlog of, at most, 20,000 items. The Department of General Services' Chief of Staff also stated that agencies contributed to the backlog by stockpiling property and surplusing hundreds of items at once instead of regularly surplusing property they no longer use.

According to the Surplus Property program and department management, this backlog consisted of assets and non-assets (items that cost less than $5,000, such as printers that are tracked by agencies because of their sensitive nature). Because non-assets are fully expensed at the time of purchase, the delays in Edison removal had no financial statement impact, but management's failure to remove the items timely creates an appearance of missing items in the state's inventory records.

In addition, management claimed that as of the beginning of June 2016, the backlog was approximately 2,000 to 3,000 items, and management expected staff to resolve the backlog by June 30, 2016, the end of the state's fiscal year. Management provided a report on August 24, 2016, to show the number of property items sold or otherwise disposed of and retired in AssetWorks but not retired in Edison. The list showed that over 13,000 pieces of property remained on the backlog as of June 30, 2016. The property sales and disposals on the report dated back to May 2015.

As part of our audit testwork, we conducted a survey of state agencies to assess the Surplus Property program's service quality, and several agencies reported a need for better communication with program staff during the surplus process. The survey respondents suggested that a lack of sufficient communication prevents program staff from promptly removing the agencies' property. We describe these issues in Observation 1 on page 10.

Criteria

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for federal entities and serves as a best practice for non-federal entities. Green Book Principle 15.03 states,

> Management communicates quality information externally through reporting lines so that external parties can help the entity achieve its objectives and address related risks. Management includes in these communications information relating to the entity's events and activities that impact the internal control system.

Effect

Surplus Property program management's failure to promptly retire property directly contributes to the increase in the backlog of property retirements in Edison, creating the appearance of missing items on agency inventories that are actually no longer in service.

Recommendation

Surplus Property program management and staff should continue efforts to remove the backlog from Edison. Management should revise policies and procedures to prevent backlogs from occurring in the future. Additionally, management should take steps to improve the communication process between program staff and state agencies, and should continue to work toward digitizing the surplus process.

Management's Comment

We concur. Because Surplus Property's software has not been allowed to interface with Edison, which would automate retirement of assets in Edison's inventory records, retiring assets requires data entry in both Edison and Surplus Property's system, Assetworks. This dual entry is a very time consuming process. During the last few months, our limited personnel have been concentrating efforts directed at taking the Surplus operation virtual by removing the requirement to transfer assets to our warehouse physically prior to disposition. These efforts resulted in a shortened amount of time being required to dispose of assets no longer in service. This created a large volume of sales/retirements and as a result, the backlog of data requiring double entry grew exponentially. Since the volume of retiring assets has now leveled, and we are retiring them in the system at the rate they occur, the backlog has not grown in several months. With the introduction of F&A Policy 32, effective July 1, 2015, the capitalization minimum was increased to $5,000 for assets requiring separate tracking in Edison. The policy transfers the responsibility to track assets costing less than $5,000 to the respective agencies utilizing them. This will eventually remove the requirement of double entry for lower cost items by Surplus employees. It should be noted that more than 97% of the items on the backlog have an original acquisition cost of less than $5,000. Joint efforts by F&A and DGS will need to continue in order to address the existing backlog as well as increase efficiencies.

APPENDICES

APPENDIX 1
Business Unit Codes

General Services
321.00 General Services
321.02 Postal Services
321.06 Motor Vehicle Management
321.07 Real Estate Asset Management
321.09 Printing and Media Services
321.10 Procurement Office
321.15 Office of Information Technology Services
321.18 Warehousing and Distribution
321.20 State Facilities Pre-Planning
321.21 Governor's Books from Birth Program

Facilities Revolving Fund
501.00 Facilities Revolving Fund
501.01 General Services Operating Maintenance
501.02 General Services Project Maintenance
501.03 Facilities Management
501.04 Capital Projects
501.05 Debt Service

APPENDIX 2
Department's Goals
(This information is unaudited.)

One of the Governor's top priorities is to have a customer-focused and effective state government and to provide high-quality services while using the lowest amount of taxpayer dollars possible. To meet the Governor's priorities, the Department of General Services established the following priority goals for the quarter ended June 30, 2016:[15]

Performance Standards and Measures

<u>Goal 1</u>: Central Procurement Office – Provide improved procurement services at lower costs.

Purpose: To improve customer service by using customer feedback to improve the quality and timeliness of services provided and to identify areas where cost savings, cost avoidance, rebates, and revenue are available and use that information to prevent non-value added spending.

Metrics	**Frequency**	**Baseline**	**Target**	**Prior**	**Current**	**Status**
Total Spend of Select Contracts	Monthly	$662,000,000	$642,140,000	$613,024,000	$611,448,000	✓
Percent of Customers Satisfied	Monthly	85%	87%	94.5%	95%	✓

<u>Goal 2</u>: State of Tennessee Real Estate Asset Management – Provide improved facility management at lower costs.

Purpose: To improve customer service by using customer feedback to improve the quality and timeliness of services provided and to identify areas where cost savings and cost avoidance are available and use that information to prevent non-value added spending.

Metrics	**Frequency**	**Baseline**	**Target**	**Prior**	**Current**	**Status**
Total Facility Management Spend (excludes utilities and state administrative costs)	Fiscal Year (ended June 30)	$31,087,768	$30,474,991		$29,158,053	✓
Total Spend of Utilities	Fiscal Year (ended June 30)	$16,500,000	$16,137,000		$14,393,578	✓
Percent of Customers Satisfied	Monthly	85%	87%	97%	97.3%	✓

[15] Source: http://tn.gov/transparenttn/article/general-services-goals-fiscal.

APPENDIX 3
Staff Positions by Gender and Ethnicity
As of August 10, 2016
(Unaudited)

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
Account Clerk	1	2	3	0	0	0	0	0
Accountant 2	0	1	0	0	0	0	1	0
Accounting Technician 2	2	0	0	0	0	2	0	0
Administrative Assistant 2	0	1	0	0	0	1	0	0
Administrative Services Assistant 2	2	2	2	0	0	2	0	0
Administrative Services Assistant 3	7	9	5	0	0	11	0	0
Administrative Services Assistant 4	3	4	1	0	0	5	0	1
Administrative Services Assistant 5	4	0	0	0	0	4	0	0
Administrative Services Director 2	0	1	0	0	0	1	0	0
Assistant Commissioner 2	2	1	0	0	0	3	0	0
Attorney 3	2	4	0	0	0	6	0	0
Attorney 4	1	0	0	0	0	1	0	0
Audit Director 2	0	1	0	0	0	1	0	0
Auditor 2	0	1	0	0	0	1	0	0
Auditor 3	0	1	0	0	0	1	0	0
Bindery Supervisor 2	0	1	0	0	0	1	0	0
Bindery Worker 2	3	2	2	0	0	3	0	0
Business Analyst	3	4	1	0	0	6	0	0
Central Stores Director	1	0	0	0	0	1	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
Chef/Manager	1	0	0	0	0	1	0	0
Chief Of Staff To First Lady	0	1	0	0	0	1	0	0
Chief Procurement Officer	1	0	0	0	0	1	0	0
Children's Cabinet Director	0	1	0	0	0	1	0	0
Clerk 2	0	4	3	0	0	1	0	0
Clerk 3	3	2	1	0	0	4	0	0
Commissioner 1	1	0	0	0	0	1	0	0
Custodial Worker 2	0	1	1	0	0	0	0	0
Custodial Worker Supervisor 1	0	1	0	0	0	1	0	0
Deputy Chief Procurement Officer	0	1	0	0	0	1	0	0
Deputy Commissioner 2	2	0	0	0	0	2	0	0
DGS Capital Projects Executive Director	0	1	0	0	0	1	0	0
DGS Category Management Deputy Director	1	0	0	0	0	1	0	0
DGS Category Management/Legal Team Director	1	0	0	0	0	1	0	0
DGS Category Specialist	7	6	1	0	0	12	0	0
DGS Category Team Lead	2	1	0	0	0	3	0	0
DGS Compliance & Training Director	1	0	0	0	0	1	0	0
DGS Cost Planner	1	0	0	0	0	1	0	0
DGS Customer Relation Executive Director	0	1	0	0	0	1	0	0
DGS Customer Relationship Manager	1	0	0	0	0	1	0	0
DGS Development Manager 1	2	1	0	0	0	3	0	0
DGS Development Manager 2	2	1	0	1	0	2	0	0
DGS Development Manager 3	1	0	0	0	0	1	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
DGS Energy & Sustainability Director	1	0	0	0	0	1	0	0
DGS Energy Engineer	0	1	0	0	0	1	0	0
DGS Environment Compliance Manager	0	1	0	0	0	1	0	0
DGS Facilities Contract Management Director	2	0	0	0	0	2	0	0
DGS Interior Planning Specialist 2	0	5	1	0	0	4	0	0
DGS Interior Planning Specialist 3	1	0	0	0	0	1	0	0
DGS Interior Planning Specialist 4	0	1	1	0	0	0	0	0
DGS Land Agent	1	0	0	0	0	1	0	0
DGS Leasing Administration Manager	0	1	0	0	0	1	0	0
DGS Leasing Agent	0	3	0	0	0	3	0	0
DGS Leasing Coordinator	0	1	0	0	0	1	0	0
DGS Leasing Executive Director	0	1	0	0	0	1	0	0
DGS Mail Processing Associate 1	11	3	7	0	0	7	0	0
DGS Mail Processing Associate 2	4	2	4	0	0	2	0	0
DGS Mail Processing Manager	1	1	2	0	0	0	0	0
DGS Mail Processing Supervisor	1	1	2	0	0	0	0	0
DGS Mail Services Assistant Director	0	1	1	0	0	0	0	0
DGS Mail Services Director	1	0	0	0	0	1	0	0
DGS Policy Manager	0	1	1	0	0	0	0	0
DGS Postal Services Associate	1	0	0	0	0	1	0	0
DGS Procurement Compliance Specialist	3	1	2	0	0	2	0	0
DGS Procurement Compliance Team Lead	0	1	0	0	0	1	0	0
DGS Procurement Program Director	0	2	2	0	0	0	0	0
DGS Procurement Support Assistant	1	2	1	0	0	2	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
DGS Procurement Systems Analyst	3	1	1	0	0	2	1	0
DGS Program Manager	3	1	0	0	0	4	0	0
DGS Project Coordinator	1	3	0	0	0	4	0	0
DGS Project Manager 1	3	0	1	1	0	1	0	0
DGS Project Manager 2	4	0	0	0	0	4	0	0
DGS Project Manager 3	2	0	0	0	0	2	0	0
DGS Project Manager 4	3	0	0	0	0	3	0	0
DGS Project Manager-Real Estate	0	1	1	0	0	0	0	0
DGS Publishing & Distribution Executive Director	0	1	0	0	0	1	0	0
DGS Purchasing Card Program Assistant	1	2	2	0	0	1	0	0
DGS Real Estate Compliance Assistant Director	1	0	0	0	0	1	0	0
DGS Real Estate Compliance Executive Director	1	0	0	0	0	1	0	0
DGS Risk Manager	1	0	0	0	0	1	0	0
DGS Safety & Compliance Manager	0	1	1	0	0	0	0	0
DGS Senior Business Analyst	1	1	0	0	0	2	0	0
DGS Sourcing Account Management Team Lead	1	0	0	0	0	1	0	0
DGS Sourcing Account Specialist	3	4	0	0	0	7	0	0
DGS Sourcing Analyst	4	3	1	0	0	6	0	0
DGS Sourcing Director	1	0	0	0	0	1	0	0
DGS Sourcing Team Lead	0	1	0	0	0	1	0	0
DGS Strategic Plan Executive Director	0	1	0	0	0	1	0	0
DGS STREAM Program Director	0	2	0	0	0	2	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
DGS STREAM Program Manager	0	3	0	0	0	3	0	0
DGS STREAM Special Projects Director	1	0	0	0	0	1	0	0
DGS Systems Management Director	0	1	0	0	0	1	0	0
DGS Technical Services Director	1	0	0	0	0	1	0	0
DGS Vehicle & Asset Management Executive Director	1	0	0	0	0	1	0	0
Energy Consultant	3	0	0	0	0	3	0	0
Executive Residence Property Maintenance Technician 1	1	0	0	0	0	1	0	0
Executive Residence Property Maintenance Technician 2	1	0	0	0	0	1	0	0
Executive Assistant To The First Lady	0	1	0	0	0	1	0	0
Executive Residence Coordinator	0	1	0	0	0	1	0	0
Executive Residence Horticultural Assistant	0	1	0	0	0	1	0	0
Executive Residence Horticulturalist	1	0	0	0	0	1	0	0
Executive Administrative Assistant 1	1	5	2	0	0	4	0	0
Executive Administrative Assistant 2	0	1	0	1	0	0	0	0
Facilities Construction Regional Administrator	1	0	0	0	0	1	0	0
Fleet Maintenance Assistant 1	3	0	0	0	0	3	0	0
Fleet Maintenance Assistant 2	2	0	0	0	0	2	0	0
Fleet Supervisor 2	2	0	0	0	0	2	0	0
General Counsel 3	1	0	0	0	0	1	0	0
Grants Program Manager	1	0	0	0	0	1	0	0
Graphics Designer 1	2	1	0	0	0	3	0	0
Graphics Designer 2	1	1	0	0	0	2	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
Information Officer	0	1	0	0	0	1	0	0
Internal Service Fund Specialist	1	1	0	0	0	2	0	0
Legal Assistant	0	1	0	0	0	1	0	0
Long Distance Hauler	1	0	0	0	0	1	0	0
Manager-Executive Residence	0	1	0	0	0	1	0	0
Offset Press Operator 1	6	3	4	0	0	5	0	0
Offset Press Operator 2	7	2	1	0	0	8	0	0
Planning Analyst 5	0	1	0	0	0	1	0	0
Printing Estimator	1	1	0	0	0	2	0	0
Printing Order Clerk	0	1	0	0	0	1	0	0
Printing Pre-Press Supervisor 2	1	0	0	0	0	1	0	0
Printing Services Director	0	1	0	0	0	1	0	0
Printing Services Production Manager	2	1	0	0	0	3	0	0
Printing Services Supervisor 2	3	0	0	0	1	2	0	0
Procurement Officer 1	0	1	1	0	0	0	0	0
Property Representative 2	1	1	1	0	0	1	0	0
Property Representative 3	2	1	0	0	0	3	0	0
Real Property Agent 4	0	1	0	0	0	1	0	0
Real Property Management Supervisor	1	0	0	0	0	1	0	0
State Chief Photographer	1	0	0	0	0	1	0	0
State Photographer 1	0	1	0	0	0	1	0	0
State Photographer 2	0	1	1	0	0	0	0	0
Storekeeper 1	2	1	1	0	0	2	0	0
Storekeeper 2	3	1	2	0	0	2	0	0

Job Title	Gender		Ethnicity					
	Male	Female	Black	Hispanic	American Indian	White	Other	Unknown
Stores Clerk	2	0	1	0	0	1	0	0
Stores Manager	2	1	0	0	0	3	0	0
Training Officer 2	1	0	1	0	0	0	0	0
Training Specialist 2	0	2	1	0	0	1	0	0
Warehouse Worker	1	0	0	0	0	1	0	0
Totals	**180**	**148**	**67**	**3**	**1**	**254**	**2**	**1**

Source: State Audit Information Systems.

APPENDIX 4

Finding 2

Details of Deficiencies Noted Relating to Lease Procurements

Lease #	Conflict of Interest Disclosure	SBC and Attorney General Approval	Lease Terminable for Convenience Clause	SBC Approval of Amendment or Extension	Maintain a Lease Procurement File	Maintain the Minimum Procurement Documentation
LE 3236			✓		✗	
LE 4029			✓			
LE 4271			✓			
LE 4311			✓			
LE 4412	✗		✓		✗	
LE 4757		✗	✗	✗		
LE 4886	✗		✓		✗	
LE 5094	✗		✓		✗	
LE 5373		✗	✗	✗		
LE 5387	✗		✓		✗	
LE 5493			✓			
LE 5495			✓			
LE 5541			✓			
LE 5551			✓			
LE 5614	✗	✓	✓			
LE 5706	✓	✓	✓	✓	✓	✗
LE 5707	✓	✓	✓	✓	✓	✗
LE 5708	✓	✓	✓	✓	✓	✗
LE 5709	✓	✓	✓	✗	✓	✗
LE 5711	✓	✓	✓		✓	✗
LE 5761	✓	✓	✓		✓	✓
LE 5762	✓	✓	✓		✓	✓
LE 5809	✗	✓	✓		✗	
LE 5938			✗			
LE 6949			✓			
Total Errors	6	2	3	3	6	5

Key	
Met Requirement	✓
Failed to Meet Requirement	✗
Not Applicable	[Blank]

Appendix 5

Finding 3

Details of Deficiencies Noted Relating to Lease Tracking

Lease #	Maintain and Document Communications of Lease Expiration	Execute a Lease Extension Prior to Expiration	Maintain and Document Communications of Lease Expiration	Execute Lease Extension Prior to Expiration	Execute Lease Prior to Expiration of Preceding Lease
	Preceding Lease		Current Lease		
LE 3054	✓	✗			✓
LE 3236	✓				✓
LE 3846	✓	✗			✓
LE 4177	✓				✓
LE 4271	░	░	✓	✗	
LE 4312	✗				✗
LE 4365	✓	✗			✓
LE 4412	░	░	✓	✗	
LE 4757	✗			✓	✓
LE 5002	✗				✓
LE 5034	✗				✓
LE 5175	✗	✓			✓
LE 5455	✓	✗			✓
LE 5493	░	░	✓	✗	
LE 5495	░	░	✓	✗	
LE 5632	✗				✗
LE 5787	✓	✗			✓
LE 5938	✓	✗	✓	✓	✓
LE 6117	✗				✓
LE 6268	✓	✗			✗
LE 6269	✓	✗			✗
LE 6343	✓				✓
LE 6432	✓	✗			✓
LE 6466	✗				✓
LE 6746	✓				✓
Total Errors	**8**	**9**	**0**	**4**	**4**

Key	
Met Requirement	✓
Failed to Meet Requirement	✗
Not Applicable	[Blank]
No Preceding Lease	░

APPENDIX 6
STREAM's Capital Project Phases

PRE-DESIGN	*Pre-Planning* • Assess the need for maintenance, demolition, or construction of real property. • Develop the scope and budget. • Develop Project Charter or Project Management Plan. • Obtain legislative and governor approval.
	Approvals • Assign Project Manager. • Finalize Project Charter or Project Management Plan. • Initiate Designer Selection • SBC Approval. • Designer Contract Executed.
DESIGN	*Program Verification* • Pre-Design Conference scheduled. • Design Project Team established. • Site visits. • Property condition assessments. • Consultation and acknowledgement of requirements, e.g. State Fire Marshal, Americans with Disabilities Act, etc. • Design issues identified.
	Schematic Design • Analyze state's needs, site, building(s). • Estimate project construction cost. • Provide conceptual diagrams, visual studies, graphs, charts, and/or schematic drawings for project. • Project Manager issues Notice to Proceed to design development.
	Design Development • Site, floor, and structural plans provided. • Land acquisition, utility connections, equipment, and other internal or external requirement considered and resolved. • Review concept with State Fire Marshal's office.
	Construction Documents • Confirm scope compliance, project schedule, cost estimate, and design compliance. • Coordinate bidding phase. • Advertise for bids.
PROCUREMENT	• Bids obtained and evaluated. • Designer submits contract recommendation to Project Manager. • Construction contract awarded. • Construction contract and related documents prepared.

CONSTRUCTION	• Pre-Construction Conference held to discuss site safety plan, wage rates, construction phasing, warranties, etc. • Notice to Proceed provided to begin construction work. • Designer makes at least two monthly site visits during all phases of construction. • Designer schedules and conducts progress meetings. • Inspection done to determine Substantial Completion.
CLOSEOUT	• Designer ensures completeness of record documents. • Designer ensures contractor has completed all requirements prior to final payment.
WARRANTY	• One year time period in which corrective work must be done to fix any construction issues.

Source: STREAM Designer's Manual.

APPENDIX 7
Survey Questions
Central Procurement Office

1. How long have you held your position as Procurement Officer or its equivalent? Please choose only one of the following:

   Less than 1 year
   1-3 years
   4-7 years
   8-10 years
   Longer than 10 years

2. How many times have you interacted with the Central Procurement Office within the past year? Please choose only one of the following:

   Not at all
   Between 1 and 10 times
   Between 11 and 20 times
   Between 21 and 30 times More than 30 times

3. Please indicate how strongly you agree or disagree with the following statements. Please choose the appropriate response for each item:

	Strongly Agree	Somewhat Agree	Neither Agree nor Disagree	Somewhat Disagree	Strongly Disagree
Central Procurement Office (CPO) staff responds in a reasonable amount of time when you contact them.					
CPO staff are knowledgeable about the procurement process.					
Adequate training was provided to you when you became responsible for procurement for your agency.					
Policies and procedures for procurement are readily available and easy to find.					
The CPO promotes open and fair competition during the procurement solicitation process.					
The process for requesting approval of a procurement contract is user-friendly.					
The CPO did NOT show favoritism or bias when awarding contracts to bidders.					
To the best of your knowledge, the CPO did NOT receive gifts, kickbacks, or any kind of preferential treatment because of contracts awarded to bidders.					
The list of registered suppliers was up to date when reviewed for prospective responders.					
The requisition for purchase is user-friendly.					
The required forms for procurment are user-friendly.					

4. How would you rank your satisfaction of the following? Please choose the appropriate response for each item.

	Strongly Agree	Somewhat Agree	Neither Agree nor Disagree	Somewhat Disagree	Strongly Disagree
Services provided by the Central Procurement Office					
Professionalism of the Central Procurement Office					
Information provided by the Central Procurement Office					
Guidance provided by the Central Procurement Office					
Turnaround time on approval by the Central Procurement Office					
The Central Procurement Office overall					
Edison Software as it relates to procurement and purchasing					

5. What aspects of the Central Procurement Office have exceeded your expectations?

6. What aspect(s) of the Central Procurement Office would you like to see improvement in?

APPENDIX 8
Survey Questions
Surplus Property Program

1. How many times have you interacted with the Surplus Property Division within the past year?

2. How long have you been responsible for your agency's surplus property?

   Less than 1 year
   1 – 3 years
   3 – 5 years
   More than 5 years

3. How would you rank your satisfaction with the following? Please choose the appropriate response.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	No Prior Experience
Surplus staff responds in a reasonable amount of time						
Surplus staff are knowledgeable about the program						
Adequate training was provided to you when you became the property officer or equivalent for your agency						
Policies and procedures for surplus is readily available and easy to find						
The process for applying for participation in the surplus property program is user-friendly						
The process for disposing of surplus property is user-friendly						
The process for purchasing surplus property is user-friendly						
The process for trading surplus property is user-friendly						
Fees charged by the surplus division are reasonable based on services provided						

4. How would you rank your satisfaction of the following? Please choose the appropriate response for each item.

	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied	No Prior Experience
Services provided by the surplus property division						
Professionalism of surplus staff						
Information provided by surplus staff						
Guidance provided by surplus staff						
Surplus staff's determination of fair market value						
Surplus division overall						
AssetWorks application						
Transition to "virtual warehousing"						

5. What aspect(s) of the Surplus Property Division have exceeded your expectations?

6. What aspect(s) of the Surplus Property Division would you like to see improvement in?

APPENDIX 9
Survey Questions
Leasing Services Provided by STREAM

1. Approximately how many times has your department interacted with State of Tennessee Real Estate Asset Management (STREAM) Division or Jones Lang LaSalle in the past year?

2. How would you rank your satisfaction with the following? Please choose the appropriate response.

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
STREAM or their Agents/Contractors respond to inquiries in a reasonable amount of time.					
STREAM or their Agents/Contractors are knowledgeable about your department's leasing needs.					
Policies and procedures for leasing are readily available and easy to find.					
The process for obtaining a new lease is user-friendly.					
Leased properties, procured by STREAM or their Agents/Contractors, ability to meet needs.					
STREAM or their Agents/Contractors are knowledgeable about the Transforming Tennessee for Tomorrow (Project T3).					
The process for participation in Project T3 is clear and user- friendly.					
Overall satisfaction with Project T3 transitions					
Services provided by STREAM or their Agents/Contractors.					
Communications with STREAM or their Agents/Contractors.					
Fees charged by STREAM are reasonable based on services provided.					

3. What aspect(s) of STREAM and/or JLL have exceeded your expectations?

4. What aspect(s) of STREAM and/or JLL would you like to see improvement in?

APPENDIX 10
Survey Questions
Facilities Management Services Provided by Jones Lang LaSalle

1. Approximately how many times has your department interacted with State of Tennessee Real Estate Asset Management (STREAM) Division or Jones Lang LaSalle in the past year?

2. How would you rank your satisfaction with the following? Please choose the appropriate response.

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
JLL Staff responds in a reasonable amount of time when you contact them					
The process for submitting a Service Request is user-friendly					
Quality of services provided by JLL for Service Requests					
Communications with JLL					
OneView online service center					
The amount of time JLL takes to address a Service Request					

3. On average, in days, how long does it take JLL to address a service request?

4. How many times have you had JLL come back for a service request that JLL had already completed?

   0
   1 to 3 times
   3 to 5 times
   5 to 10 times
   Greater than 10 times

5. What aspect(s) of JLL have exceeded your expectations? Please describe.

6. In what aspect(s) would you like JLL to improve? Please describe.