

STATE OF NORTH CAROLINA
Office of the State Auditor



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**Office of State Auditor Response to the
Program Evaluation Division Report to Improve the Efficiency of The
State's Administrative Services**

Session Law 2017-57 required the Program Evaluation Division (PED) to conduct measurability assessments, as provided in Chapter 143E of the General Statutes, and efficiency evaluations of programs and administrative activities of the Department of Administration to improve accountability reporting and to recommend potential cost savings. Session Law 2017-57 also requires the State Auditor to review the draft findings and recommendations and provide a written response to be included in the PED's report.

The following is a "best effort" to respond as the Office of the State Auditor (OSA) did not have ample time to delve into the assumptions made and data used to provide a more in-depth response.

Additionally, the OSA would like to emphasize that the effectiveness of cost savings or efficiency studies in North Carolina state government are improved when actual data that exists in North Carolina agencies is used rather than industry averages or data from other states, unless those other states are similar to North Carolina. To date, accurate and reliable data for the type of decisions that this report looks to make is practically nonexistent.

The OSA neither endorses nor opposes any of the opportunities or recommendations identified in the PED's report.

Efficiency Opportunity 1: Cost-effective achievement of state occupancy standards

Recommendation 1: The General Assembly should direct the Department of Administration to establish and enforce space utilization criteria for each state-owned and leased office facility.

State Auditor's Response:

The OSA agrees with the PED's above recommendation that this topic has the potential to produce significant savings for the state given the following:

- The number of state-owned and leased facilities and therefore the net square footage (NSF) of office space utilized by 89,000 state employees is significant
- The age of some state-owned buildings lends credence to the fact that the use at the time they were built has changed significantly over decades given changes in technology and needs/uses of state agencies

- The footprint of older state-owned buildings may not be configured to best utilize the square footage the state owns
- Buildings that were leased on an annual basis may not be the best utilization of square footage per full-time equivalent (FTE) currently
- **Most significantly**, the information necessary to evaluate the use of NSF per FTE has never been obtained or maintained by the Department of Administration. Therefore, it is doubtful that any type of assessment has ever been performed over the last two decades to ensure that North Carolina State Government is most efficiently utilizing space that is owned or leased.

Items of Concern:

The data needed to conduct the efficiency study outlined in PED's report does not exist or the data that does exist is inaccurate and unreliable. For Instance:

- There is no evidence that the Department of Administration maintains a complete and accurate inventory of all property owned or leased by the state
- Square footage utilization data, that the Department of Administration does have, is self-reported and has never been audited or confirmed
- PED attempted to use tax assessment values from Wake County Tax records but the information is inaccurate. For example, Wake County records show the Old Revenue Building was built in 1927 and has never been renovated and that the Court of Appeals building was built in 1913 and renovated in 1975. Neither is true. The Old Revenue Building was renovated in 1999 and the Court of Appeals was renovated in 2015
- To support its position, the PED report references data from a study commissioned by the McCrory Administration to determine deferred maintenance costs/deficiencies in state-owned facilities. However, the study's report states that the data they produced were not based on a "true representation" of all state-owned buildings but rather a sample of ten buildings in downtown Raleigh

Additionally, due to the complex nature of the study that PED recommends, the Department of Administration likely does not have the resources or expertise necessary to complete the study.

The OSA has not audited or verified any of the figures in the PED report. When questioned about the data, it became obvious that little to none of the data was audited or has been confirmed using reliable sources.

The information needed to establish and enforce space utilization criteria needs to be obtained, but it will be a time-consuming and complicated effort. That effort should probably be a study itself to determine the "how" and "by whom" the PED recommended project should be conducted.

Efficiency Opportunity 2: Transitioning employees from state-owned property to leased properties in lower-cost locations.

Recommendation 2: The General Assembly should direct the Department of Administration to evaluate alternatives to reduce facility management costs and generate additional revenues through more effective use of state-owned and leased office facilities.

State Auditor's Response:

The OSA agrees with the PED's above recommendation that this topic has the potential to produce savings and one-time revenues for the state given the following:

Some buildings surrounding the State Capitol are occupying high-end real estate and the occupants of those buildings could possibly perform their duties just as effectively in less expensive real estate. This would result in the state being able to sell or lease these buildings.

Items of Concern:

The data needed to conduct the study outlined in PED's report does not exist or is inaccurate. For example:

- Tax values from Wake County tax records that were used by PED to support their case are inaccurate. As stated previously, Program Evaluation attempted to use tax assessment values from Wake County Tax records but the information is inaccurate. For example, Wake County records show the Old Revenue Building was built in 1927 and has never been renovated and that the Court of Appeals building was built in 1913 and renovated in 1975. Neither is true. The Old Revenue Building was renovated in 1999 and the Court of Appeals was renovated in 2015
- Deferred maintenance costs, used in Exhibit 6 of the report is self-reported by agencies and not verified or confirmed by the Department of Administration

Additionally, due to the complex nature of the study that PED recommends, the Department of Administration likely does not have the resources or expertise necessary to complete the study.

The OSA has not audited or verified any of the figures in the PED report. When questioned about the data, it became obvious that little to none of the data was audited or has been confirmed using reliable sources.

Efficiency Opportunity 3: Utilization of contracted services to perform additional facility management services on state-owned facilities.

Recommendation 3: The General Assembly should direct the Department of Administration to perform a business case analysis of facility management services performed on state-owned property under the management of the Department of Administration.

State Auditor's Response:

The OSA agrees with the PED's above recommendation that this topic has the potential to produce savings for the state given the amount of funds spent annually (\$152.8 million) to ensure the operability of state-owned facilities.

Items of Concern:

- The PED's report points out that the Department of Administration's Facility Management Division accounted for only \$30.9 million of the \$152.8 million expended to ensure operability of state-owned facilities. There is no accountability for the Facility Management Division's 154 positions and how they spend their time. Therefore, there is no way to know if they could have provided more services and reduce the amount of contracted services

- The OSA is not aware of any processes or oversight that holds contractors accountable for the quality of the facility management services they provide. If the current standards of service are not what they should be, the cost to get those services to an acceptable level could result in additional costs
- The study needs to be done; however, the assumption that there will be cost-savings or that cost-savings will be significant should not automatic
- Most importantly, currently the data needed to effectively complete a business case analysis of facility management services performed on state-owned property under the management of the Department of Administration does not exist

Additionally, due to the complex nature of the study that PED recommends, the Department of Administration likely does not have the resources or expertise necessary to complete the study.

The OSA has not audited or verified any of the figures in the PED report. When questioned about the data, it became obvious that little to none of the data was audited or has been confirmed using reliable sources.

Efficiency Opportunity 4: Increased Compliance with State Term Contracts

Recommendation 4: The General Assembly should direct the Department of Administration to monitor enforcement of statutory compliance with the state term contract utilization requirements by state agencies.

State Auditor's Response:

The OSA agrees with the PED's above recommendation. However, there are no assurances that accurate and reliable information exists to do so.

Efficiency Opportunity 5: More effective use of competitive bidding for contracted services.

Recommendation 5a: The General Assembly should direct the Department of Administration to procure and implement a contract management system for state agency-administered contracted services.

Recommendation 5b: The General Assembly should direct the Division of Purchase and Contract to require state agencies to obtain a 10% reduction from the annual value of the original contract as a condition of awarding an amendment to a contract that extends the period of time in which a service provider is authorized to expend funds.

State Auditor's Response:

The OSA agrees with the PED's above recommendations.

Efficiency Opportunity 6: Effective use of telematics data and Recommendation

Efficiency Opportunity 7: Reduced of cost of incoming mail processing and Recommendation

Efficiency Opportunity 8: Reducing cost of outgoing mail and Recommendation

Efficiency Opportunity 9: Increased use of presort contracts for outgoing mail postage charges and Recommendation

State Auditor's Response:

As stated earlier, the OSA did not have ample time to delve into all of the assumptions made and data used in the PED's report. As such, no responses could be provided related to efficiency opportunities 6 through 9. Instead, the OSA focused our review on the efficiency opportunities with a potentially greater impact for cost-savings.