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Review of Internal AEC Services

Project #20180301
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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

Texas Facilities Commission's Internal Architectural Engineering and Construction (AEC) Services has sufficient controls to provide reasonable assurance that the agency's in-house design and construction services (typically for interior remodeling projects) are delivered efficiently, effectively, and in compliance with relevant regulations, policies, and procedures. Project design reviews by licensed professional architects ensure compliance with building codes, accessibility standards, professional regulations, and TFC building standards. The recent implementation of a BLK360 3D scanner should significantly improve the efficiency and accuracy of Internal AEC's existing condition verification process. The recent addition of a cost estimator (to the Project Support team) has significantly reduced response time for preliminary estimates and freed up Minor Construction staff to focus on construction work. In addition to good team communication, the Internal AEC leadership provides senior management with a project status update every other week. The team cohesion from the good up-and-down communication processes has, in turn, yielded high employee retention while supervisor monitoring of staff utilization rates and project progress reports ensure high employee productivity rates.

Opportunities for improvement exist in the areas of financial management and customer feedback.

Background

Internal AEC Services, the agency's internal design-build team, is relatively new. It was formed approximately three years ago with the merger of the agency's Minor Construction (a \$3 million/year cost recovery program) and Project Support (a 7-year old team which provides architectural and engineering design services). Minor Construction has 20 employees, including a manager, project coordinators, supervisors, electricians, carpenters, and painters while Project Support has 7 employees including licensed architects, CADD manager, project designers, and a construction cost estimator. One of the Project Support employees is Leadership in Energy and Environmental Design (LEED) accredited. Minor Construction handles over 1,000 projects each year, ranging from installing a single electrical outlet to a full floor remodel. Project Support handles an average of 150 projects a year, focusing on compliance with building codes, accessibility standards, professional regulations, and TFC building standards.

Internal AEC Services' primary responsibility is to provide design and construction services for typically small interior remodeling projects that require a quick-turn-around. These services are provided for client agencies in state-owned buildings in the Austin area. Internal AEC Services also provides technical support for Facilities Design and Construction's (FDC) Project Management Group and tenants outside the Austin area.

Summary of Management's Response

Management appreciates the opportunity provided by this review of the effectiveness and efficiency of Internal AEC Services' policies, processes, and procedures. Internal Audit staff have exhibited a high degree of professionalism and courtesy in the performance of their audit duties.

Closing

We would like to thank Internal AEC Services and Fiscal Services 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

1. Financial Management

1.1 Financial Management – Full Cost Recovery

The agency's charge-out rate for its internal design and construction work does not ensure full cost recovery. The audit's recalculation of the charge-out rate for Minor Construction found it to be understated by 15%, which (at 28,000 billable hours) amounts to approximately \$290,000 per year. The agency's Budget Office is responsible for the periodic review and update of Minor Construction's charge-out rate. The Budget Office performs a comprehensive rate study every biennium. The most recent rate study was performed in 2016, and does not include recent staffing changes within the Project Support team.

The General Appropriations Act requires Minor Construction to operate as a full cost recovery program and adjust the charge-out rate accordingly.

Recommendation

The agency's Budget Office should perform a recovery rate study for Minor Construction at least annually.

Management Action Planned

Management concurs with the above recommendation and Fiscal staff will perform and document a recovery rate study for Minor Construction annually.

Responsible Parties

Chief Financial Officer, and Budget staff

Estimated Completion Date

May 30, 2018

1.2 Financial Management – Accounts Receivable

Internal AEC Services' accounts receivable management processes do not ensure that revenues are collected in a timely manner. A review of Minor Construction's aged Accounts Receivable listing for February 2018 found balances totaling \$115,278.71 to be more than 90 days old, including amounts of \$43,081.84, \$20,509.56, and \$2,120.00 at 228 days, 331 days, and 365 days old, respectively. A close review of the balances indicate that the amounts are owed by a couple

of agencies, one of which is in transition due to a recent merger which included a consolidation of central administration services.

Minor Construction originally had an FTE assigned to them that was responsible for billing and collections. At some point, before Internal AEC Services came into being, that FTE was transferred to the Planning and Real Estate Management (PREM) division along with the responsibility for Minor Construction billing and collections. This arrangement (i.e. assigning PREM the responsibility for collecting accounts receivables for a unit within a different division) makes it difficult for agency management to hold Minor Construction accountable for the timely collection of its accounts receivable. When PREM experienced turnover in this position, no arrangements were made to formally reassign responsibility for Minor Construction's accounts receivable collections. Ideally, the FTE responsible for collecting Minor Construction's accounts receivables should report directly to the Minor Construction manager with respect to those duties.

Discussions also indicate that PREM does not have formal procedures for the collection of accounts receivable. In addition, Minor Construction management indicated it has not always received the aged accounts receivable report monthly. Discussions with the Interim Chief Financial Officer indicate that in some cases the invoices had been sent to a tenant's program area instead of their Accounts Payable department. The Interim Chief Financial Officer informed the audit that he has communicated the relevant (correct) tenant contacts for invoices to program staff.

Recommendations

- (i) Agency management should formally assign the responsibility of collecting Minor Construction's accounts receivables. Ideally, the individual responsible for the collections should report directly to the Minor Construction manager, regarding the collections.
- (ii) Management should develop accounts receivable procedures, and provide staff with training, as needed.
- (iii) Fiscal management should provide Internal AEC Services with guidance on best practices regarding accounts receivable collections.
- (iv) Fiscal management should provide Internal AEC Services with its aged Accounts Receivable report, at least monthly, to assist with collection efforts.

Management Action Planned

Management concurs with the above recommendations:

- (i) *The Accounting Technician for PREM is currently responsible for collecting Minor Construction receivables. Agency management will assess the task assignments of the PREM Accounting Tech. and other cost recovery personnel managing collections to establish the best assignment of this task. We agree that the assignment should fall to resources, the management of which, converges to a much lower level than Executive*

level. This ensures the vested interest in and accountability for the success of the collections to support the program.

- (ii) *PREM Accounting Technician, and Minor Construction Manager are currently working closely with the Acting Chief Financial Officer to develop appropriate accounts receivable procedures.*
- (iii) *Fiscal staff will meet with Internal AEC Services staff to provide guidance with accounts receivable collection best practices. They will have monthly follow up meetings for three months after implementation to measure the effectiveness of the process.*
- (iv) *Fiscal Management acknowledges that monthly aging accounts receivable reports were not sent out consistently and will provide them monthly. Fiscal will also provide ad hoc reports at AEC Services' request.*

Responsible Parties

- (i) *Executive Director, Deputy Executive Director for FDC, Director of Property Management Services, and Director of Internal AEC Services.*
- (ii) *Chief Financial Officer, Director of IAECs, Minor Construction Manager, Director of Property Management Services, and PREM Accounting Technician*
- (iii) *Chief Financial Officer, Accounts Receivable Accountant, Minor Construction Manager, and Minor Construction's Administrative Assistant.*
- (iv) *Chief Financial Officer and Accounts Receivable Accountant.*

Estimated Completion Date

May 30, 2018

1.3 Financial Management – Periodic Financial Reports

Current agency processes do not ensure that Internal AEC Services management is provided with monthly financial reports (to inform management decisions). The Minor Construction manager indicated that he has not received financial operating reports (from the Budget Office) on a consistent basis. Consistent financial reporting would assist Internal AEC Services management in its monitoring of program performance. In addition, fiscal management could provide Internal AEC Services management with read-only access to relevant modules within the agency's financial accounting system, GFAS. Budget Office staff indicated that it has now started to provide the reports on a monthly basis.

Recommendations

Budget Office staff should continue to provide Internal AEC Services with monthly reports, for use in its decision-making. Consider providing Internal AEC Services management with read-only access to the relevant parts of the agency's financial accounting system.

Management Action Planned

Management concurs with the above recommendations and will provide monthly reports. Fiscal will provide inquiry only access to the agency's financial accounting system to AEC Services management to allow them real time access to financial information. Fiscal will also provide training to AEC Services management on the screens they will use.

Responsible Parties

Chief Financial Officer, Budget staff, and Chief Accountant.

Estimated Completion Date

April 30, 2018

2. Operational Effectiveness

2.1 Operational Effectiveness – Customer Feedback

Internal AEC Services has not formally sought feedback from its customers on a regular basis. Customer satisfaction feedback should be a key performance indicator that helps staff focus on the importance of fulfilling customer expectations. A customer satisfaction survey program allows management to measure and monitor customer satisfaction consistently and regularly. Ideally, management should use both transactional and relationship-type surveys. A transactional survey is designed to investigate the experience the customer has had within a particular work order, while a relationship survey is designed to gain the customer's overall opinion of the agency from their experiences. Surveys provide hard data which, in turn, allows management to act on insight. Not having such a process increases the risk that TFC is not responsive to client needs, which, in turn, could elevate the agency's reputational risk.

Recommendation

Management should improve operational effectiveness by obtaining formal feedback from customers to assist with meeting stakeholder expectations. Transactional surveys after every major project and annual relational surveys should assist management in ensuring that customers are satisfied.

Management Action Planned

Although passive measures are currently in place (a link in e-mail signature blocks to TFC customer satisfaction surveys), management concurs with the above recommendations and will develop and institute active and/or additional passive procedures to address this issue. Possible solutions could include:

- For projects with a total construction cost estimated at \$25,000 or more:
 - Upon issuance of professionally sealed documents:
 - Personal e-mail from the IAECs Director specifically requesting customer feedback;
 - Personal e-mail from the Project Support Manager specifically requesting customer feedback; and/or
 - E-mail generated by the Facilities Service Center upon selection of a radio button at the time of issuance of professionally sealed documents.
 - Upon construction completion:
 - Personal e-mail from the IAECs Director specifically requesting customer feedback;
 - Personal e-mail from the Minor Construction Manager specifically requesting customer feedback; and/or
 - E-mail generated by the Work Order System upon selection of a radio button at the time of final billing.
- Development and deployment of a survey specific to Project Support services annually.

Responsible Parties

Executive Director, Deputy Executive Director (FDC), IAECs Director, Minor Construction Manager, Project Support Manager, and Applications Development Manager.

Estimated Completion Date

August 31, 2018

3. Regulatory Compliance

3.1 Regulatory Compliance – Monthly Billings

Agency processes do not ensure compliance with Texas Government Code §2166.005 requirement for monthly billing for services provided. None of the twelve projects tested for compliance had been billed timely. The 12 projects were billed out 2 to 15 months after the service was provided. Discussions with staff indicated that billings are performed when the balance reaches or exceeds \$10,000, at fiscal year-end, in response to a request by either party, or when the project is completed. However, the Texas Government Code §2166.005 requires the agency to bill monthly.

Recommendation

Program management should improve compliance by revising its billing processes to ensure an invoice is sent out after the close of each month for all active projects.

Management Action Planned

Management concurs with the above recommendations and, following assessment of accounts receivable assignments and determination of appropriate personnel designations, will work with PREM and Fiscal Divisions to develop and implement billing processes and procedures to bill on a monthly basis for all active Minor Construction projects with billable activities during the billing period.

Responsible Parties

IAECS Director, Minor Construction Manager, Chief Financial Officer, Director of Property Management Services, Legal Services, and Applications Development Manager.

Estimated Completion Date

August 31, 2018

Objectives and Conclusions

The overall objective of this audit was to determine the extent to which Internal Architecture, Engineering, and Construction (AEC) Services' processes ensure agency goals are accomplished effectively and efficiently, and in compliance with relevant regulations, policies, and procedures. Further, determine the extent to which Internal AEC Services' processes are adequate to provide design and construction services for small interior remodeling projects that require a quick turn-around. Furthermore, determine the extent to which Internal AEC Services provides technical support to the Facilities Design and Construction management team and client agencies outside the Austin area.

Objective 1 – Operational Effectiveness

1.1 Determine the extent to which all of the agency's Minor Construction project costs are completely and accurately captured, and passed on to the tenant agency.

The agency's Minor Construction program has processes in place to ensure project costs (materials, labor, etc.) are accurately captured and passed on to the tenant agency. Relevant costs are captured and tracked by work order number within the agency's Work Order System (WOS).

Key controls include a daily log of staff hours and third party invoices into the WOS, and Minor Construction manager's reconciliation of the job folder with the WOS prior to project close-out to ensure all costs have been included into the system (for billing).

1.2 Determine the extent to which the agency's rate used to recover costs for staff time recovers all costs (including overhead, executive, and fringe).

The agency's charge-out rate for its internal design and construction work does not ensure full cost recovery. The audit's recalculation of the charge-out rate for Minor Construction found it to be understated by 15%, which (at 28,000 billable hours) amounts to approximately \$290,000 per year.

1.3 Determine the extent to which agency processes ensure accounts receivables are collected timely.

Internal AEC Services' accounts receivable management processes do not ensure that revenues are collected in a timely manner. A review of Minor Construction's aged Accounts Receivable listing for February 2018 found balances totaling \$115,278.71 to be more than 90 days old.

1.4 Determine the extent to which Internal AEC Services has processes in place to ensure customer satisfaction.

Internal AEC Services has not formally sought feedback from its customers on a regular basis. Customer satisfaction feedback should be a key performance indicator that helps staff focus on the importance of fulfilling customer expectations.

Objective 2 – Operational Efficiency

2.1 Determine the extent to which Internal AEC Services’ design processes ensure accuracy and operational efficiency.

Internal AEC Services’ design processes provide reasonable assurance of accuracy and operational efficiency. The recent implementation of a BLK360 3D scanner should significantly improve the efficiency and accuracy of Project Support’s existing condition verification process. Prior to use of the scanner, Project Support management or staff was required to take thousands of manual measurements to produce an accurate representation of a building. With the scanner, the same work can be completed in a day and with more precise measurements.

In addition, the recent addition of a cost estimator (to the Project Support team) has significantly reduced response time for preliminary estimates (days rather than weeks) and has freed up Minor Construction staff to focus on construction work.

2.2 Determine the extent to which Internal AEC management processes ensure high levels of employee productivity.

The Internal AEC area is well managed. The Minor Construction manager tracks individual employee productivity on a daily basis to ensure the unit accomplishes its goal of 70% productivity (i.e. billable hours). Budget Office’s latest labor utilization report, dated April 25, 2017, showed Minor Construction’s productivity at 72%, i.e. exceeding its goal. Project Support manager’s performance targets regarding each step of the project planning and design process assist in ensuring the staff meets management expectations.

2.3 Determine the extent to which the agency’s Internal AEC Services’ processes provide adequate communication between Project Support and Minor Construction.

The agency’s Internal AEC Services has processes in place to ensure good communication between Project Support and Minor Construction. The program’s standing meetings which are held every other Monday, provide good communication and collaboration between Project Support and Minor Construction. In addition, Internal AEC Services’ leadership meets with the Deputy Executive Director of Facilities, Design, and Construction (FDC) every other week to discuss progress on internal design-build projects.

Both the Project Support and Minor Construction managers work closely with their staff. The good communication processes have cultivated team cohesion and good employee retention.

Objective 3 – Regulatory Compliance

3.1 Determine the extent to which the agency’s Internal AEC Services management and staff maintain required licensure.

The agency has processes in place to ensure that Internal AEC Services management and staff maintain required licensure.

The State of Texas requires licensure for architectural, engineering, and electrical services. Ten Internal AEC Services staff currently hold professional licenses. The audit was able to verify that all licenses are current.

3.2 Determine the extent to which the Internal AEC Services' processes ensure compliance with Texas Government Code §2166.005's requirement for monthly billing for services provided.

Internal AEC Services' processes do not ensure compliance with Texas Government Code §2166.005. Of the twelve projects tested for monthly billing, all (12 out of 12) projects were not in compliance. The billings ranged from 2 to 15 months after service delivery.

Currently billings are triggered when 1) the unbilled balance meets or exceeds \$10K; 2) at fiscal year-end; 3) when requested by either party or 4) when the project is complete.

3.3 Determine the extent to which the agency maintains compliance with Texas Government Code §469.101 Elimination of Architectural Barriers.

Internal AEC processes have sufficient controls to provide reasonable assurance of compliance with Texas Government Code §469.101 Elimination of Architectural Barriers and the Administrative Rules of Texas Department of Licensing and Regulation, Chapter 68.50. For all (6 out of 6) of the projects greater than \$50,000 tested, management had registered the project with Texas Department of Licensing and Regulation and submitted plans to a Registered Accessibility Specialist (RAS) for review within the required 20 business days.

3.4 Determine the extent to which the agency's Internal AEC Services ensures compliance with Texas Government Code §2166.257.

The agency's Minor Construction area is not subject to Texas Government Code §2166.257 because its work is exclusively on existing facilities.

3.5 Determine the extent to which the agency ensures plans and specifications are created in compliance with Texas Administrative Code §2166.

The agency has processes in place to ensure plans and specifications are created in compliance with Texas Administrative Code §2166.

The program has sufficient expertise (i.e. architects, engineers, and skilled drafts people) to ensure compliance. In addition, the program has good procedures, including pre-approved templates, that assist in ensuring that plans and specifications are 1) clear and complete; 2) permit execution of the project with appropriate economy and efficiency; and 3) conform with project analyses as required by Texas Administrative Code §2166.

3.6 Determine the extent to which the agency's Internal AEC Services area complies with Texas Legislative Session 84, Senate Bill 20, Contract and Purchase Information Posting requirement.

Internal AEC Services procedures are sufficient to maintain compliance with Texas Legislative Session 84, Senate Bill 20, Contract and Purchase Information Posting requirements. A sample of key contracts (6) was tested for compliance with state reporting

requirements, with no exceptions. All the relevant contracts were posted on the agency's website and reported to the LBB, as required.

3.7 Determine the extent to which the agency's Internal AEC Services area generally complies with relevant state and federal regulations.

The agency's Internal AEC Services has sufficient controls in place to prevent, detect, and correct incidences of non-compliance with relevant state and federal regulations. Internal AEC has controls for compliance with Architectural Barriers Texas Accessibility Standards (TAS). Plans and specifications for projects over \$50,000 are reviewed and sealed by a licensed architect or engineer. The project is then registered online with the Texas Department of Licensing and Regulation (TDLR) and the sealed documents are submitted to a qualified Registered Accessibility Specialist (RAS) for review.

Objective 4 – Design and Construction Services

4.1 Determine the extent to which the agency's design and construction services for small interior remodeling projects are turned around quickly (within project schedule).

The agency's Internal AEC Services program has processes in place to ensure interior remodeling projects are turned around quickly, and in-line with program management's expectations. All of the 22 interior remodeling projects tested were found to have met management's expectations for timely delivery.

4.2 Determine the extent to which the agency's design and construction services projects are completed reasonably within cost estimates.

Internal AEC has processes in place to ensure projects are completed within cost estimates. All of the 12 projects tested had been completed within budget. The agreed-upon budget includes a 20% contingency. The contingency is utilized for any unanticipated expenses and unforeseeable conditions. The agency does not realize a profit or bill for unexpended labor or material costs.

Objective 5 – Policies and Procedures

5.1 Determine the extent to which Internal AEC Services has policies and procedures to guide its staff in performing its duties.

Internal AEC Services has good Project Support and Minor Construction policies and procedures, including standardized forms and checklists, to guide staff in accomplishing its duties. Policies and procedures are maintained in a share folder, providing all staff with access to them. However, management should develop formal procedures for the collection of accounts receivable.

Scope and Methodology

The overall objective of this audit was to determine the extent to which Internal Architecture, Engineering, and Construction (AEC) Services' processes ensure agency goals are accomplished effectively and efficiently, and in compliance with relevant regulations, policies, and procedures. Further, determine the extent to which Internal AEC Services' processes are adequate to provide design and construction services for small interior remodeling projects that require a quick turn-around. The audit focused primarily on Internal AEC activities from September 1, 2015 to November 30, 2017. Fieldwork was conducted in January 2018 through February 2018.

The audit was based upon standards as set forth in Texas Government Codes, agency policies and other sound administrative practices. The audit was performed in compliance with the Institute of Internal Auditors' "International Standards for Professional Practice of Internal Auditing."

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:

- We reviewed applicable laws, rules, industry standards, and established procedures.
- We reviewed management's documentation of controls and controls monitoring.
- We reviewed technology utilized by the program area, and information systems.
- We conducted interviews with staff.
- We performed tests, as deemed appropriate.

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Internal 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.

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