

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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*Serious drought.  
Help Save Water!*

April 30, 2014

Ms. Sheral Gates, Deputy Director  
Real Estate Services  
Department of General Services  
707 3<sup>rd</sup> Street  
West Sacramento, CA 95605

Dear Ms. Gates:

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) completed an audit of the Department of General Services' (DGS) Real Estate Services Division, Building Property Management Branch. The purpose of the audit was to determine if DGS was performing the required maintenance for a fully operational "Class A" building on Caltrans' District 7 building.

The final audit report includes DGS' and Caltrans response to the draft report. We request that the status of corrective actions be provided to A&I within 60, 180, and 360 days from the date of the final report. If all the findings are not corrected within 360 days from the date of the final report, we also request that the status reports be provided every 180 days until the findings are fully resolved. As a matter of public record, the final report and the status reports will be posted on Caltrans' website.

We thank you and your staff for the assistance provided during the audit. If you have any questions or need additional information, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or Juanita Baier, Audit Manager, at (916) 323-7951.

Sincerely,

A handwritten signature in blue ink that reads "William E. Lewis".

WILLIAM E. LEWIS  
Assistant Director

Enclosure

Ms. Sheral Gates, Deputy Director  
April 30, 2014  
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- c: Malcolm Dougherty, Director, Caltrans
- Norma Ortega, Acting Chief Deputy Director, Caltrans
- Cristiana Rojas, Deputy Director Administration, Caltrans
- Esteban Almanza, Chief Deputy Director, DGS
- James Derby, Assistant Deputy Director, Real Estate Services Division, DGS
- Rick Gillam, Chief, Audit Services, DGS
- Glenn A. Yee, Chief, Division of Business, Facilities and Securities,
- Carrie Bowen, District Director, District 7
- Duncan McIntosh, Deputy District Director of Administration, District 7
- Laurine Bohamera, Chief, Internal Audits, Caltrans

**P4000-0386**

**Audit of the  
Department of General Services'  
District 7 Building Maintenance**

**April 2014**

**William E. Lewis  
Assistant Director  
Audits and Investigations  
California Department of Transportation**

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## **Summary**

The Department of Transportation's (Caltrans) Audits and Investigations completed an audit of the California Department of General Services' (DGS) Real Estate Services Division, Building and Property Management Branch (DGS-BPM). The purpose of the audit was to determine if DGS is performing the required maintenance for Caltrans' District 7 office building, a fully operational "Class A" building. We conducted the audit in accordance with the terms and conditions of the interagency agreement between Caltrans and DGS, dated August 3, 2004, and in compliance with California Government Code (CGC) Section 14600 and 14685(a), and the State Administrative Manual (SAM) Chapter 1330.

Our audit disclosed that, between January 1, 2009, through June 30, 2013, the building was not properly maintained, resulting in excessive repair costs and reduced lifetime for the facility and equipment. We identified the following weaknesses:

- Low Staffing Levels
- Delay in Awarding Service and Repair Contracts
- No Existing Interagency Agreement Between DGS and Caltrans
- Inadequate Oversight
- Incorrect Overtime Billing Rate
- No Detailed Billing Information

According to DGS, during the period under review the State was in a financial crisis and there were staffing reductions and a hiring freeze. Our audit noted that since January 2012, there have been improvements in the maintenance of the building.

## **Background**

DGS was created to provide centralized services including planning, acquisition, construction, and maintenance of state buildings and property. According to CGC 14685(a), DGS shall appoint staff as necessary to maintain the state buildings and grounds. SAM, Chapter 1330 states that DGS manages, maintains, and operates state buildings and grounds. Part of DGS' mission is to preserve the state's investment in real property and equipment through an efficient and effective centralized maintenance and operations program.

DGS is responsible for managing state-owned buildings and properties in geographic locations where it is cost effective to do so. DGS also provides building management and administration, operations, maintenance, janitorial, groundskeeping, and repair services necessary to support the state's real estate assets.

**Background  
(continued)**

In Fiscal Year (FY) 2001/02, the Legislature approved the construction of a 716,200 square foot building to replace the existing Caltrans District 7 office building. In FY 2004/05 Finance Letter No. 9, approved on February 6, 2004, secured the funds to ensure that effective operations and maintenance practices, procedures and performance measurements were developed and fully implemented to maintain the entire facility at a Class "A" building level. DGS became the project manager for the construction, awarded the construction contract, assigned inspectors to monitor the contractor's and subcontractor's work, and approved all payments. Upon completion of the District 7 building in 2004, DGS became responsible for the maintenance and landscaping.

According to DGS' cost proposal dated April 30, 2003, DGS-BPM will provide full operation and maintenance of the new District 7 building, and the existing Transportation Laboratory/Construction Field Office and the Materials Laboratory. The cost proposal states that a minimum of 17 trade personnel are needed along with several service contracts to efficiently maintain the District 7 building and equipment. An interagency agreement for FYs 2004-05 and 2005-06 was signed on August 3, 2004, specifying the number of positions.

Within Caltrans, the Division of Business, Facilities and Security (DBFS) provides professional business, information, facility and security services essential to Caltrans' successful operation. DBFS Office of Statewide Facilities and Leasing (DBFS-OSFL) is responsible for operating and maintaining Caltrans office facilities on a statewide basis. DBFS-OSFL contracted with DGS for the District 7 building and equipment maintenance services.

**Objectives,  
Scope, and  
Methodology**

We conducted an audit of DGS-BPM's processes for initiating and tracking building and equipment maintenance and repairs; issuing and monitoring service contract work; and recording expenditures invoiced by DGS on the District 7 building. We did not evaluate whether DGS, if fully staffed, was capable of maintaining the District 7 building as a "Class A" building. Instead, we used the Caltrans/DGS interagency agreement and Finance Letter No. 9 (February 2004) as criteria for our review. According to the commercial real-estate industry, a "Class A" building is considered the highest quality building in the industry; with the best construction and high quality building infrastructure.

We performed the audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. The audit covered the period of January 1, 2009, through June 30, 2013. We conducted our audit from May 6, 2013, through July 26, 2013. Activities after these dates were not tested, and accordingly, our conclusion does not pertain to activity arising after June 30, 2013.

**Objectives,  
Scope, and  
Methodology  
(continued)**

Our methodology consisted of interviewing the DGS-BPM and Caltrans staff located at the District 7 building, examining policy and procedure manuals, reviewing and testing costs and performing other analytical tests and assessments as we considered necessary to achieve the audit objectives.

The objectives of the audit were to determine whether:

- DGS is providing the appropriate amount of resources to maintain the District 7 building as required for a “Class A” building.
- DGS’ maintenance expenditures are in compliance with the FY 2004/05 Finance Letter No. 9.
- All expenditures are billed timely.
- Communication between DGS and Caltrans is timely and complete.

**Conclusion**

Our audit identified the following weaknesses:

- Low Staffing Levels
- Delay in Awarding Service and Repair Contracts
- No Existing Interagency Agreement Between DGS and Caltrans
- Inadequate Oversight
- Incorrect Overtime Billing Rate
- No Detailed Billing Information

The above issues are discussed in detail in the Findings and Recommendations section of this report. Our audit also determined that:

- The current DGS-BPM building manager and chief engineer are doing the best possible job with the available resources provided by DGS.
- District 7 building maintenance billings are for current activity, although some vendors submit bills for two to three months at a time.
- Status meetings are now held monthly and DGS-BPM provides Caltrans with the necessary reports.
- DGS’s asset management system (MAXIMO) appears to have preventative maintenance checklists for all equipment to be serviced by DGS-BPM staff.
- Since January 2012, preventative maintenance checklists sheets are retained for equipment that received service.

**View of Responsible  
Officials**

We requested and received responses from the Chief of DBFS and the Deputy Director for the Real Estate Services Division at DGS. These individuals provided a response and generally agreed with our recommendations. For a copy of the complete responses, please see Attachments 2 and 3.

**Auditor's Comments  
on DGS' Response**

DGS' response to the draft report states that BPM classified the District 7 building as "partial services building" because the building is owned by Caltrans and not DGS. The response also states that Caltrans, as the building owner, is solely responsible for deciding on the funding and priority of major building maintenance, special repair and capital outlay projects. A&I disagrees with this statement because the Interagency Agreement dated August 3, 2004, states that both "Caltrans and DGS-BPM have a direct interest in ensuring that the building operation and maintenance is at a level that is commensurate with a Class "A" building." Even though Caltrans was also impacted by the fiscal crisis mentioned in DGS' response, Caltrans made available sufficient funding for DGS to perform the necessary maintenance. A&I noted that DGS left approximately \$1 million annually in preventative maintenance funds unused.



**WILLIAM E. LEWIS**  
**Assistant Director**  
**Audits and Investigations**

**March 10, 2014**

## FINDINGS AND RECOMMENDATIONS

### **Finding 1 - Low Staffing Levels**

The Department of General Services (DGS) did not provide the proper trade personnel staffing levels, and in one case, hired a stationary engineer without the proper certification to maintain the Department of Transportation's (Caltrans') District 7 building as a Class "A" building.

Our audit found that between January 1, 2009, and June 30, 2013, DGS had a staffing level ranging between 6 and 12 filled trade positions to maintain the District 7 building and equipment. As of June 30, 2013, there was a total of 11 trade staff on hand, 8 maintenance staff and 1 chief engineer to maintain the building and equipment; and 2 staff to maintain the grounds. DGS's Real Estate Services Division, Building Property Management Branch (DGS-BPM) staffing standards require a minimum of 17 trade positions to maintain the building and equipment. This staffing level was approved through a Finance Letter issued by the Department of Finance on February 6, 2004; however, the Finance Letter added an additional position, an Associate Governmental Program Analyst (AGPA) to assist the Chief Engineer with the administrative duties required to operate and maintain the building. In addition, we found that one of the DGS-BPM stationary engineers does not have the necessary certification to service refrigeration equipment as required by 40 Code of Federal Regulations Part 82, Subpart F and DGS's own hiring policy.

We found that approximately two thirds of the preventative maintenance on equipment was not performed; and this resulted in some equipment and parts of the building not reaching their normal life expectancy. We also found that the condition of other equipment could have caused health and safety concerns as noted below:

1. Part of the heating ventilation and air conditioning (HVAC) system equipment is being replaced or repaired at a cost of \$2.1 million as noted below:
  - Condensate water pipe, victaulic and threaded pipe trim – with a normal life expectancy through 2058 – is being replaced.
  - Water treatment equipment – with a normal life expectancy through 2023 – is being replaced.
  - Cooling tower structure – with a normal life expectancy through 2023 – is being repaired.

According to the American Society of Heating, Refrigerating and Air-Conditioning Engineers, the life expectancy of the type and quality of the various parts installed in the HVAC system at the District 7 building should have lasted between 20 and 55 years.

**Finding 1  
(continued)**

2. The roof – with a normal life expectancy through 2023 – began leaking prior to February 2009, and continues to leak today. District 7 hired McCormack Roofing to evaluate the roof’s condition and it reported a de-lamination of the roof coating. According to the report, parts of the roof fabric and insulation are exposed to ultraviolet rays and weather resulting in accelerated deterioration. In addition, the water leaks could result in organic material developing, which could become toxic in nature.
3. Sump pumps stopped working, causing sewer gases to build up, which migrated into the building. According to District 7 management, this resulted in many complaints from the building occupants.

California Government Code (CGC) 14600, DGS was created to provide centralized services including, planning, uniform management practices, and to insure a continuing high level of efficiency and economy with the usage of specialized techniques and skills. Further, CGC 14685 (a), states that the Director shall appoint assistants, clerks, and employees as may be necessary to maintain the state buildings and grounds.

In addition, the State Administrative Manual (SAM) Chapter 1330, states that the DGS-BPM is to preserve the state’s investment in real property and equipment through an efficient and effective maintenance and operations program.

Low staffing levels of trade personnel affect DGS’s ability to perform required building maintenance, preventative maintenance, and equipment repairs. The result is diminished life expectancy of equipment and a fast deterioration of the building, which increases costs to taxpayers for unexpected repairs and/or replacement of equipment and parts in the building. In addition, we found that there is no assurance that work is properly performed on a timely basis. For example, we noted a repair to a leaking hot water pipe on the first floor was reported as completed; however, the leak continued for more than three months. Consequently, Caltrans incurred additional utility and janitorial costs before the leak was repaired. According to DGS Chief Engineer, whose primary duty is to ensure work is properly assigned and performed correctly and timely, he lost the AGPA administrative position when the Governor ordered a 10 percent reduction in state personnel. Therefore, he had to assume the administrative duties of his section and was unable to perform some of his primary duties.

According to DGS-BPM management, due to required staff reductions, hiring freezes, and lack of applications they were unable to fill vacant positions. DGS stated that CGC 19130 prevents them from contracting out the work unless they obtain an exemption.

**Recommendations**

We recommend that DGS:

1. Provide the staffing levels and skills approved by the Department of Finance's Finance Letter No. 9 dated February 6, 2004.
2. Fill vacancies of key personnel as soon as possible or consider contracting out the work in a timely manner.
3. Ensure that new staff have the required certifications and are properly trained to maintain all equipment.

We recommend that if DGS is not able to implement the recommendations above, Caltrans seek an exemption to Government Code 19130(b)(3) to hire a private service contractor to maintain the building and equipment based on the highly specialized nature of the services required.

**DGS' Response**

According to DGS, the District 7 office building has the necessary staffing levels to provide the necessary preventative maintenance and equipment repair services. DGS emphasizes that the three examples used in the report did not primarily result from the lack of BPM providing or contracting for preventative maintenance services. According to DGS, the HVAC equipment issues date back to the building's construction and first year maintenance that was not provided by BPM. The roof leakage was caused by a manufacturer defect; and, the sump pump issues resulted from a part that stopped working but that was immediately replaced. For a copy of the complete response, please see Attachment 2.

**Auditor's Analysis of DGS' Response**

A&I is pleased that DGS is close to being fully staffed to provide the necessary maintenance for the District 7 building. However, A&I disagrees with DGS regarding the examples for the following reasons:

- HVAC – DGS' cost proposal dated April 30, 2003, states that BPM will provide full operations and maintenance at the new Caltrans Building including the HVAC system (in the detailed cost sheet). In addition, Finance Letter No. 09 dated February 6, 2004, states that "DGS-BPM will provide full operations and maintenance upon occupancy of the new facility." Lastly, DGS' Construction Services Branch managed the construction of the building and was responsible for the installation and startup of the HVAC equipment. Our conclusion is that DGS was responsible for the first year maintenance of the building, including the HVAC equipment.
- Roof Leakage – Caltrans reported the roof leakage to DGS-BPM for several years without results. Finally, Caltrans hired the original roofing contractor to inspect the roof and the contractor determined that there was only one manufacturer defect that could have been discovered through preventative maintenance.

- Sump Pumps – A&I determined that if DGS-BPM would have done the preventative maintenance this problem would have been found and fixed before it became a major problem. The sump pumps failed because the pump’s floats got tangled up. If preventative maintenance had been performed, this issue may have been observed and fixed.

**Finding 2 -  
Delay in Awarding  
Service and Repair  
Contracts**

The DGS did not award necessary service contracts timely. We reviewed the contracts necessary to maintain the building and noted that it took anywhere from 10 months to 4 years to award some necessary service contracts as noted below, and in more detail, in Attachment A:

- Nine of 11 recurring maintenance/service contracts expired without having a new contract in place. This resulted in a lapse of contracted services to cover the preventative maintenance.
- The delay in services for 6 preventive maintenance contracts spanned from 14 months to almost 4 years before new contracts were awarded.
- Two contracts that expired on June 30, 2010, were pending approval at the end of our field work.
- The contract for key card access expired on June 30, 2010, and cannot be renewed at this time because the equipment is not serviceable and needs to be replaced.
- Five new recurring preventative maintenance contracts that were previously overlooked by DGS were recently requested, but only one has been awarded. The preventative maintenance on the equipment was not performed, causing equipment failure and health/safety concerns for building occupants.
- Other nonrecurring maintenance service and repair contracts took 10 months or more to award after funds were provided by Caltrans. These contracts included repairs to the switch gears (11 months), chiller overhaul (13 months), and building’s roof (over three years and still needs additional work).

Additionally, Caltrans requested that the cafeteria flooring be repaired due to a health and safety hazard in January 2012; however, one year later, DGS still had not awarded the contract. Finally, Caltrans arranged with a private contractor for the repair which was completed by July 2013.

SAM Chapter 1301 specifies that DGS-BPM provides for building administration, operations, maintenance, cleaning services, groundskeeping, and repair activities necessary to support customer needs for buildings and grounds. Also, Chapter 1330 adds that DGS-BPM is to preserve the state’s investment in real property and equipment through an efficient and effective maintenance and operations program.

**Finding 2  
(continued)**

For all contracts DGS awards to maintain the District 7 building, DGS-BPM is the contract manager. The State Contracting Manual (SCM), Chapter 9 introduction states that the contract manager is responsible for administering a contract and monitoring the contractor's performance. Section 9.04.A.8 states that the responsibilities of a contract manager are to assess and request amendments, renewals or new contracts as required allowing sufficient time to process and execute such changes before the contract expires or funds are depleted in order to prevent a lapse in service. It is unclear who in DGS was responsible for requesting extensions on the expired contracts or requesting new contracts; however, it is clear that DGS as an entity failed to secure new contracts when necessary. Although we found that DGS-BPM management submitted service contract requests, there was a considerable delay in contract execution and in some cases the contracts were never executed. One of the contracts that was never executed required services to correct a health and safety hazard. A contributing factor may be that DGS does not have a centralized contract unit.

Without DGS' proper administration or timely management of recurring maintenance contracts, the building and equipment life expectancy will diminish considerably as noted in Finding 1 above. In addition, neither the Building Manager nor the Chief Engineer could provide assurance that the building is properly maintained when contracts are not in place.

**Recommendations**

We recommend that DGS complies with the SCM and implements procedures to ensure that:

1. Recurring preventative maintenance and service contract requests are submitted timely.
2. Determine which services are mission-critical and ensure that those service contracts are executed timely and do not lapse.

**DGS Response**

DGS recently consolidated its purchasing and contracting functions in a new office within its Administration Division, the Office of Business and Acquisition Services. For a copy of the complete response please see Attachment 2.

**Finding 3 -  
No Existing  
Interagency  
Agreement  
Between DGS  
and Caltrans**

Currently, there is no interagency agreement between Caltrans and DGS. The original interagency agreement, dated August 3, 2004, expired on June 30, 2006, and was never renewed.

California Government Code (CGC) Section 11256, authorizes state agencies to enter into agreements to furnish services, materials or equipment to, or perform work for, other state agencies upon such terms, conditions, and considerations as they determine, subject DGS Director's

**Finding 3 -  
(continued)**

approval. SCM Chapter 3, Section 3.03 defines that a contract between two or more state agencies is an interagency agreement.

Without an interagency agreement between DGS and Caltrans, the roles and responsibilities of each party are not clear for maintaining the District 7 building and equipment.

We found that DGS has not agreed to execute an interagency agreement because they may not be able to deliver the scope of work due to unforeseen conditions. DGS staff cited issues such as: inability to fill vacancies, budget reductions, and hiring freezes, even though the funding for services is provided by Caltrans. DGS also stated that no interagency agreement is required because they have legislative authority through CGC 14660 to maintain state buildings.

**Recommendations**

We recommend that Caltrans and DGS determine if an interagency agreement can be executed and, if not, develop a Memorandum of Understanding. Whichever document Caltrans and DGS agree on, it should contain the following:

1. Clearly define the necessary services, number and classification of personnel and third party contracts required for DGS to maintain Caltrans District 7 building and equipment in a “Class A” condition.
2. Clearly define the roles, responsibilities, and staff necessary for both DGS and Caltrans, along with contingencies when one of them is unable to fulfill their responsibilities as detailed in the agreement.

**DGS Response**

DGS agrees that a written agreement would be beneficial and will work with Caltrans in preparing a Memorandum of Understanding. For a copy of the complete response, please see Attachment 2.

**Caltrans Response**

Caltrans’ DBFS will work with DGE to execute an interagency agreement or a memorandum of understanding as recommended. The agreement will be executed by August 2014. For a copy of the complete response, please see Attachment 3.

**Finding 4 -  
Inadequate  
Oversight**

Prior to July 2011, there was little or no oversight performed by Caltrans on DGS’s services for building maintenance and equipment. Neither Caltrans’ Division of Business, Facilities and Security (DBFS) nor District 7 Division of Administration – Office of Building Management (OBM) had qualified staff that could verify if DGS was maintaining the District 7 building and equipment according to manufacturer specifications and industry standards.

**Finding 4  
(continued)**

In addition, there was no documentation of DGS' oversight on the District 7 building of the commissioning and first year maintenance of HVAC equipment by the general contractor; if all preventative maintenance tasks identified by their asset management system (MAXIMO) was completed; if all required building and equipment maintenance was performed by staff or third-party contractors; and ensuring needed service contracts were awarded timely.

DGS' lack of oversight and proper documentation to track services and repairs has contributed to the deterioration of the District 7 building and equipment, thereby not safeguarding Caltrans' assets. In addition, hazardous situations could place Caltrans and the state at risk for potential lawsuits.

Although Caltrans did not have qualified staff to verify the technical aspects of DGS' work, it could have conducted the following:

- Asked for copies of annual inspection certifications and reports.
- Made visual inspections to check that DGS-BPM was maintaining the equipment and building, such as roof, air filters, sump pumps, and repairing hot water leaks.
- Hired a qualified contractor to conduct inspections of critical equipment prior to July 2011.

CGC Section 13403 (a) states that the elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, an effective system of internal review.

SCM Chapter 9 Introduction states that the contract manager is responsible for administering a contract and monitoring the contractor's performance. In addition, SAM Chapter 1330, states that DGS-BPM is to preserve the state's investment in real property and equipment through an efficient and effective maintenance and operations program.

**Recommendations**

We recommend Caltrans and DGS management implement effective and efficient procedures to document and monitor the operations for maintenance and repairs of the building and equipment.

**DGS Response**

DGS provides Caltrans with a monthly management report that specifically tracks and monitors maintenance and repair activities. DGS believes it now has sufficient practices in place. For a copy of the complete response, please see Attachment 2.

**Caltrans Response**

Caltrans' DBFS is working on creating a team to oversee the maintenance and operations of office facilities statewide. For a copy of the complete response, please see Attachment 3.

**Finding 5 -  
Incorrect Overtime  
Billing Rate**

DGS incorrectly included fringe benefits in their calculation of the overtime hourly billing rate that was used to bill Caltrans for overtime hours. Fringe benefits are already included in the calculation of the straight time hourly billing rate; therefore, including fringe benefits in the overtime calculation results in double billing for fringe benefits.

According to SAM Chapter 8740 - Billing For Services Of Employees Paid On Monthly Basis, “vacation, annual leave, personal leave program, sick leave, bereavement leave, informal time off, jury duty leave, furlough leave, and professional development leave will be compiled and averaged by the department for this computation.”

DGS’ Building Manager and Caltrans Administrator did not verify that the rates were properly established for billing purposes. DGS stated that their rates were approved by the Department of Finance, however; DGS’ published rates do not include overtime rates.

**Recommendations**

We recommend that DGS:

1. Provide detailed support showing how overtime hourly billing rates are calculated.
2. Provide Caltrans DBFS the overtime billing rates, including support, when new hourly billing rates are published.

We recommend that Caltrans:

1. Determine whether reimbursement from DGS for unsupported overtime charges is necessary.
2. Verify DGS’s overtime billing rates and request a refund when overcharges are identified.

**DGS Response**

DGS states that BPMs staff is now available to meet with Caltrans to explain the overtime hourly billing rate calculation and provide detailed support documentation for the calculation.

**Auditor’s Analysis  
of DGS’ Response**

A&I agrees that the amount is insignificant. However, A&I believes that the calculation should be corrected for all future billings.

**Caltrans Response**

Caltrans’ DBFS will work with DGS to obtain detailed support showing how overtime hourly billing rates have been calculated and then determine whether reimbursement is necessary. For a copy of the complete response, please see Attachment 3.

**Finding 6 -  
No Detailed Billing  
Information**

DGS did not provide detailed billing information for the District 7 building for the three fiscal years selected for testing. Although DGS submits monthly electronic “3310 Building Services” invoices for the District 7 building, they do not provide the level of detail needed to identify the specific equipment and work performed. This type of information is available on other Caltrans “3310 Building Services” invoices, but it was not available for the District 7 building despite several requests.

Since the detailed information was not provided, Caltrans was unable to determine the validity of costs billed. As a result, there is no assurance that the amounts billed were related to the Caltrans District 7 building.

SAM Chapter 1602 states that the State Records Management Act contained in CGC Sections 14740-14774 requires the Director of DGS to establish and administer a records management program which will apply efficient and economical management methods to the creation, utilization, maintenance, retention, preservation, and disposal of state records.

DGS-BPM informed Caltrans that obtaining detailed billing information for the requested fiscal years would be difficult to obtain because the information was not input at the detailed level.

**Recommendations**

We recommend that DGS include and retain detailed information in all future invoices.

**DGS Response**

DGS will implement processes which ensure that detailed billing information is provided for the District 7 building. For a copy of the complete response, please see Attachment 2.

**Audit Team**

Laurine Bohamera, Chief, Internal Audits  
Juanita Baier, Audit Manager  
Randy Braun, Auditor  
Edgar M. Diaz, Auditor

Ms. Sheral Gates, Deputy Director  
April 30, 2014  
Page 2

- c: Malcolm Dougherty, Director, Caltrans
- Norma Ortega, Acting Chief Deputy Director, Caltrans
- Cristiana Rojas, Deputy Director Administration, Caltrans
- Esteban Almanza, Chief Deputy Director, DGS
- James Derby, Assistant Deputy Director, Real Estate Services Division, DGS
- Rick Gillam, Chief, Audit Services, DGS
- Glenn A. Yee, Chief, Division of Business, Facilities and Securities,
- Carrie Bowen, District Director, District 7
- Duncan McIntosh, Deputy District Director of Administration, District 7
- Laurine Bohamera, Chief, Internal Audits, Caltrans

# **ATTACHMENT 1**

## **Delay in Executing Contracts Schedule**

# RECURRING MAINTENANCE CONTRACTS BY DGS

As of June 30, 2013

#	CONTRACT TYPE	Previous Contract Expiration	Lapse Period (in days)	New Contract Start Date	Contractor		
1	BMS / EBI Service and Repairs (HVAC Only)	6/30/2010	427	9/1/2011	Honeywell		
2	Chiller Plant Maintenance	6/30/2010	915	1/1/2013	Allison Mechanical		
3	Fire Alarm	6/30/2010	640	4/1/2012	HC Integrated Systems		
4	Fire Sprinkler & Inergen System	6/30/2010					
5	Pest Control	6/30/2009	1370	4/1/2013	Tovar Pest Control		
6	UPS System Maintenance	11/30/2010	821	3/1/2013	Virginia Lee Tech.		
7	Variable Frequency Drives (VFD) Units Maintenance	6/30/2010	1095	Pending final approval.			
8	Window Washing	6/30/2010	1095	Pending final approval.			
9	Card key access	6/30/2010	These two contracts will merge once all equipment and software is updated. A contract request has been submitted.				
	Security Cameras	NEW (1)					
	Scrim Maintenance	NEW (2)				New contract request is in process.	
	Sum Pumps Maintenance	NEW (3)				New contract request is in process.	
	Domestic Pumps	NEW (4)				New contract request is in process.	
	Boiler System Maintenance	NEW (5)	N/A	12/1/2012	Porter Boiler		

## **ATTACHMENT 2**

### **Department of General Services Response to Draft Report**

**Date:** April 18, 2014

**To:** William E. Lewis, Assistant Director  
Audits and Investigations  
Department of Transportation  
P.O. Box 942874, MS-2  
Sacramento, CA 94274-0001



**From:** Department of General Services  
Real Estate Services Division

**Subject: RESPONSE TO AUDIT OF THE DGS' DISTRICT 7 BUILDING  
MAINTENANCE**

Thank you for the opportunity to respond to the Audits and Investigations (A&I) office's audit of the Real Estate Services Division's (RESA) maintenance of the Department of Transportation's (Caltrans) District 7 office building, a Caltrans owned facility. RESA's Building and Property Management Branch (BPM) provides property management services for the building.

In summary, A&I concluded that, between January 1, 2009 through June 30, 2013, the building was not properly maintained. However, the auditors also noted that since January 2012 there have been improvements in the maintenance of the building.

In brief, due to a number of factors, including the state's fiscal crisis and Sale Leaseback initiative, the period under audit was a timeframe that presented unique and unprecedented challenges to BPM in efficiently and effectively performing its operating responsibilities, including preventive maintenance services in Caltrans' District 7 office building. However, with the alleviation of those conditions, BPM is confident that its current operations are being conducted in a manner that, in partnership with Caltrans, provide tenants and the public with a safe and healthy environment in which to conduct business, while preserving the state's investment in real property and equipment.

It should be noted that the District 7 building is classified as a "partial services building" by BPM because the building is owned by Caltrans and not the Department of General Services (DGS). Consequently, while BPM is responsible for general and recurring building maintenance services and bills Caltrans for the actual cost of those services, Caltrans as the building owner is solely responsible for deciding on the funding and priority of major building maintenance, special repair and capital outlay projects. As part of this process, BPM annually, in consultation with Caltrans, develops a 5-year plan listing recommended special repair projects. The funding and performance of the special repair projects, which are projects that maintain the usability of the facility at its designed service level, is of key importance in maintaining the building as a "Class A" facility. As with DGS, during the period covered by the audit, Caltrans was impacted by the state's fiscal crisis and faced challenges in funding recommended projects.

Based on the results of its fieldwork, A&I developed the following recommendations to further improve BPM's operations. In general, A&I's recommendations have merit and will be promptly addressed.

## RECOMMENDATIONS

### Finding 1: Low Staffing Levels

#### **RECOMMENDATIONS:**

*We recommend that DGS:*

- 1. Provide the staffing levels and skills approved by the Department of Finance's Finance letter No. 9 dated February 6, 2004.*
- 2. Fill vacancies of key personnel as soon as possible or consider contracting out the work in a timely manner.*
- 3. Ensure that new staff have the required certifications and are properly trained to maintain all equipment.*

#### **RESPONSE:**

Currently, BPM has sufficient trades staff to adequately maintain the District 7 office building. Specifically, BPM is budgeted for 15 trade positions<sup>1</sup>, which is sufficient to provide necessary preventative maintenance and equipment repair services. Except for one vacant stationary engineer position<sup>2</sup>, the primary trades positions (stationary engineer, electrician, and maintenance mechanic) involved in maintaining the facility are filled with fully qualified and trained staff.

As to filling key vacancies as soon as possible, this represents existing policies and practices. Specifically, in coordination with DGS' Office of Human Resources staff, BPM actively recruits and fills vacant positions. Further, for the District 7 facility, BPM currently does not have a need for contracting out its direct operating responsibilities.

In addition, BPM's current policies ensure that all new staff have required certifications and are properly trained to maintain applicable equipment. This includes the uncertified stationary engineer referenced in the report, who obtained his certification subsequent to the completion of the auditors' fieldwork.

Finally, BPM would emphasize that the three equipment conditions referenced in the report did not primarily result from the lack of BPM providing or contracting for preventive maintenance services. In brief, the HVAC equipment issues date back to the building's construction and first year maintenance that was not provided by BPM. The roof leakage issue was caused by a manufacturer defect. The sump pump issue resulted from the failure of a part that was immediately replaced when it stopped working.

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<sup>1</sup> The original agreed to staffing level in 2004 was 17 trade positions.

<sup>2</sup> As of April 2014, there are three vacant positions: Stationary Engineer, Painter and Groundskeeper.

**Finding 2: Delay in Awarding Service and Repair Contracts****RECOMMENDATIONS:**

*We recommend that DGS complies with the SCM and implements procedures to ensure that:*

- 1. Recurring preventative maintenance and service contract requests are submitted timely.*
- 2. Determine which services are mission-critical and ensure that those service contracts are executed timely and do not lapse.*

**RESPONSE:**

Recently, DGS consolidated its purchasing and contracting functions in a new office within its Administration Division, the Office of Business and Acquisition Services (OBAS). Consequently, BPM's maintenance contracts are now being processed by OBAS.

OBAS is ensuring that staff processing service contracts are properly trained in order to ensure that contracts are processed in a timely manner, while complying with state contracting requirements. As part of that process, the solicitation activity is being streamlined in order to reduce the turnaround time entering into contracts. OBAS is also working with BPM on pre-planning its contract needs to ensure the early submittal of contract requests, which will prevent a lapse in needed services. Further, for recurring maintenance service contracts, BPM has implemented a policy that the contract renewal process begin one year before an existing service contract's expiration.

**Finding 3: No Existing Interagency Agreement Between DGS and Caltrans****RECOMMENDATIONS:**

*We recommend that Caltrans and DGS determine if an interagency agreement can be executed and, if not, develop a Memorandum of Understanding. Whichever document Caltrans and DGS agree on, it should contain the following:*

- 1. Clearly define the necessary services, number and classification of personnel and third party contracts required for DGS to maintain Caltrans District 7 building and equipment in a "Class A" condition.*
- 2. Clearly define the roles, responsibilities, and staff necessary for both DGS and Caltrans, along with contingencies when one of them is unable to fulfill their responsibilities as detailed in the agreement.*

**RESPONSE:**

BPM agrees that a written agreement detailing the roles and responsibilities for operating and maintaining the District 7 office building would be of benefit in improving operating practices. Consequently, BPM staff are available to work with Caltrans in preparing a Memorandum of Understanding between the parties.

**Finding 4: Inadequate Oversight**

**RECOMMENDATION:** *We recommend Caltrans and DGS management implement effective procedures to document and monitor the operations for maintenance and repairs of the building and equipment.*

**RESPONSE:**

Overall, BPM believes it now has sufficient practices to monitor building operations. As recognized in the audit report, the building's maintenance process has improved over the last couple of years. This timeline corresponds with a change in BPM's building management. Subsequent to this change, the communication between Caltrans and BPM related to maintenance and repairs to the building and equipment has become more efficient and effective. To assist in the timely communication of maintenance and repair service activities, currently, BPM prepares and provides Caltrans with a monthly management report that specifically tracks those activities.

**Finding 5: Incorrect Overtime Billing Rate**

**RECOMMENDATIONS:** *We recommend that DGS:*

- 1. Provide detailed support showing how overtime hourly billing rates are calculated.*
- 2. Provide Caltrans DBFS the overtime billing rates, including support, when new hourly billing rates are published.*

**RESPONSE:**

In collaboration with program staff, BPM's rates are developed by DGS' Budget and Planning Section (BPS) staff. BPS staff is available to meet with Caltrans to explain the overtime hourly billing rate calculation and provide detailed support for that calculation. However, based on the very small amount of overtime incurred and billed annually to Caltrans for the District 7 building, DGS believes that the amount of "incorrect" billings, if any, would be insignificant. For Fiscal Year 2012/13, BPM overtime charges billed to District 7 totaled only 432 hours for an amount of \$29,480 with the resulting billed premium time totaling only \$11,381. The overtime charges are one percent of BPM's total employee time charges to District 7 building projects, which totaled \$3,851,721 for 88,733 employee project hours.

**Finding 6: No Detailed Billing Information**

**RECOMMENDATION:** *We recommend that DGS include and retain detailed information in all future invoices.*

**RESPONSE:**

BPM will implement processes which ensure that detailed billing information is provided for the District 7 building. Specifically, BPM will provide additional information on the monthly services billing invoice which identifies the specific work that was performed in support of the hours billed.

**CONCLUSION**

RESD is firmly committed to effectively and efficiently performing property management services for Caltrans' District 7 office building. As part of its continuing efforts to improve operations, RESD will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this report, please contact me at (916) 375-4150.



SHERAL GATES, Deputy Director  
Real Estate Services Division

cc: Esteban Almanza, Chief Deputy Director, DGS  
James Derby, Assistant Deputy Director, RESD, DGS  
Laurine Bohamera, Chief, Internal Audits, Caltrans  
Juanita Baier, Audit Manager, Caltrans

## **ATTACHMENT 3**

### **Caltrans - Division of Business, Facilities and Security Response to Draft Report**

## Memorandum

*Serious drought.  
Help Save Water!*

**To:** WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

**Date:** April 30, 2014

**File:**

**From:** CRIS ROJAS  
Deputy Director  
Administration



**Subject: AUDIT OF THE DEPARTMENT OF GENERAL SERVICES' REAL ESTATE SERVICES DIVISION, BUILDING PROPERTY MANAGEMENT BRANCH**

Thank you for the opportunity to respond to Audits and Investigation's (A&I's) recent audit of the Department of General Services' (DGS') Real Estate Services Division, Building Property Management Branch. In this audit, three findings and recommendations were issued that reflect areas in which the California Department of Transportation's (Caltrans') Business, Facilities, and Security Branch could improve their provision of services.

The three findings were that Caltrans should work with DGS to execute either an interagency agreement or a Memorandum of Understanding to define the necessary services, roles, and staff needed for maintaining Caltrans' District 7 (Los Angeles) building; that Caltrans implement more effective and efficient procedures to document and monitor the operations for the maintenance and operations programs; and that although DGS incorrectly included fringe benefits in their calculation of the overtime hourly billing rate, Caltrans did not verify that the rates were properly established for billing purposes.

We find that A&I's recommendations have merit and will be addressed promptly, following the work plan below.

Finding 3:

No Existing Interagency Agreement between DGS and Caltrans.

Response:

The Division of Business, Facilities and Security Branch (DBFS) will work with DGS to either execute an interagency agreement or a memorandum of understanding to clearly define the necessary services, number and classification of personnel and third party contracts required for DGS to maintain the Caltrans District 7 building and equipment in "Class A" condition. The agreement will also define the roles responsibilities and staff necessary for both DGS and Caltrans, along with contingencies when one of them is unable to fulfill their responsibilities as detailed in the agreement. The agreement will be executed by August 2014.

WILLIAM E. LEWIS

April 30, 2014

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Finding 4:

Inadequate Oversight (There was little to no oversight performed by Caltrans on DGS' services for building maintenance and equipment.)

Response:

DBFS is working to create a Facilities Assessment Team with statewide responsibilities over the maintenance and operations of Departmental Office facilities. The team should be formed by the end of 2014. While that group is being formed and staffed, DBFS will make sure to oversee work done by DGS in the manner of viewing annual inspection reports and certificates, making visual inspections and hiring an outside contractor to conduct critical inspections.

Finding 5:

Incorrect Overtime Billing Rate (DGS incorrectly included fringe benefits in their calculation of the overtime hourly billing rate. Caltrans did not verify that the rates were properly established for billing purposes.)

Response:

DBFS will work with DGS to obtain detailed support showing how overtime hourly billing rates have been calculated. Caltrans will determine and verify whether overtime reimbursement is necessary and request a refund for any identified overcharges. This will be accomplished by August 2014.

If you have any questions, please contact Glenn Yee, Chief, Division of Business Facilities and Security at (916) 651-1495. Thank you again for your assistance in this matter.