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Review of the Federal Surplus Freight Solicitation Process

Project #20180501
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Texas Facilities Commission

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◆ ◆ *★ Planning and administering facilities in service to the State of Texas ★* ◆ ◆

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Executive Summary

Overview

The Texas Facilities Commission’s Federal Surplus Program (the program) has processes in place to provide reasonable assurance that its freight solicitation goals are accomplished effectively and in compliance with relevant regulations, policies, and procedures. The table on the right shows how increased revenues and cost effectiveness have more than doubled the program’s profitability over the last three years. However, opportunities exist in streamlining the freight solicitation process, which would increase vendor participation and competitiveness, and potentially further reduce freight costs. Freight costs accounted for a significant portion (33%) of program costs over the last three years. Reductions in freight costs would potentially have a direct and positive impact on the program’s bottom line and its ability to keep handling fees (charged to donees) low.

Fiscal Year	2015	2016	2017
	\$000’s	\$000’s	\$000’s
Revenue	2,044	2,226	2,391
Freight	559	498	633
Other Exp.	<u>1,241</u>	<u>1,113</u>	<u>1,069</u>
Surplus	<u>244</u>	<u>615</u>	<u>689</u>

A benchmark of the program’s current freight solicitation process against those of similar programs in four different states found it to be the most complicated and most restrictive. The process subjects potential bidders to a lengthy contracting process (of approximately 206 days), and places high insurance requirements on them. The program currently has contracts with 17 freight vendors to move approximately 500 loads of federal surplus equipment per year, 99% of which cost less than \$5,000 in freight.

The federal surplus freight solicitation process is critical to the success of the program. It involves soliciting and contracting freight vendors to bid on the transfer of individual loads of federal surplus equipment, as allocated by the General Services Administration (GSA). A streamlined freight solicitation process is especially critical during such disasters as Hurricane Harvey when program staff accelerates its requests for federal surplus allocations for use in the affected areas.

Summary of Management’s Response

Management appreciates the detailed and professional nature of the review, performed by the Office of Internal Audit, of the Federal Surplus Freight Solicitation Process. Management intends to implement all of the recommendations for improvement of the process as soon as possible in an effort to streamline the process and make it as efficient as possible.

Background

The agency's federal surplus program manages the disposition of surplus property donated to the state by federal programs. The program requests, warehouses, and transfers surplus federal government equipment to eligible organizations such as cities, counties, state agencies, political subdivisions, schools, colleges, universities, museums, libraries, medical institutions, child care centers, and drug abuse treatment centers.

An efficient freight solicitation process is especially critical in times of national disasters when donated federal equipment has to be picked up and delivered to TFC warehouses for use in the affected areas fairly quickly. For example, in response to Hurricane Harvey, program staff worked to request additional allocations and transferred property to areas affected by the storm, for use in rescue efforts. Below are a few examples of how federal surplus donations were utilized in the aftermath of the hurricane.



Two trucks that left the San Antonio Warehouse at 8:30PM on Wednesday (9/6/17) and were already in use by 8:00AM the next morning on the east side of Houston.



Jefferson County Draining District No. 6 (Beaumont) pictured here loading sand bags on a truck and trailer acquired from TFC's federal surplus program.



High-water vehicles and supplies headed to Houston from TFC's Federal Surplus Warehouse in San Antonio.



Rescues in Northeast Houston performed by volunteers from the National U.S. Armed Forces Museum utilized vehicles provided by TFC's federal surplus program.

Closing

We would like to thank program management and staff for the cooperation and assistance provided to the audit staff. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-1438.

Detailed Issues with Management Responses

Operational Efficiency – The Use of Contracts

The current federal surplus freight solicitation process is complicated and restrictive. It requires all freight carriers to sign a 45-page contract prior to being given the opportunity to bid on individual loads. A review of the program’s current 17 freight contracts for timeliness found the process (from purchase requisition to contract execution) to take an average of 206 days. This is too long, and could be discouraging potential candidates and limiting the program’s bidder pool.

A review of the program’s load transaction data shows that most of the individual loads are quite small with more than 50% of the loads costing less than \$1,000 in freight, and 99% of them costing less than \$5,000 in freight. See table below for details.

Table of Freight Charges for Individual Loads (by dollar amount)												
	<\$1,000		\$1,001-\$2,000		\$2,001-\$3,000		\$3,001-\$4,000		\$4,001-\$5,000		>\$5,000	
FY 2015	247	52.3%	113	23.9%	70	14.8%	28	5.9%	13	2.8%	1	0.2%
FY 2016	240	53.3%	89	19.8%	99	22.0%	19	4.2%	1	0.2%	2	0.4%
FY 2017	244	46.7%	122	23.3%	121	23.1%	30	5.7%	4	0.8%	2	0.4%
Overall	731	50.59%	324	22.42%	290	20.07%	77	5.33%	18	1.25%	5	0.3%

A benchmark (performed as part of this review) of the program against four other federal surplus programs (in Georgia, Louisiana, Mississippi, and Oklahoma) found the agency’s to be the most complicated. None of the other programs require freight carriers to have contracts. Since Texas state procurement rules do not require contracts for purchases of less than \$25,000, the agency should discontinue the practice of requiring vendors to sign a contract before they can be eligible to bid on individual loads.

In addition, the program’s contracts require vendors to have insurance coverage of \$1,000,000 per occurrence and cargo insurance of a minimum single limit of \$100,000 per shipment, significantly more than what similar programs require. None of the four other federal surplus programs surveyed as part of the benchmark require carriers to provide cargo insurance as the assets are allocated by the GSA to the donee at no cost for the asset and the programs have no insurable interest in the cargo.

Both Legal Services and Procurement staff are supportive of discontinuing the use of contracts for freight services of less than \$25,000 per load. However, Legal Services will need to develop a hold-harmless agreement to be signed by brokers and carriers prior to moving any loads for the agency to ensure the agency is sufficiently protected.

Discussions with the General Counsel and agency's Insurance Specialist indicate that they are amenable to eliminating the cargo insurance requirement and keeping (in place) the current commercial liability and commercial automobile liability limits to protect the agency.

Recommendations:

Program management, in collaboration with Legal Services, Procurement staff and Insurance Specialist, should streamline the Federal Surplus Freight Solicitation Process by:

- (i) Eliminating the requirement for a contract before a vendor is eligible to bid on individual loads.
- (ii) Developing a hold-harmless agreement to be signed by freight carriers instead of a contract.
- (iii) Eliminating the requirement for cargo insurance.
- (iv) Providing the agency's insurance specialist a copy of freight carrier's Certificate of Insurance (COI) showing commercial liability and commercial automobile liability insurance of \$1,000,000 per occurrence coverage prior to the carrier bidding on a load.
- (v) Tracking the expiration dates of carrier's COIs and obtaining a replacement COI one month prior to the certificate's expiration date.
- (vi) Continuing to have brokers sign both the Worker's Compensation Waiver and the Broker's Affidavit Regarding Underlying Carriers.
- (vii) Eliciting feedback from the program's freight carriers and brokers on the new process.

Management Action Planned

- (i) *Management agrees with this recommendation and will work with Procurement and Legal to make the transition from formal contracts to a purchase order-based agreement. Preliminary meeting with Procurement Purchaser was held on 4/27/2018 to discuss possible methods to implement this change in a manner that satisfies all parties involved. Additional meetings will be scheduled with all parties with a goal to post the new Request for Qualifications (RFQ) in early summer with an anticipated start date of 9/1/2018 for the new agreements.*
- (ii) *Management agrees with this recommendation as well. Staff plans to meet with Legal and Procurement staff in the coming weeks to discuss new vendor agreement that includes the hold-harmless statement that Legal desires, but also retains certain items from previous solicitation that the Surplus Program views as critical to effective contract management (i.e. schedule of allowed additional vendor fees).*
- (iii) *Management agrees with this recommendation and will consult with Legal and Insurance Specialist to finalize a revised list of insurance requirements before the new RFQ is posted.*
- (iv) *Management agrees with this recommendation and will provide the Insurance Specialist a copy of the COI before sending the vendor bid invitations under the new agreement.*

- (v) *Management agrees with this recommendation. Program staff will consult with Insurance Specialist to determine the best course of action that is in line with standard agency policy regarding the monitoring of COIs.*
- (vi) *Management agrees with this recommendation and will ensure that the Worker's Compensation Waiver and the Broker's Affidavit Regarding Underlying Carriers will be part of the agreement that the vendor must sign as part of the vendor's response to the RFQ.*
- (vii) *Management agrees with this recommendation and will work to develop a system for effectively and efficiently soliciting feedback from the vendors. Management has already tasked Surplus Marketing Specialist with researching survey services (i.e. Survey Monkey) that will assist in this effort. Management anticipates that the survey will be distributed approximately 6 months after the start of the new agreement so that the vendors may have sufficient time to assess its impact.*

Responsible Parties

- (i) *Surplus Program Management, Surplus Transportation Specialist, Procurement Director, and General Counsel.*
- (ii) *Surplus Program Management, Surplus Transportation Specialist, and General Counsel.*
- (iii) *Surplus Program Management, Surplus Transportation Specialist, and Insurance Specialist.*
- (iv) *Surplus Program Management, Surplus Transportation Specialist, and Insurance Specialist.*
- (v) *Surplus Program Management, Surplus Transportation Specialist, and Insurance Specialist.*
- (vi) *Surplus Program Management, Surplus Transportation Specialist, and Procurement Director.*
- (vii) *Surplus Program Management, and Surplus Marketing Specialist.*

Estimated Completion Date

- (i) *September 1, 2018*
- (ii) *June 30, 2018*
- (iii) *June 30, 2018*
- (iv) *September 1, 2018*
- (v) *September 1, 2018*
- (vi) *Ongoing*
- (vii) *March 1, 2019*

Objectives and Conclusions

The overall audit objective was to determine the extent to which the federal surplus freight solicitation process ensures that the federal surplus program's goals are accomplished efficiently, effectively and in compliance with relevant regulations, policies, and procedures. Identify opportunities to streamline the freight solicitation process.

The review focused primarily on the federal surplus freight solicitation process from September 1, 2015 to August 31, 2017. Fieldwork was conducted in March 2018. The detailed audit objectives and conclusions are described next.

Objective 1 – Operational Effectiveness

1.1 Determine the extent to which the federal surplus freight solicitation process supports the program in meeting its goals.

The federal surplus freight solicitation process supports the program in meeting its goals. Goals are in-line with the state procurement goal of ensuring best value to the state. In this case it is to award the load to the lowest bid unless on the rare occasion that this is not feasible due to a strict time constraint or emergency. The program has procedures in place to guide staff in the event of a tie bid.

Testing performed of the load bidding process showed that 100% (24 out of 24) of the loads tested were awarded to the lowest bidder.

1.2 Determine the extent to which the federal surplus freight solicitation process allows the program area to keep prices to donees low.

The federal surplus freight solicitation process supports the program area in keeping donee costs low.

The program area recovers costs by charging donees a handling fee for assets allocated to the donee by the GSA. The handling fee includes program costs, overhead, and freight.

Objective 2 – Operational Efficiency

2.1 Determine the extent to which the agency's federal surplus freight solicitation process operates efficiently (timely).

There are opportunities for improvement in the efficiency of the federal surplus freight solicitation process. The current process requires freight carriers to sign a 45-page contract with the agency prior to being given the opportunity to bid on individual loads. A review of the program's current 17 freight contracts showed that the process (origination of purchase requisition to contract execution) took an average of 246 days.

Greater than 99% of the loads from fiscal years 2015-2017 are under \$5,000.00, and only require a hard copy quote from one bidder if “best value” is observed.

2.2 Determine the extent to which the agency’s federal surplus freight solicitation process, individual load bidding, operates efficiently (timely).

The agency’s federal surplus freight solicitation process, individual load bidding, operates efficiently (timely) and as described in written program procedures.

One hundred percent (24 out of 24) of the loads tested for compliance with the program’s bid procedures were found to be in compliance. For the 24 loads tested, it took the program an average of 1.1 days from when staff sent out a request for bids to when the bid was awarded.

Objective 3 – Regulatory Compliance

3.1 Determine the extent to which the agency complies the Texas Government Code §322.020 requirement to report contracts with a value that exceeds \$50,000 to the Legislative Budget Board (LBB).

The agency complies to Texas Government Code §322.020 requirement to report contracts with a value that exceeds \$50,000 to the LBB). A list of the program’s freight contracts was obtained and tested for compliance. One hundred percent (17 out of 17) of the contracts were reported to the LBB as required.

3.2 Determine the extent to which the agency’s federal surplus program staff complies with Contract Manager Training & Certification required for state employees conducting the functional responsibilities of a contract manager.

The agency has processes in place to ensure the program is compliant with the CTCM requirement. Three program staff perform functional duties of a contract manager, and they all (3 out of 3) had the CTCM designation.

Objective 4 – Policies and Procedures

4.1 Determine the extent to which the agency’s federal surplus freight solicitation process has policies and procedures in place to support the program area’s management and staff in attaining the federal surplus’ objectives and goals.

There are sufficient policies and procedures in place to support the Federal Surplus Freight Solicitation Process objectives and goals. The FSP Procedure Manual, performance measures, and assorted procedures are maintained on the agency’s shared drive.

Scope and Methodology

The overall audit objective was to determine the extent to the Federal Surplus Freight Solicitation Process ensures that the Federal Surplus Program's goals are accomplished efficiently, effectively and in compliance with relevant regulations, policies, and procedures. Identify opportunities to streamline the freight solicitation process.

The audit focused primarily on the solicitation process of freight services associated with the federal surplus property program from September 1, 2015 to August 31, 2017. Fieldwork was conducted in April 2017.

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

- Review applicable laws, rules, and established procedures.
- Review management's documentation of controls and controls monitoring.
- Review records, information systems and databases.
- Review processes relating to control and management of data and access thereto.
- Conduct interviews with staff.
- We benchmarked processes against comparable peer organizations.

Report Distribution

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TFC Mission Statement

The Texas Facilities Commission (TFC) mission is to support state government through strategic planning, asset management, design, construction, maintenance, and leasing of state facilities and the reallocation and/or disposal of state and federal surplus.

Office of Internal Audit's Mission Statement

Our mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Project Team

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