
February 1, 2021

Performance Audit
Recommendations and
Corrective Actions for Audit:
17-02

DEPT. OF BUILDINGS &
GENERAL SERVICES
CAPITAL PROJECTS

Projects Consistently Exceeded
Cost and Schedule Estimates;
BGS' Process Weaknesses
Hinder Its Ability to Improve
Capital Project Management

Dated: June 16, 2017

Overview

The State Auditor's Office (SAO) makes recommendations designed to improve the operations of state government. For our work to produce benefits, auditees or the General Assembly must implement these recommendations, although we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be derived from our audit work.

In 2010, the SAO began to follow-up on the recommendations issued in our performance audits. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we perform our follow-up activities one and three years after the calendar year in which the audit report is issued. Our annual performance reports summarize whether we are meeting our recommendation implementation targets.

<http://auditor.vermont.gov/about-us/strategic-plans-and-performance-reports>

This report addresses the requirements of Act 155 (2012) to post the results of our recommendation follow-up work on our website. The report does not include follow-up on recommendations issued as part of the state's financial statement audit and the federally mandated Single Audit, which are performed by a contractor. However, our current contract for this work requires the contractor to provide the results of its recommendation follow-up.

Rec #	Recommendation	Follow-Up Date	Status	Review Comments
1	Develop a system to evaluate capital construction project performance, to include a comparison of actual to expected cost, schedule, and scope and identification of root cause of differences.	2018	Partially Implemented	The Department of Buildings and General Services (BGS) reported that it is in the process of adapting an existing project tracking system to evaluate BGS capital construction project performance. Additionally, the Department reported that it began using a database to track change orders and the dollar amounts involved.
		2020	Partially Implemented	BGS is in the early stages of procuring a Workplace Information Management System (WIMS) which will store capital construction project performance information. The Department reports that it is still using the change order database to track change orders and dollar amounts involved.
2	Define the data points, such as estimated project cost, expected completion date and actual completion date, needed to evaluate capital project performance.	2018	Not Implemented	BGS reported several new measures in the fiscal year 2019 budget request including the percent of projects completed on schedule. In response to the State Auditor's Office's (SAO) request for definitions of the data points to be used to calculate the BGS performance measures, the Department explained the calculation for a few of the measures but did not provide definitions for the data points to be used in the calculations. For performance measures such as the percent of projects completed on schedule, it is important to define the data points to be used in the calculation because during the course of a project a data point such as schedule can be adjusted multiple times and using different schedules would provide a variety of results for the performance measure.
		2020	Partially Implemented	BGS reports that WIMS implementation will address this recommendation.
3	Calculate the performance measures listed in BGS' budget request for the Construction and Engineering section and report the results to the Legislature.	2018	Not Implemented	BGS reported that it had replaced the measures found in previous budget requests with new performance measures and expect to report the new measures in future budget requests.
		2020	Not Implemented	In a report to the Legislature in January 2020, BGS reported the quantity of projects initiated, projects completed, and capital funds expended in fiscal year 2019. However, the Department did not report on the performance measures listed in the fiscal year 2019 budget request such as the number of projects completed within schedule and/or within schedule.
4	Require that project managers track total actual project cost using either the Cost Tracking Spreadsheet or VISION queries based on project ID. If BGS elects to use the Cost Tracking Spreadsheet, implement internal controls such as a reconciliation to VISION and review by BGS staff independent of the preparer of the spreadsheet.	2018	Partially Implemented	BGS reported that it is in the process of adapting an existing project tracking system to evaluate BGS to evaluate capital construction project performance; the system will track estimated versus actual project costs.
		2020	Partially Implemented	BGS reports that WIMS implementation will address this recommendation.
5	Develop written policies regarding how project IDs should be used, including when use of project ID is required.	2018	Partially Implemented	BGS reported that it is working in concert with the Agency of Administration (AOA) to develop policies regarding project IDs. It expects the policies to be finished within the current fiscal year.
		2020	Partially Implemented	BGS reported that it is working in concert with the Financial Services Division to develop a policy regarding project IDs. The policy is expected to be finished by the end of June 2021.

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6	Amend the requirement to prepare a change order memo to require that project managers include significant reasons in the change order memo and quantify the dollar amount attributable to each reason.	2018	Partially Implemented	BGS reported that it has created a database to track change order information. The database contains fields for reason descriptions, for which BGS has drafted definitions, and a field for dollar amounts. However, the Department has not developed a written policy that addresses the inclusion of significant reasons and the dollar amount attributable to each reason in change order memos and has not provided training to project managers. According to BGS, they are still troubleshooting and amending the system and processes.
		2020	Implemented	BGS' change order procedures require the preparation of a Change Order Memo and the inclusion of one of four reasons for the change. In addition, one of the objectives outlined in the Design and Construction Division's strategic plan is to minimize the number and cost of change orders. BGS uses a database to track the dollar amount and associated reasons for a change order.
7	Document and define the categories to be used to describe the reason for change orders.	2018	Partially Implemented	BGS provided definitions of the categories to be used to describe the reason for change orders but explained that a final policy has not been created because they are still troubleshooting and adjusting the process for documenting and tracking the reasons for change orders.
		2020	Implemented	BGS has documented and defined four categories to be used to describe the reason for change orders. These categories have been established in the change order database and users are limited to selecting one of the four defined categories.
8	Develop a mechanism to collect and summarize reasons for change orders and the dollar impact of those reasons.	2018	Implemented	BGS reported that it has created a database for tracking change orders. The SAO reviewed screen shots from the database which demonstrated that there are fields for reasons for the change and the dollar impact of changes.
		No further follow-up is required because the recommendation has been implemented.		
9	Develop and implement policies and procedures to assist project managers with planning and managing capital construction projects, including guidance for preparation of cost estimates and site selection.	2018	Partially Implemented	BGS reported it has made some progress in the development of a procedures manual to assist project managers. Because progress has been slow due to competing priorities, the Department plans to commence a competitive bidding process to hire a consultant to support the effort.
		2020	Partially Implemented	BGS had originally intended to hire a consultant to assist in developing a procedures manual. However, the consultant bids came in higher than expected, and therefore BGS chose not to use a consultant. Instead, the Design and Construction Division has drafted a procedures manual and continues to work on developing and documenting procedures themselves.
10	Document cost estimates and maintain documentation that shows the basis for the estimate, including the method and sources used to develop the estimate.	2018	Partially Implemented	BGS reported that it is in the process of implementing an IT system to evaluate capital construction project performance which will capture cost estimates at each phase of project delivery including programming, planning, schematic design, and design development. Calculations for the cost estimates at each phase of design will be saved to the project file.
		2020	Partially Implemented	BGS intends to capture this information in WIMS when the system is implemented.

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11	Approve sole source procurement only when extraordinary circumstances exist or the vendor/contractor is the only one capable of providing the service, consistent with the requirements of Bulletin 3.5.	2018	Implemented	The State revised its guidance related to sole source procurement since the contracts reviewed during the audit were awarded and BGS management asserted that they are in compliance with the revised Bulletin 3.5 procedures for sole source procurement. According to BGS, if the process outlined in Bulletin 3.5 is not followed, a sole source procurement will not be approved.
		No further follow-up is required because the recommendation has been implemented.		
12	Request that the Agency of Administration clarify when a change to the scope of work is so significant that competitive bidding is required and a contract amendment prohibited.	2018	Not Implemented	According to the version of Bulletin 3.5 that was effective during the time of the audit, agencies were prohibited from using the contract amendment process to avoid the requirements of competitive solicitation. Effective July 1, 2016, Bulletin 3.5 specified that only an appointing authority could execute a contract amendment and that it is the responsibility of the appointing authority to ensure the amendment is not being employed to significantly expand and/or change the scope of work. BGS management asserted that they are in compliance with Bulletin 3.5 procedures. However, the Department has not requested that the AOA clarify when a change to the scope of work is so significant that competitive bidding is required and a contract amendment prohibited.
		2020	Not Implemented	BGS indicated that all change orders must either be approved by the BGS Commissioner or the Deputy Commissioner. However, the Department did not provide evidence that it requested AOA clarify when a change to the scope of work is so significant that competitive bidding is required and a contract amendment prohibited.
13	Consult with the Secretary on how to address the inconsistency between the statutory requirement for all BGS change orders to be approved by the Secretary and Bulletin 3.5's requirement for contract changes that exceed 25 percent to be approved.	2018	Implemented	Effective July 1, 2016 Bulletin 3.5 acknowledged that construction contracts may utilize a formal change order process to implement minor scope changes without delay in a project. It further specified that an agency may choose to include a change order process in its construction contracts using the standard change order process language from an approved template maintained by the Office of Purchasing and Contracting (OPC). BGS reported that the Secretary of the AOA has approved BGS' change order process via the BGS Contracting Waiver Plan, effective May 16, 2018, which BGS believes addresses the statutory requirement for Secretary approval. Further, Bulletin 3.5 requires that all change orders executed during a contract term must be consolidated into executable contract amendments any time an amendment would otherwise be required and must be routed for approvals as required by the bulletin.
		No further follow-up is required because the recommendation has been implemented.		
14	Amend the approval process for proposed change orders so that BGS staff with the requisite level of authority approve proposed change orders.	2018	Implemented	According to the BGS Deputy Commissioner, all change orders must be approved by the Commissioner or his delegate. The Deputy Commissioner approves all contracts and change orders of \$250,000 or less and the Commissioner approves all contracts and change orders greater than \$250,000.
		No further follow-up is required because the recommendation has been implemented.		

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15	Develop a process to ensure that the Secretary is notified whenever work is authorized in a proposed change order before a contract change order is executed.	2018	Not Implemented	BGS reported that the requirement to notify the Secretary of Administration is reflected in multiple sections of BGS' contract waiver plan, effective May 16, 2018, and in Article 12 of the standard template for construction contracts. However, these same provisions were in place during the period covered by the audit. BGS did not provide evidence that notification is currently being provided to the Secretary as required by the BGS contract waiver plan and did not report that a specific process has been implemented to ensure this notice occurs.
		2020	Not Implemented	BGS reported that it complies with the current requirements identified in Bulletin 3.5 and the BGS contracting waiver plan. However, BGS did not provide evidence that notification had been provided to the Secretary as required by the BGS contract waiver plan and did not report that a specific process had been implemented to ensure this notice occurs.
16	Ensure that requisite authorizations for purchases are obtained and documented in accordance with Bulletin 3.5.	2018	Implemented	Effective May 16, 2018, the BGS contract waiver plan has been updated to reflect the process for purchase orders which requires the use of a requisition submitted via the State's VISION system to initiate the purchasing process and to authorize the OPC to acquire the requested item. A requisition initiated by an agency/department is not received by OPC until it has been approved by the department.
		No further follow-up is required because the recommendation has been implemented.		
17	Collaborate with the AOA to determine whether certain lease arrangements should be subject to the guidance and approval requirements in Bulletin 3.5.	2018	Not Implemented	BGS management agreed that leases of the scale of the National Life lease should be approved by the Secretary of the AOA and reported that they work closely with the Secretary to ensure awareness of any significant lease agreements and to gain concurrence. However, BGS believes that Bulletin 3.5 is not appropriate for traditional lease and that leases are not contracts and therefore are not subject to Bulletin 3.5.
		2020	Not Implemented	BGS asserts that leases are not contracts and are therefore not subject to the requirements of Bulletin 3.5, but reported that the Department's internal practice is to work with the Secretary of Administration to ensure awareness of any significant lease agreements and to gain concurrence.