

# **Sunset Advisory Commission**



## **General Services Commission**



**Staff Report**

**2000**

## SUNSET ADVISORY COMMISSION

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In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 10-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them. This report is the Commission staff's recommendations, which serves as the starting point for the Commission's deliberations.

**GENERAL SERVICES COMMISSION**

**SUNSET STAFF REPORT**

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# **SUMMARY**

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# Summary

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## Overview

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The General Services Commission (GSC) is an umbrella agency descended primarily from the State Board of Control and the State Building Commission. As a result, GSC has a wide variety of functions, ranging from constructing \$70 million office buildings and developing the State's electronic procurement system, to janitorial and landscaping operations. The Sunset review found that GSC has often not been able to effectively carry out this wide variety of duties.

Several problems in the past few years illustrate the agency's troubles. The most well-known problem is the construction of the Robert E. Johnson Legislative Office Building. The building, now occupied and in its final stages of completion, was finished almost two years behind schedule and more than \$25 million over budget. Other construction projects have seen delays and cost overruns as well. Further, the primary contractor on GSC's TEX-AN 2000 telecommunications system did not provide a number of key contracted services, resulting in potential lost opportunity costs to the State of about \$6 million. The recommendations in this report are intended to address these problems by strengthening the State's approach to the delivery of construction, procurement, and technology-related services for the future.

- The report recommends separating GSC's functions in two distinct areas. First, GSC would only operate building-related activities, similar to the duties of the old State Building Commission. Second all technology-related activities including telecommunications and procurement, would be merged with the Department of Information Resources to form a new agency, the Texas Technology and Procurement Department.
- In just a few years, the State will do little, if any, purchasing through traditional methods. Electronic commerce is making procurement faster, simpler, and more cost-effective for both the State and its vendors in the private sector. The report recommends changes to enhance and quicken the State's ability to take advantage of electronic procurement.
- Current "low bid" statutes limit the State's ability to take advantage of best-value contracting, particularly in building construction and office leasing activities. The review found that both public and private sector organizations effectively use contracting flexibility to negotiate more productive deals for their organizations. Several issues in the report recommend broadening "low bid" statutes to allow the State to make use of stronger contracting tools.
- Many of GSC's current activities are commonly performed in the private sector. The State should make a regular, concerted effort to evaluate whether any of these services can be more cost-effectively operated through contracts with private businesses. Issue 9 of this report recommends such an approach.

This report is critical of the past efforts of GSC. At the start of the review, Sunset staff found what is becoming fairly common, new executive management. The Commission and executive management have been working diligently to address problems within the agency. They are to be commended for their efforts. Progress has been made. Staff considered this progress during its review. However, our conclusion was that structural changes are needed to ensure that deficiencies are corrected. These

structural changes are beyond GSC's authority to accomplish. The plans, intentions, and corrections envisioned by GSC and its Commission are not sufficient to best position the State to deal with the future. Even absent some of the most significant problems in GSC's recent past, staff would have seriously considered the new direction offered in the report.

The recommendations in this report lay the groundwork for the State to better operate its information technology resources, building construction program, and internal service activities in the future. Texas state government should be a forerunner in the use of technological advances that provide more efficient and cost-effective services to its citizens. Construction projects must be built on time and within budget. State agencies that serve the citizens should also benefit from quality support services. The report concludes that the structure of support services for both citizens and state agencies can best be provided through two agencies, each with its own separate and distinct focus. The recommendations that follow set the framework for a technological support agency and a building services agency, and provide an array of changes that will enhance the provision and cost-effectiveness of those services.

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## Issues / Recommendations

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### **Issue 1 The State Is Not Well-Positioned to Effectively Manage the Future of Technology and Procurement Resources.**

#### Key Recommendations

- Create the Texas Technology and Procurement Department to develop, implement, and manage the State's information technology and procurement functions.
- Create the Texas Technology and Procurement Board responsible for overseeing the Department.
- Focus the General Services Commission solely on its building, property, and support services responsibilities, and continue the Commission for 12 years.
- Provide the Texas State Cemetery Committee with the authority to set the budget and salary structure of the State Cemetery Division.

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### **Issue 2 The State Should Reform the Oversight and Provision of State Telecommunications Services.**

#### Key Recommendations

- Transfer responsibility for the State's telecommunications operations from GSC to the Texas Technology and Procurement Department (TTPD).
- Establish a new Telecommunications Planning and Oversight Council to oversee state telecommunications operations.
- TTPD should examine options for alternate methods of providing telecommunications services.

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### **Issue 3 Effective Implementation of the State's Electronic Procurement Network Is Uncertain.**

#### Key Recommendations

- Clarify that, upon full implementation of the electronic procurement network, all state agencies must use the network for purchasing.
- Require the Texas Technology and Procurement Department (TTPD) to integrate the Centralized Master Bidders List (CMBL) into the electronic procurement network, but maintain the vendor notification service.
- Transfer the Electronic State Business Daily to TTPD, terminating it once the electronic procurement network is fully capable of posting procurement information.
- Authorize TTPD to establish reverse auctions as an alternate purchasing method within the electronic procurement network.

**Issue 4 GSC Continues to Struggle with Construction Management, but Added Tools Could Help the Agency Succeed.**

Key Recommendations

- Allow GSC to use a broader range of contracting methods to design and construct state facilities.
- GSC should develop and maintain a project management tracking system.
- GSC should institute a training program for project management employees.

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**Issue 5 GSC's Leasing Program for Office Space Does Not Obtain the Best Value for the State.**

Key Recommendations

- Require GSC to procure leased space using a best-value assessment.
- Authorize GSC to negotiate with bidders to obtain a satisfactory lease for the State.
- Authorize GSC to contract with local real estate brokers to assist state agencies in locating and leasing space.

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**Issue 6 GSC Lacks Authority to Streamline the State's Surplus Property Program.**

Key Recommendations

- Assign responsibility for the State's surplus property disposal process to GSC.
- Require agencies to transfer ownership of surplus property to GSC for disposal.
- Authorize GSC to decide if transferred property should be sold or salvaged, based on the condition of the property.
- Authorize GSC to determine the best-value method for the sale of surplus property, based on the type and condition of the property.
- Authorize GSC to sell state surplus property directly to the public at fixed prices.

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**Issue 7 The State Is Not Meeting Its Potential as a Leader in Recycling Efforts.**

Key Recommendations

- Require GSC to establish a mandatory recycling program for state agencies.
  - GSC should establish the responsibilities of an agency recycling coordinator.
  - GSC should include recycling performance measures when managing its custodial employees, including contract employees.
  - GSC should offer educational and technical recycling information to state agencies.
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**Issue 8 GSC Does Not Take Advantage of Online Technology That Could Streamline the State's Travel Program.**

## Key Recommendations

- Require GSC to contract for an Internet-based travel reservation service in addition to its existing travel agency contracts.
- GSC should compare its contracted rates to average consumer fares and rates when assessing cost savings for the State Travel Management Program.

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**Issue 9 GSC Does Not Have an Established Process to Evaluate the Potential to Outsource Its Services.**

## Key Recommendations

- Require GSC to develop a systematic approach to reviewing its commercially available activities for outsourcing.
- Allow GSC to outsource a service only if a private business can provide the service with an equal or better level of quality, and decrease the cost of providing the service by at least 10 percent.
- Require services that GSC outsources to be performance based.
- Prohibit GSC from starting any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source.

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**Issue 10 Significant State Dollars Are at Risk Due to Poor and Inconsistent Contract Management.**

## Key Recommendations

- Require the Texas Technology and Procurement Department (TTPD) to develop statewide contracting guidelines and training materials, and to provide ongoing assistance to state agencies with their contracting efforts.
- Require the Office of the Attorney General to provide legal assistance to TTPD in the development and implementation of statewide contracting guidelines.
- Create an interagency working group to provide input and assist TTPD in defining the State's needs regarding statewide contracting guidelines.
- Require state agencies to follow the contracting guidelines.

## Fiscal Implication Summary

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This report contains several recommendations that would result in substantial savings for the State. Much of this savings could not be estimated for this report. However, some fiscal estimates were possible and are described below, followed by a five-year summary table.

- Issue 1 - Creating the new Texas Technology and Procurement Department and focusing GSC on building, property, and support services will result in annual savings to the General Revenue Fund estimated at \$980,700. Additionally, increased efficiencies gained through the sharing of administrative support functions will result in the elimination of 17 full-time equivalent staff positions.
- Issue 5 - Improvements to GSC's leasing practices and the delegation of leasing authority to state agencies and higher education institutions will result in a significant, positive fiscal impact to the State. Reducing the number of state emergency leases will result in a savings of about \$600,000 each year to the State.
- Issue 7 - Strengthening GSC's recycling program to improve the State's recycling efforts should realize savings of at least \$49,000 each year to the General Revenue Fund.
- Issue 10 - Improving the State's contract management will lead to significant fiscal savings which cannot be estimated at this time. However, two additional full-time equivalent positions, at a cost of \$138,900, will be needed to help develop statewide contract guidelines and training materials, and to provide general contracting assistance to state agencies.

Fiscal Year	Savings to the General Revenue Fund	Additional Savings to the State	Costs to the General Revenue Fund	Change in FTEs from Fiscal Year 2001
2002	\$1,029,700	\$600,000	\$138,900	-15
2003	\$1,029,700	\$600,000	\$138,900	-15
2004	\$1,029,700	\$600,000	\$138,900	-15
2005	\$1,029,700	\$600,000	\$138,900	-15
2006	\$1,029,700	\$600,000	\$138,900	-15

## **ISSUES / RECOMMENDATIONS**

# Issue 1

## The State Is Not Well-Positioned to Effectively Manage the Future of Technology and Procurement Resources.

### Summary

#### Key Recommendations

- Create the Texas Technology and Procurement Department to develop, implement, and manage the State's information technology and procurement functions.
- Create the Texas Technology and Procurement Board responsible for overseeing the Department.
- Focus the General Services Commission solely on its building, property, and support services responsibilities, and continue the Commission for 12 years.
- Provide the Texas State Cemetery Committee with the authority to set the budget and salary structure of the State Cemetery Division.

#### Key Findings

- Advances in technology are significantly changing the delivery of GSC's procurement and telecommunication services.
- The Department of Information Resources (DIR), not GSC, is responsible for planning, developing, and managing the State's information technology resources.
- Splitting the responsibility for managing the State's key information technology resources has resulted in poor planning and use of these resources.
- Having a single state agency responsible for the State's key information technology resources would better position the State to take advantage of technology to improve services.

#### Conclusion

The State must position itself to take advantage of the numerous technological advances that are rapidly changing the way government information and services are delivered. Currently, the State has two agencies managing its key information technology resources, GSC and DIR. The lack of a single entity responsible for managing these resources has resulted in poor planning and use of these resources. GSC's electronic procurement pilot is still several years away from statewide implementation, and significant operational and contracting problems have prevented effective transition to the State's TEX-AN 2000 telecommunications system.

The duties of GSC have essentially remained static for many years. In that time, GSC has repeatedly encountered problems with delivery of its services and has not been known as a forerunner of innovative change. These recommendations are intended to create a new agency focused on building

the State's information technology resources for the future. A single technology agency will provide centralized strategic planning for the State's technology infrastructure and coordinate the State's various information technology efforts, such as transitioning to electronic government. Centralized planning and coordination will maximize the State's investment in technology and ensure an effective transition to the new era of electronic government. A single entity to oversee how technology is used to re-engineer state services would help ensure both consistency and compatibility, and would take a long-term look at how the changes will affect state agencies and customers.

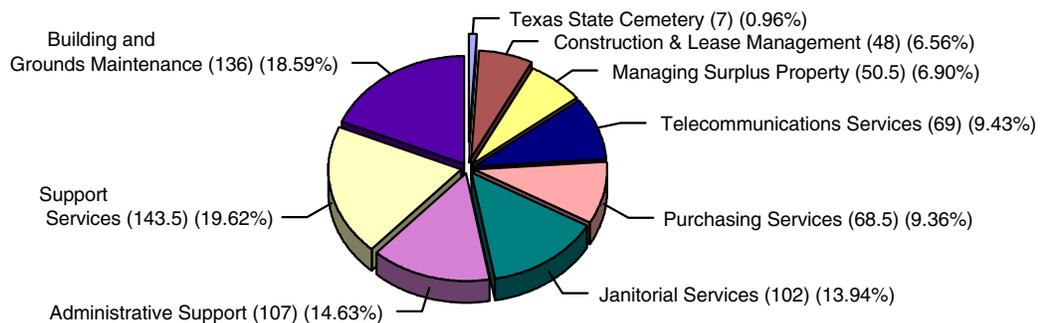
Over the past few years, GSC has encountered significant problems in its building construction and leasing programs. These problems range from construction projects running years late and millions of dollars over budget to leases for office space in inferior quality and poorly located buildings. This recommendation will strengthen GSC by recreating it as a separate agency focused solely on building- and property-related activities.

## Support

**Current Situation:** The General Services Commission is responsible for performing a variety of necessary, centralized support services for state agencies.

- GSC provides centralized support services, including building, property, and grounds services for state agencies and other governmental entities. GSC also administers the State's centralized procurement program and procures telecommunications services for state agencies. Each of these functions is described in detail in the Agency Information section of this report. In fiscal year 1999, GSC expended \$136.2 million and had about 732 full-time equivalents (FTEs). The chart, *Tasks Performed by GSC Employees*, shows the number of employees that performed each of GSC's various functions in fiscal year 1999. A six-member Commission appointed by the Governor oversees the agency's operations.

**Tasks Performed by GSC Employees**



**Total Employees: 731.5**

- GSC also administratively houses the Texas State Cemetery. The three-member Texas State Cemetery Committee oversees all Cemetery operations and sets rules regarding Cemetery administration. However, the Committee does not have authority over budget and staffing decisions.

**Current Situation: Advances in technology are significantly changing the delivery of GSC’s procurement and telecommunication services.**

- Procurement, one of GSC’s primary functions, is evolving rapidly because of technological changes. For years, GSC has operated a primarily paper-based, bid-and-response purchasing system. However, methods of procurement have evolved into a paperless approach, where purchases occur electronically. Today, many individuals and businesses buy goods via the Internet, and arrange delivery only when the product is needed, eliminating much of the cost of warehousing and storage.

GSC’s efforts to meet these emerging procurement opportunities and technological challenges are unproven. GSC is currently implementing a pilot for a Web-based, electronic procurement system for the State. While the future goal of the agency is to have a system where all purchases will occur over the Internet, GSC is several years away from successfully implementing a statewide, end-to-end, electronic procurement system.

- Over the past few years, enormous technological advances have dramatically changed the provision of telecommunications services. Just a few years ago, operating the State’s telecommunications system meant arranging for long distance services and buying local service and hardware for the Capitol Complex Telephone System. The State’s telecommunication system now must include high-volume and rapid Internet access, managing the computer “backbone” for state agencies, video conferencing, data networking, Web hosting, and other technologically advanced services.

GSC developed the TEX-AN 2000 system to attempt to meet future telecommunications challenges. However, as shown in Issue 2, significant operational and contracting problems have prevented the effective implementation of many TEX-AN 2000 services. The ability of GSC to meet future telecommunications challenges remains unclear.

**Current Situation: The Department of Information Resources (DIR), not GSC, is responsible for planning, developing, and managing the State’s information technology resources.**

- In 1989, the Legislature found that technological and theoretical advances in information use presented the State with the

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GSC is several years away from fully implementing a statewide electronic purchasing system.

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GSC’s ability to meet future telecommunications challenges remains unclear.

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### DIR – Major Responsibilities

The Department of Information Resources:

- provides coordination of information resources management;
- advises on appropriate uses of information resources and technology decisions;
- manages the State of Texas Web site;
- develops the State Strategic Plan for Information Resources Management, which establishes a common direction for all state agencies and universities to follow concerning the implementation of technology;
- maximizes the State's purchasing power through volume procurement of information resources technologies;
- coordinates collaborative information resources projects related to electronic government and the Internet;
- advises and makes recommendations to Leadership on information resources issues;
- develops technical standards, policies, and rules on new technology; and
- provides information technology educational opportunities for state agency staff.

opportunity to provide higher quality, more timely, and more cost-effective governmental services, and, as a result, created DIR.<sup>1</sup> The Legislature designated DIR as the lead agency for coordinating and directing the use of information resources technologies by state agencies. DIR provides the strategic and policy direction for implementation and management of technology in the state. DIR's information technology responsibilities are described in the textbox, *DIR – Major Responsibilities*.

**Problem: Splitting the responsibility for managing the State's information technology resources has resulted in inadequate planning and use of these resources.**

- As some of GSC's main functions evolved into key information technology resources, the Commission was forced into a role for which it was not intended: setting information technology policy for the State, particularly in the areas of electronic procurement and telecommunications. However, without the necessary expertise, the Commission has not performed this role effectively. A review of Commission meeting agendas and minutes indicates that the Commission is more focused on construction issues and has given less policy direction in the area of telecommunications or the electronic procurement network.

In fact, even though the electronic procurement pilot was awarded in February, implemented in March, and processed the first Web-based transactions in April, the Commission was only formally updated on the progress of the network in September 2000. In addition, although briefed on the renegotiations with AT&T, GSC Commissioners did not vote to approve contract amendments necessitated by the inability of AT&T to provide certain contracted telecommunications services.<sup>2</sup> These amendments had a net value of \$4.77 million in refunds and credits to GSC for services not provided.<sup>3</sup>

- Without the necessary oversight, direction, or expertise, GSC's management of these technologically advanced services has not always been adequate. For example, although cellular and pager industries have become very dynamic, offering constant changes in rates and features, GSC developed statewide contracts with 14 vendors for these services at fixed prices with set features. These contracts prevented state agency customers from taking advantage of new features and reduced rates. Eleven months after the initial contracts took effect, GSC requested and received a waiver from the Telecommunications Planning Group to allow state agencies to

use the Qualified Information Services Vendor catalogues to purchase and upgrade cellular and pager services at the best available price, regardless of GSC's TEX-AN 2000 contracts.

- DIR, the agency responsible for coordinating and managing the State's information technology resources, has only acted in an advisory capacity in redesigning both the State's procurement and telecommunications systems. The electronic commerce network, which will manage all phases of the State's procurement process on the Internet, was developed by GSC with limited input from the State's information technology experts. DIR only participated in the development of the network in its advisory capacity as a member of the Texas Government to Business Coordinating Council.

DIR's role was also limited when GSC redesigned and contracted for the transition of the State's telecommunications network to the TEX-AN 2000 system. Although DIR served on the team that evaluated the TEX-AN 2000 bids, the agency was not involved in any of the contract negotiations. The system is designed to create a single, centralized telecommunications network for the State with a full range of communications services, including data networking and access, Internet access, Web hosting, and wireless local and long distance services. However, numerous problems with this transition have been identified, as discussed in Issue 2 of this report.

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DIR has had a limited role in development of GSC's technology-related projects.

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**Opportunity: Having a single state agency responsible for the State's information technology resources would better position the State to take advantage of technology to improve services.**

- To take advantage of the rapid changes in information technology and the transition to an electronic environment, the State needs complex strategies regarding information technology and resources that apply to all agencies. Instead of allowing separate entities to develop different strategies and services, a single entity could more effectively plan, manage, and implement the State's technology infrastructure. Further, a single agency could coordinate the State's various information technology efforts, such as transitioning to electronic government, to maximize state resources.
- Because the State's information technology resources cut across organizational boundaries, a coordinated approach to re-engineering these resources is necessary. A single entity responsible for overseeing how technology is used to re-engineer state services would help ensure both consistency and compatibility, and would take a long-term look at how the changes will affect state agencies and customers.

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A single entity could more effectively implement the State's technology infrastructure.

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For example, GSC and DIR have chosen to use transaction fees to fund both the electronic procurement network and the statewide

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A single technology agency would enhance Texas' ability to transition to electronic government.

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portal. Having a single entity overseeing these technology initiatives could help maximize the use of transaction fees and ensure they do not adversely affect customers. A single entity could also help develop and implement consistent standards to ensure interoperability, compatibility, and shared usage of information technology, as well as provide direction for the creation of new standards for the infrastructure.<sup>4</sup>

- Finally, having a clear direction communicated with authority and responsibility is the most critical factor in transitioning to electronic government.<sup>5</sup> Leadership and vision are also key elements of success. Without a single entity with the necessary leadership, vision, and authority, the numerous technological initiatives taken by various state agencies could result in significant costs to the State. A single entity could coordinate these initiatives to maximize the State's investment in technology and ensure an effective transition to the new era of electronic government.

**Comparison:** Other states have a single entity responsible for overseeing the development and implementation of all of the state's information technology resources.

- According to a 1998 report by the National Association of Information Resource Executives, "as governors and legislatures seek centralized management of technology projects, budget, and strategic planning, the role of the Chief Information Officer (CIO) has become an increasingly common position."<sup>6</sup> The report states that in at least 25 states, the CIO is responsible for managing the state's physical and personnel technology infrastructure, including the state's telecommunications networks. And in at least eight states, the CIO has authority over the state purchasing function.<sup>7</sup>

## Recommendation

### Change in Statute

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#### **1.1 Create the Texas Technology and Procurement Department to develop, implement, and manage the State's information technology resources and procurement functions.**

This recommendation would combine all present statutory duties and functions of the Department of Information Resources, and all current statutory duties and functions of GSC's procurement, telecommunications, and related programs into a single agency.

The Texas Technology and Procurement Department would be responsible for the following:

- all of DIR's present statutory duties, except those currently transferred to the Legislative Budget Board via interagency contract;
- operating an effective and economical system for purchasing goods and services for state agencies;
- obtaining telecommunications services for the State; and
- providing general administrative services for both the Department and the General Services Commission, including financial services, general legal services, information systems services, and human resources.

The specific GSC functions that become the responsibility of the new Department include:

- Telecommunications – Texas Agency Network (TEX-AN) and Capitol Complex Telephone System (CCTS);
- Central Procurement – state procurement (including the electronic procurement pilot), vendor relations, training/certification, Catalogue Purchasing Program, Cooperative Purchasing Program, and central supply store;
- Business Services – bid services, records management, and HUB Program; and
- Travel Services – State Travel Management Program.

The chart, *Recommended Structure for the Texas Technology and Procurement Department and GSC*, depicts the recommended organizational structure and functions for the new Department and GSC. The transition to the Texas Technology and Procurement Department would be effective September 1, 2001.

Upon passage of the legislation, GSC and DIR should formulate a transition plan for the creation of the Texas Technology and Procurement Department. The plan should include:

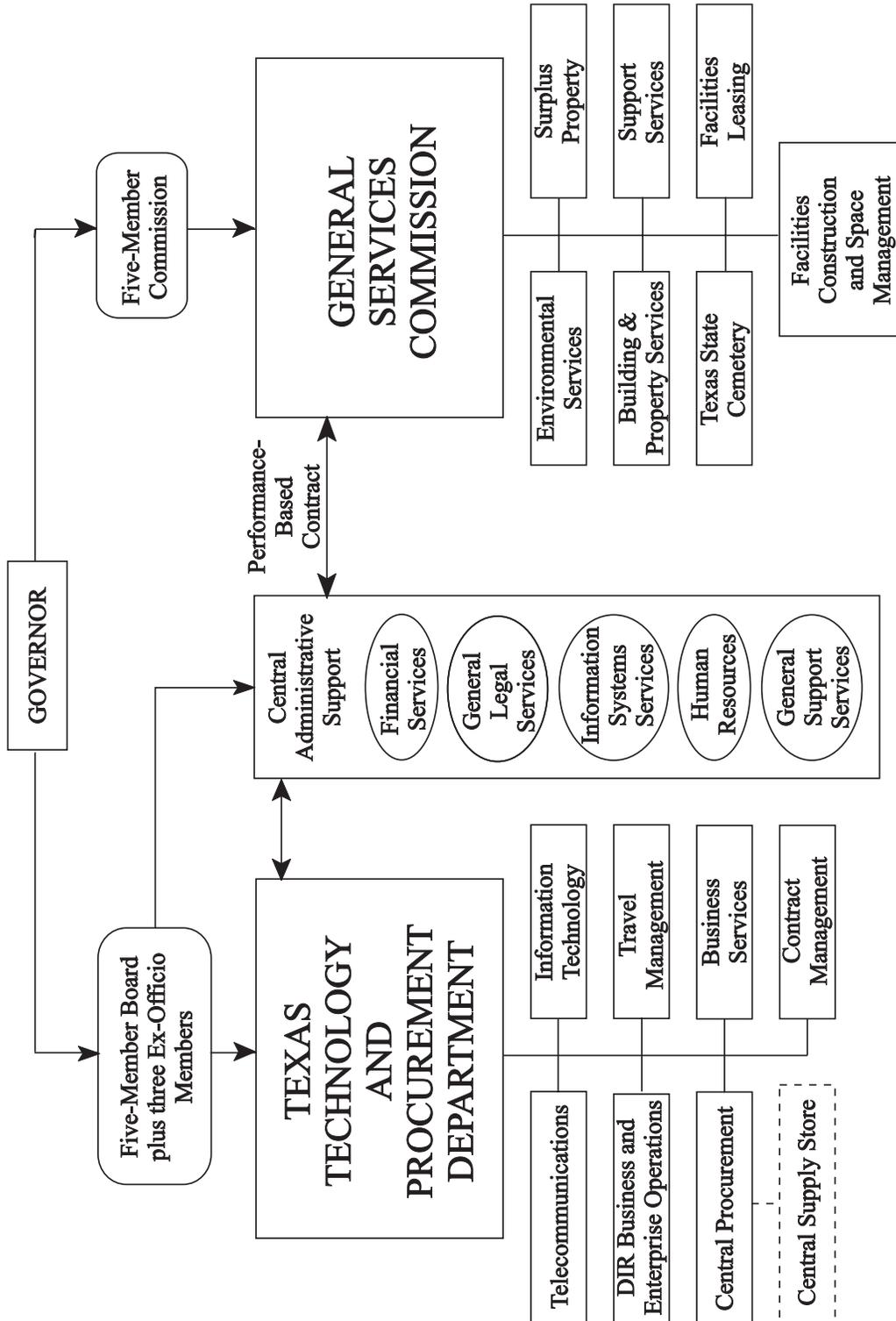
- a timetable with specific steps and deadlines needed to carry out the consolidation in compliance with the effective date of the creation of the new agency;
- a method for consolidating all program records, including personnel records; and
- other steps necessary to complete the consolidation.

This approach would help ensure that the transition has minimal effect on the agencies' programs and services.

### **1.2 Create the Texas Technology and Procurement Board responsible for overseeing the newly created agency.**

The Board would consist of five public members appointed by the Governor to staggered six-year terms with the advice and consent of the Senate, and three non-voting, ex-officio members. One ex-officio member would be the Comptroller of Public Accounts. Two groups, each composed of two members, would serve as the remaining ex-officio members of the Board, on a rotating basis. Only one group would serve at a time. The first group would include the Commissioner of Education and the Executive Director of the Texas Department of Criminal Justice. The second group would

### Recommended Structure for the Texas Technology and Procurement Department and GSC



include the Commissioner of Health and Human Services and the Executive Director of the Texas Department of Transportation. Members of these groups would serve two-year terms. An ex-officio member may appoint a designee to serve in the member's place. The public members would be required to have expertise in business, information technology, or government technology. The Board would be authorized to appoint advisory committees, as necessary, to provide additional expertise.

The Board would be appointed on September 1, 2001. The DIR Governing Board will be responsible for overseeing all of the functions of and transition to the new agency until a quorum of members of the new Board are appointed and qualified. The terms of the DIR Governing Board would expire at that time. The public members would serve staggered six-year terms, with two public members' terms expiring February 1 of each odd-numbered year. The Board would receive staffing and resources from both DIR and GSC until the transition to the Texas Technology and Procurement Board is completed.

### **1.3 Focus the General Services Commission solely on its building, property, and support services responsibilities, and continue the Commission for 12 years.**

The General Services Commission would be continued for 12 years to provide centralized building, property, and grounds services for state agencies. Removing some of the Commission's more technologically oriented functions will allow GSC to focus on its building- and property-related programs, and better enable the agency to provide timely, quality building, property, and support services.

Having a single entity responsible for providing centralized building support activities and services is an efficient way to support the more than 200 state agencies GSC currently serves. Establishing essential support activities in a central services provider like GSC minimizes infrastructure costs necessary to deliver services.<sup>8</sup> Without GSC, each of the more than 200 state agencies would have to manage their own facilities, including providing janitorial, ground, and facility maintenance services.

Functions that would continue at GSC include:

- Facilities Construction and Space Management – design and construction, inspections, and facilities planning;
- Facilities Leasing;
- Building and Property Services – ground maintenance and minor construction;
- Environmental Services – custodial services, environmental hazards, and recycling;
- Support Services – vehicle fleet management, business machine repair, staff services, and warehousing;
- Surplus Property – state and federal surplus property; and
- Texas State Cemetery (see Recommendation 1.5).

GSC would share general administrative services, including human resources, fiscal, information resources, and customer service functions, through a contract with the Texas Technology and Procurement Department. Contracting for these administrative services eliminates the need for

duplicative administrative structures and results in greater efficiencies in basic agency support functions.

**1.4 Reduce the membership of the General Services Commission from six members to five members to meet constitutional requirements.**

The General Services Commission should become a five-member Commission to make the Commission structure compliant with the constitutional requirement that state boards, commissions, and other agencies must be governed by an odd number of three or more members.<sup>9</sup> When the terms of two of the Commission members expire on January 31, 2001, the Governor would appoint only one new member.

**1.5 Transfer authority to set the budget and salary structure of the State Cemetery Division from GSC to the Texas State Cemetery Committee.**

This recommendation places responsibility for the hiring and budgeting decisions for the Texas State Cemetery with the citizens appointed by the Governor to operate it. The State Cemetery Committee would become a line item appropriation within GSC's appropriation strategy to administer the Texas State Cemetery. The Committee would follow all Appropriation Act requirements, such as salary schedules. The State Cemetery would continue to function as a division of GSC, follow all GSC's human resources guidelines, and receive general administrative services through GSC's contract with the new agency.

## **Fiscal Implication**

The recommendation will result in a positive fiscal impact to the State. Estimated savings should amount to about \$980,700 per year. The savings are primarily attributable to greater efficiencies in basic agency support functions, such as human resources, information management, and accounting. The administrative support functions of the Department of Information Resources and the General Services Commission would be consolidated into the new agency. GSC would contract with the new agency for these services.

<b>Fiscal Year</b>	<b>Savings to the General Revenue Fund</b>	<b>Change in FTEs from Fiscal Year 2001</b>
2002	\$980,700	- 17
2003	\$980,700	- 17
2004	\$980,700	- 17
2005	\$980,700	- 17
2006	\$980,700	- 17

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<sup>1</sup> Texas Government Code Ann., ch. 2054, sec. 1(1-2).

<sup>2</sup> Interview with GSC, Telecommunications Services staff (Austin, Texas, September 14, 2000).

<sup>3</sup> GSC, Telecommunications Services staff interview. The first renegotiation of the AT&T contract in November 1999 included a \$600,000 credit to GSC for future conversion costs, and a \$400,000 credit to an AT&T bill for 800 services as partial compensation for GSC's lost opportunity costs. The net benefit to GSC of the first renegotiation was \$1 million. The second renegotiation in June 2000 included a refund of \$5 million to GSC for the remaining conversion funds already paid, followed by a payment of \$1.23 million by GSC to AT&T after GSC examined the value of conversion services actually provided since August 1999. The net benefit to GSC of the second renegotiation was \$3.77 million.

<sup>4</sup> National Electronic Commerce Coordinating Council in conjunction with the Center for Digital Government, *Electronic Government: A Blueprint for States*, (December 1999), p. 10. Online. Available: [www.ec3.org/InfoCenter/02\\_WorkGroups/version1.html](http://www.ec3.org/InfoCenter/02_WorkGroups/version1.html) Accessed: September 4, 2000.

<sup>5</sup> Ibid, p. 11.

<sup>6</sup> NASIRE: Representing Chief Information Officers of the States, *1998 NASIRE Annual Conference, The Chief Information Officer* (October 1998). Online. Available: [www.nasire.org/publications/cio.cfm](http://www.nasire.org/publications/cio.cfm) September 4, 2000.

<sup>7</sup> Ibid.

<sup>8</sup> General Services Commission, *Self-Evaluation Report*, submitted to the Sunset Advisory Commission (Austin, August 1999), p. 21.

<sup>9</sup> Texas Constitution, article XVI, sec. 1.



## Issue 2

### The State Should Reform the Oversight and Provision of State Telecommunications Services.

#### Summary

##### Key Recommendations

- Transfer responsibility for the State's telecommunications operations from GSC to the Texas Technology and Procurement Department (TTPD).
- Establish a new Telecommunications Planning and Oversight Council to oversee state telecommunications operations.
- TTPD should examine options for alternate methods of providing telecommunications services.

##### Key Findings

- The State faces significant opportunity costs due to the inability to provide TEX-AN 2000 services as originally planned.
- GSC has not effectively managed the conversion to TEX-AN 2000.
- The State does not have an effective means to oversee telecommunications operations.

##### Conclusion

The State must improve the operation and oversight of the telecommunications networks managed by GSC. Telecommunications staff have had significant difficulty negotiating effective contracts for the TEX-AN 2000 system, and they have not addressed many customer concerns during the conversion to the new system. GSC executive staff and Commissioners have not effectively monitored the performance of the telecommunications staff, while TEX-AN customers do not have a voice in the operation of the network. These problems have created great uncertainty and a loss of confidence in the conversion process on the part of TEX-AN customers, which has severely limited the initial effectiveness of the new TEX-AN 2000 system.

The recommendations in this issue are intended to improve the operation and oversight of the TEX-AN network, reduce the potential risks to the State in future telecommunications contracts, and maximize the value of the services provided to network customers. The Texas Technology and Procurement Department would provide the leadership and expertise necessary to oversee the State's telecommunications operations. A new planning and oversight council would improve the ability of State leaders and network customers to monitor and assess the implementation of state telecommunications policies. The study of alternative service options for telecommunications services would allow State leaders to make informed decisions about improving the provision of state telecommunications services through organizational reforms.

## Support

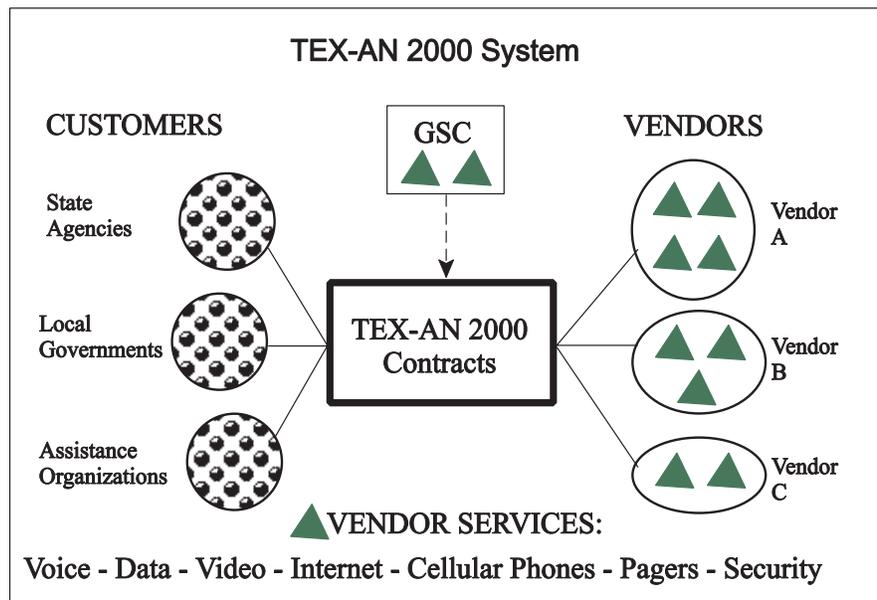
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TEX-AN customers will spend about \$300 million during the next five years.

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**Current Situation:** GSC is responsible for converting the state telecommunications network to the TEX-AN 2000 system.

- GSC is presently converting customer agencies to the TEX-AN 2000 system, which replaces the TEX-AN III system, in place since 1994. TEX-AN 2000 consists of a variety of telecommunications service contracts between GSC and private vendors. The contracts went into effect in August 1999 for five years, with five optional one-year extensions for each individual contract. The basic elements of the TEX-AN 2000 system are displayed below in the chart, *TEX-AN 2000 System*. Appendix A, *Diagram of TEX-AN 2000 Services*, provides a more detailed description of the TEX-AN 2000 system.
- GSC estimates that TEX-AN customers will spend about \$300 million for telecommunications services during the initial five years of the contracts.<sup>1</sup> State agencies will purchase over 90 percent of the total volume of TEX-AN 2000 services, while the remaining volume will be purchased by local governments and other tax-funded organizations.
- GSC, private vendors, and TEX-AN customers are responsible for scheduling and funding the conversion to the TEX-AN 2000 system. As of August 2000, all TEX-AN voice lines and about 28 percent of data lines were converted to the TEX-AN 2000 system.<sup>2</sup> GSC has spent \$1.8 million on the TEX-AN 2000 conversion process since August 1999, out of a minimum projected cost of \$3.7 million.<sup>3</sup>



- GSC and 21 private vendors provide services under TEX-AN 2000, as shown in Appendix B, *TEX-AN 2000 Service Providers*.

**Current Situation:** The Telecommunications Planning Group (TPG) performs strategic planning for state telecommunications services.

- The membership of TPG is shown in the textbox, *Telecommunications Planning Group Membership*. TPG's responsibilities include:
  - developing and updating a statewide telecommunications operating plan for all state agencies, which outlines the implementation of a centralized telecommunications network that will meet the long-term voice, data, and video requirements of state agencies;
  - developing technical specifications for the statewide network that are binding on GSC;
  - collecting information about existing and planned state networks;
  - reporting to the Legislature every two years on the status of the current telecommunications operating plan; and
  - reviewing and approving or denying waiver requests for state agencies who wish to bypass the TEX-AN network.<sup>4</sup>

<b>Telecommunications Planning Group Membership</b>	
<b>Voting Members</b>	
•	General Services Commission
•	Department of Information Resources
•	Comptroller of Public Accounts
<b>Advisory Members</b>	
•	Texas Education Agency
•	Texas Higher Education Coordinating Board
•	Texas A&M University System
•	University of Texas System
•	Telecommunications Infrastructure Fund
•	Texas State Library and Archives Commission

**Problem:** The State faces significant opportunity costs due to the inability to provide TEX-AN 2000 services as originally planned.

- Since the TEX-AN 2000 contracts went into effect in August 1999, the primary contractor, AT&T, did not provide a number of key services as required by its contract. GSC has been forced to find alternate service providers or to provide services using its own staff and resources. The textbox, *TEX-AN 2000 Timeline*, lists the major developments in the TEX-AN contracting process from the initial Request for Offer through June 2000.
- The State has not spent funds for services not provided, and GSC has committed to providing all dropped services through alternate means. However, GSC estimates

<b>TEX-AN 2000 Timeline</b>		
1998	Dec.	Request for Offer released.
1999	April	Best and Final Offer released.
	July	Contract with AT&T signed.
	Aug.	Other contracts signed.
	Oct.	AT&T misses first set of milestones.
	Nov.	GSC and AT&T renegotiate contract for the first time. New milestones established. Initial award reduced by \$1 million.
2000	March	AT&T misses most of second set of milestones.
	June	GSC and AT&T renegotiate contract for the second time. AT&T refunds \$5 million of initial GSC payment.

that the State could lose up to \$6 million in opportunity costs due to 20 months of projected delays in providing TEX-AN 2000 services.<sup>5</sup> GSC has used staff time equivalent to 10 full-time employees to manage problems related to dropped services during fiscal year 2000.<sup>6</sup> The table, *Services Contracted, but Not Provided*, describes some of the impact on the State due to the inability to provide services, and the subsequent actions taken by GSC to address the issues.

<b>Services Contracted, but Not Provided<sup>7</sup></b>			
<b>Service</b>	<b>Description of Service</b>	<b>Impact of Service Delay</b>	<b>GSC Action</b>
Transition Services	Transition management activities to ensure a smooth conversion to TEX-AN 2000.	Significant delays in the conversion process, resulting in lost savings to customers.	Renegotiated a more limited role for AT&T in the transition process.
Network Management	Tools to integrate the use of all network components and to improve network performance.	Higher overall costs for providing TEX-AN 2000 services.	Attempting to perform network management itself.
Consolidated Billing	Tools to keep track of how customers interact with the network.	Delay in replacing the current 20-year-old billing system, which no longer provides accurate and timely billing.	Reviewing bids for a new billing system, which GSC expects to be fully operational in 2001.
Web-based Ordering	Development of an on-line ordering system for TEX-AN 2000 services.	Delay in implementing online ordering system. May increase overall customer costs.	Accepting new offers as part of the bidding process for a new billing system.
Circuit Emulation	Allows customers to connect to TEX-AN 2000 with certain older equipment.	Higher conversion costs to TEX-AN customers with equipment incompatible to TEX-AN 2000 standards.	Negotiating with an alternate service provider.
Integrated Access	Reduces the amount of infrastructure needed to connect to the network backbone.	Loss of ability to achieve cost effective network access.	Negotiating with an alternate service provider.
Directory Publishing	Publication of hard copy and Internet telephone directories for the Capitol Complex.	Increased costs to re-collect the data and reprint the hard copy directory. Delay in updating the Internet directory.	Using in-house staff to re-collect the data, reprint the hard copy directory, and update the Internet directory.
Sales Support	Dedicated sales teams to assist customers in selecting and purchasing products and services.	Reduction in number of sales associates, which will lower the quality of support available to TEX-AN customers.	Monitoring resources required for sales to determine appropriate levels of support needed.
Advanced Service Level Agreements	Ability to exceed standard service levels if needed by TEX-AN customers.	Loss of advanced service level options for customers.	Managing customer service needs on a case-by-case basis.

**Problem: GSC has not effectively managed the conversion to TEX-AN 2000.**

- Errors made during the contract negotiations for TEX-AN 2000 severely limited the effectiveness of the conversion process. For example, in July 1999, GSC allowed AT&T to declare portions of its contract “Proprietary and Confidential,” which prevented GSC from releasing rate information and other contract details until the Attorney General’s Office issued an opinion on the confidentiality of the contract in December 1999.<sup>8</sup> GSC also did not effectively evaluate the ability of AT&T to actually provide each of the services in their proposal and contract.
- GSC has not provided sufficient information to TEX-AN customers regarding the conversion to TEX-AN 2000, creating uncertainty and a loss of confidence in the conversion process. For example, GSC has charged new TEX-AN 2000 customers above cost-recovery levels to fund the conversion process, but it has not shared with the customers how long the overcharges will continue, and how it plans to use the collected funds. GSC staff have also not effectively answered questions about the timeline for converting many agency systems to TEX-AN 2000, leaving customers guessing when they will be converted.<sup>9</sup>
- Many agency representatives believe GSC telecommunications staff are not committed to addressing customer concerns. For example, GSC staff have publicly challenged the validity of representatives’ concerns at TEX-AN Users’ Group meetings.<sup>10</sup> Many TEX-AN customers are also frustrated with the slow and inadequate responses to requests for assistance by GSC help desk staff, and with the inability of GSC staff to help the customers obtain rate information from vendors for cellular phone and pager services.<sup>11</sup>
- Some customers believe the ability of GSC staff to resolve network problems has decreased after the conversion to TEX-AN 2000. These customers believe GSC has failed to create a system that agencies would willingly use compared to the options available to each agency on its own.<sup>12</sup>

**Problem: The State does not have an effective means to oversee telecommunications operations.**

- The Telecommunications Planning Group (TPG) was not designed to provide oversight over telecommunications operations. TPG does not have authority to review the financial performance of the TEX-AN network or to set performance measures for telecommunications staff. The director of the Telecommunications Services Division at GSC is a voting member of TPG, which creates the potential for conflicts of interest in waiver decisions.

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By most accounts,  
GSC has not  
adequately addressed  
customer concerns  
with conversion to  
TEX-AN 2000.

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GSC Commissioners and executive staff have limited experience in telecommunications.

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- GSC Commissioners and executive staff have limited expertise in telecommunications operations. Although the executive staff and Commissioners have experience in other areas of GSC operations, such as procurement and construction management, none has significant experience in overseeing technically complex telecommunications programs.
- GSC Commissioners have not voted on major changes to the provision of TEX-AN 2000 services. For example, although the Commissioners voted on the original contract with AT&T and received informal public briefings on the renegotiations, they never voted on the contract amendments necessitated by the inability of AT&T to provide certain contracted services.<sup>13</sup> Instead, the Commission delegated the authority to renegotiate contract amendments to staff.<sup>14</sup> These amendments had a net value of \$4.77 million in refunds and credits to GSC for services not provided.<sup>15</sup> The Commission also did not vote on the decisions to renegotiate the provision of certain services with alternate vendors and to provide other services using GSC staff and resources.
- GSC Commissioners cannot consistently track the performance of telecommunications operations. For example, although the Commissioners receive monthly briefings on the percentage of customers converted to TEX-AN 2000, GSC staff does not provide information on how the actual percentage compares to the projected goal for the project at a given time.<sup>16</sup> GSC staff also does not report significant performance measures to the Commissioners, including the number and type of problems encountered by TEX-AN customers, and the average time taken to resolve customer problems.
- TEX-AN customers cannot effectively oversee the provision of services they receive. Although customers participate in the TEX-AN Users' Group meetings with GSC telecommunications staff, the customers have no official capacity to review staff performance or to recommend improvements to telecommunications operations.

**Comparison:** The Health and Human Services Consolidated Network (HHSCN) has an effective system for customers to help oversee network performance.

- HHSCN is a data network operated by the Department of Human Services, which serves about 150 customers, including health and human service agencies, hospitals, local workforce boards, and mental health community centers. The network purchases services for its customers in bulk from the TEX-AN network, which reduces the costs each customer would have to pay individually for TEX-AN services.<sup>17</sup>

- The HHSCN governing board is composed of eight Information Resource Managers (IRMs) of network customers. The board and network operations staff prepare an annual report for the IRMs at customer organizations that shows how well HHSCN met service level objectives (the percentage of availability of network services over a given period of time) and other specific performance measures. The report also has detailed information about the financial performance of the network, including estimates of savings to all customers by participating in the network.<sup>18</sup>

**Opportunity:** The State could consider using a different organizational structure to provide telecommunications services.

- In 1996, the Comptroller's Texas Performance Review (TPR) recommended consolidating all state telecommunications networks, including TEX-AN, HHSCN, and the Capitol Complex Telephone System (CCTS), into a chartered non-profit corporation with statutory ties to state government. TPR concluded that state agencies have a difficult time providing telecommunications services because of salary and capital constraints, and that the State loses efficiency by operating multiple telecommunications networks.<sup>19</sup> Legislation to establish this non-profit corporation did not pass.
- Telecommunications opportunities and technologies have changed rapidly since TPR's study in 1996. Several organizational alternatives that could enhance the State's ability to provide improved telecommunications services exist and warrant further study.

## Recommendation

### Change in Statute

#### **2.1 Transfer the responsibility for the State's telecommunications operations from GSC to the Texas Technology and Procurement Department (TTPD).**

As identified in this issue, the successful operation of the State's telecommunications system is in jeopardy. If an entity with stronger expertise and oversight capabilities is not given responsibility for this system, the State faces the possibility of implementing an inferior telecommunications network with resulting significant opportunity costs. This recommendation would transfer the responsibility for the State's telecommunications services from GSC to TTPD. The Department would have the expertise and oversight necessary to effectively manage this important function, as discussed in Issue 1 of this report.

## **2.2 Establish a new Telecommunications Planning and Oversight Council to oversee state telecommunications operations.**

The new Council would replace, but retain the existing duties of, the Telecommunications Planning Group, and expand its role to encompass regular oversight and monitoring duties. The Council would:

- perform strategic planning for all state telecommunications services, in accordance with the guiding principles of the State Strategic Plan for Information Resources Management;
- develop service level objectives for the TEX-AN and CCTS networks;
- develop performance measures for network operations and staff;
- review the financial performance of the networks and the status of all projects related to the networks every three months, with a comparison between actual performance and projected goals;
- make recommendations to the governing board of the Texas Technology and Procurement Department on issues related to the networks;
- submit an annual report with detailed performance information for the networks to TTPD and the customer agencies; and
- submit a biennial report to the Legislature showing system performance, identifying telecommunications system needs, and recommending statutory changes necessary to enhance system capability and cost-effectiveness.

In addition, the Council would appoint one of its members to sit on the advisory committee for the State Strategic Plan for Information Resources Management, which sets goals and objectives for information resource management in state government.<sup>20</sup>

The new Council would have nine members, including:

- one member representing the Comptroller of Public Accounts;
- the executive director of the Telecommunications Infrastructure Fund;
- one member representing state agencies with 1,000 employees or more, appointed by the Lieutenant Governor;
- one member representing state agencies with fewer than 1,000 employees, appointed by the Speaker of the House;
- one member representing higher education appointed by the Commissioner of the Higher Education Coordinating Board;
- one member representing public school districts that are TEX-AN customers, appointed by the Governor;
- one member representing local governments that are TEX-AN customers, appointed by the Governor; and
- two public members with telecommunications expertise appointed by the Governor.

The appointed members of the Council would serve two-year terms. The Telecommunications Division of TTPD would provide staff and other support necessary to assist the Council in fulfilling its duties. Because the Council would continue to vote to approve or deny waiver requests from the requirement for state agencies to use the TEX-AN network, members of the Council representing state agencies would abstain from voting on any waiver requests that affect their agencies.

The required annual report should be distributed to the Information Resource Managers at all TEX-AN and CCTS customer organizations. The report should include:

- information on meeting service level objectives and other performance measures for the management of the TEX-AN and CCTS networks;
- accounting and financial performance information for the networks;
- estimates of savings to TEX-AN customers over standard rates available to individual state agencies through participation in the TEX-AN network;
- trends in the growth or decline of network use, including the number of users, workstations, and locations supported; and
- rate information showing the increase or decrease of all TEX-AN and CCTS rates.

The Department's Telecommunications Division would also provide quarterly updates to the Council on the financial performance and the status of projects for the TEX-AN and CCTS networks, as well as the success of the Division in meeting service level objectives and other performance measures. The Council would submit recommendations to TTPD's governing board to improve the operation of the networks, based on its own reviews of network performance, or in response to concerns raised by network customers or staff.

## Management Action

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### **2.3 TTPD should examine options for alternate methods of providing telecommunications services.**

The Department, assisted by the Telecommunications Planning and Oversight Council, should study the feasibility of alternate methods of providing telecommunications services, including the consolidation of state telecommunications networks into a non-profit corporation or quasi-governmental organization, and the potential for outsourcing telecommunications services and management. The Department should report its findings to the Legislature by December 1, 2002, and should seek input from other state agencies, local governments, and private sector vendors in developing the report.

## Impact

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These recommendations attempt to improve the operation and oversight of the TEX-AN network, reduce the potential risks to the State in future telecommunications contracts, and maximize the value of the services provided to network customers. The transfer of telecommunications services to TTPD will provide the expertise and oversight necessary to effectively operate the TEX-AN network. A new planning and oversight council would improve the ability of state leaders and

network customers to monitor and assess the implementation of state telecommunications policies. The study of alternative service options for telecommunications services would allow state leaders to make informed decisions about improving the provision of state telecommunications services through organizational reforms.

### **Fiscal Implication**

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The recommendations would have no immediate fiscal impact. The Texas Technology and Procurement Department can implement the recommendations with existing resources. The long-term fiscal impact of the recommendations could not be specifically estimated for this report. However, the State could significantly benefit from improvements to the provision and oversight of telecommunications services, which have an estimated value to the State of \$300 million over the next five years. For example, successful implementation of the TEX-AN 2000 contracts could have avoided the \$6 million in lost opportunity costs in converting to the new system.

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- <sup>1</sup> Interview with General Services Commission (GSC), Telecommunications Services staff (Austin, Texas, August 25, 2000).
- <sup>2</sup> Letter (Attachment A) from GSC to the Legislative Budget Board and the State Auditor's Office, August 8, 2000.
- <sup>3</sup> Interview with GSC, Telecommunications Services staff (Austin, Texas, October 3, 2000).
- <sup>4</sup> Texas Government Code Ann., ch. 2054, secs. 2054.201-2054.207, and ch. 2170, sec. 2170.051.
- <sup>5</sup> Calculated from a comparison of data in the original *TEX-AN 2000 Project Cost Recovery Schedule*, produced by GSC on July 26, 1999, to data in the modified schedule produced on September 19, 2000. GSC asserts that a portion of the opportunity costs may have occurred because some TEX-AN customers were not logistically or financially prepared to convert to the TEX-AN 2000 system at the scheduled time. However, GSC made no systematic attempt to estimate the readiness of TEX-AN customers before negotiating the initial conversion schedule with AT&T.
- <sup>6</sup> Interview with GSC, Telecommunications Services staff (Austin, Texas, September 14, 2000).
- <sup>7</sup> General Services Commission, *Report on GSC-AT&T Contracts Before and After Renegotiations* (Austin, Texas, June 2000).
- <sup>8</sup> Interview with GSC, Telecommunications Services staff (Austin, Texas, August 22, 2000).
- <sup>9</sup> Interview with Texas Department of Human Services (DHS), MIS Customer Relations staff (Austin, Texas, August 2, 2000).
- <sup>10</sup> Interview with Texas Department of Public Safety, Information Management Service staff (Austin, Texas, August 3, 2000).
- <sup>11</sup> Interview with Texas Department of Health (TDH), Materials Acquisition and Management staff (Austin, Texas, June 28, 2000).
- <sup>12</sup> Ibid.
- <sup>13</sup> GSC, Telecommunications Services staff interview, September 14, 2000.
- <sup>14</sup> GSC, Telecommunications Services staff interview, August 22, 2000.
- <sup>15</sup> GSC, Telecommunications Services staff interview, September 14, 2000. The first renegotiation of the AT&T contract in November 1999 included a \$600,000 credit to GSC for future conversion costs, and a \$400,000 credit to an AT&T bill for 800 services as partial compensation for GSC's lost opportunity costs. The net benefit to GSC of the first renegotiation was \$1 million. The second renegotiation in June 2000 included a refund of \$5 million to GSC for the remaining conversion funds already paid, followed by a payment of \$1.23 million by GSC to AT&T after GSC examined the value of conversion services actually provided since August 1999. The net benefit to GSC of the second renegotiation was \$3.77 million.
- <sup>16</sup> Interview with Legislative Budget Board staff and State Auditor's Office, Quality Assurance Team staff, Austin, Texas, June 30, 2000.
- <sup>17</sup> DHS interview.
- <sup>18</sup> Health and Human Services Consolidated Network Governing Board, *Fiscal Year 1999 Annual Report* (Austin, Texas, May 31, 2000).
- <sup>19</sup> Comptroller of Public Accounts, Texas Performance Review, *Disturbing the Peace: The Challenge of Change in Texas Government*, (Austin, Texas, 1996). chp. 4, rec. 6. Online. Available: [www.cpa.state.tx.us/tpr/tpr4/c4.gg/c406.html](http://www.cpa.state.tx.us/tpr/tpr4/c4.gg/c406.html). Accessed: September 21, 2000.
- <sup>20</sup> Department of Information Resources, *State Strategic Plan for Information Resources Management*, Introduction (Austin, Texas, 1999). Online. Available: [www.dir.state.tx.us/pubs/99ssp/99ssp.htm](http://www.dir.state.tx.us/pubs/99ssp/99ssp.htm). Accessed: October 4, 2000.



## Issue 3

### Effective Implementation of the State's Electronic Procurement Network Is Uncertain.

#### Summary

##### Key Recommendations

- Clarify that, upon full implementation of the electronic procurement network, all state agencies must use the network for purchasing.
- Require the Texas Technology and Procurement Department (TTPD) to integrate the Centralized Master Bidders List (CMBL) into the electronic procurement network, but maintain the vendor notification service.
- Transfer the Electronic State Business Daily to TTPD, terminating it once the electronic procurement network is fully capable of posting procurement information.
- Authorize TTPD to establish reverse auctions as an alternate purchasing method within the electronic procurement network.

##### Key Findings

- The State is in transition to a single, statewide electronic procurement system.
- Unresolved issues will prevent the successful, statewide implementation of the electronic procurement network.
- The requirement for all agencies to participate in the electronic commerce network is not clearly defined.
- The electronic procurement network eliminates the need for the Centralized Master Bidders List in its current form.

##### Conclusion

Electronic commerce is quickly becoming a standard business practice, not only in the private sector, but also in the public sector, where government-to-business purchasing represents billions of dollars in public funds. Texas, a leader among states in using the Internet to provide information and services to the public, is pressing forward to realize greater potential for efficiencies and savings through electronic commerce. In recent years, State Leadership has embarked on several electronic commerce initiatives, including the electronic procurement network for statewide purchasing, which the Legislature directed GSC to implement.

A single, statewide electronic procurement network, through which all agencies perform purchasing, promises significant direct and indirect savings for the State. However, before realizing the benefits of electronic procurement, the State must address some concerns. These recommendations seek to clarify the State's intent to make electronic procurement the standard method for state purchasing and to improve its viability by calling on TTPD to identify and address problems, consider new purchasing methods, and eliminate obvious inefficiencies and duplicative efforts.

## Support

**Current Situation:** The State is in transition to a single, statewide electronic procurement system.

- The 75th Legislature charged GSC with establishing and operating an electronic procurement marketplace and network under which the State's purchasing transactions would be accomplished electronically.<sup>1</sup> The Legislature requires participation in the network of each state agency capable of participating.<sup>2</sup> Each state agency must also post purchases on the electronic commerce network.
- As a result, GSC started an electronic procurement pilot program in 1997. The mission of the pilot is to allow all state agencies and co-op members to buy goods and services through electronic means. The electronic procurement system allows agencies to post requests for bids and receive bids, while vendors may use the system to access and submit bids. Results of the pilot will be reported to the 77th Legislature and implementation of the electronic procurement system for statewide use is anticipated to begin in September 2001.<sup>3</sup>
- Electronic procurement promises several increased efficiencies. For example, when fully implemented, electronic procurement will eliminate the paper process and enable all purchasing information to be collected and maintained automatically. The system will also simplify and standardize on-line solicitations. In addition to improving the procurement process and customer service, GSC asserts that these automatic features will increase employee efficiency and decrease operating costs. Based on fiscal year 2000 figures, electronic procurement savings could result in up to \$397,000 in cost reductions for open-market requisition processing in GSC. These savings may be redirected to improve other areas of procurement, including contract management.

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Electronic procurement should save money and allow for a paperless, automated process.

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**Problem:** Unresolved issues will prevent the successful, statewide implementation of the electronic procurement network.

- GSC has worked hard to develop a workable electronic procurement pilot program, and the network developed by GSC meets the statutory requirement prescribed by the 75th Legislature. However, significant issues still need to be addressed before the system is implemented statewide. One key issue already identified by state agencies is the inability of the electronic procurement network to fully interface with many state agencies' financial systems. Most agencies have existing financial systems for internal accounting, including payroll and purchases. Although the electronic

procurement network has the capability to interface with the Uniform Statewide Accounting System (USAS) and the Integrated Statewide Administrative System (ISAS) used by several agencies, many agencies, particularly larger agencies, are highly vested in older legacy systems. The electronic procurement network does not have the capability to fully interface with these systems. While GSC was not mandated to develop an accounting interface, agencies may oppose using an electronic procurement network that does not work with their internal accounting systems.

The divergence of financial systems is a recognized problem with no immediate solution. In fact, an online survey conducted by GSC's Texas Government to Business task force for electronic procurement, reported only 37 percent of respondents plan to change or upgrade their financial systems within the next two years.<sup>4</sup>

- As directed by the Legislature, GSC developed the pilot electronic procurement network at no direct cost to the State. GSC plans to fund the network through transaction fees charged to both the vendors and to state agencies using the system. However, the total cost of these transaction fees has not been calculated and could result in increased costs to both vendors and state agencies. Some users question the use of fees to fund the network.

**Problem: The requirement for all agencies to participate in the electronic commerce network is not clearly defined.**

- Although state agencies are statutorily required to participate in the electronic procurement network, the statute is unclear as to what participation actually entails.<sup>5</sup> Agencies must post procurement information on the network, but the statute is unclear whether agencies are required to perform procurements through the network.
- If not statutorily required to conduct purchases through the electronic procurement network, agencies may implement their own systems. For example, a large agency with a significant volume of purchases could develop its own electronic purchasing system, which could have a negative effect on the State's aggregate purchasing power. Failure to include that one agency's purchases in statewide totals would affect GSC's ability to leverage the State's buying power to obtain reduced prices and better values. In addition to lost economies of scale, maintaining several state agency purchasing systems would be inefficient for the State and confusing for vendors.

**Problem: The electronic procurement network eliminates the need for the Centralized Master Bidders List in its current form.**

- GSC is statutorily required to maintain the Centralized Master Bidders List (CMBL), a list of vendors that have registered to do

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Without all the agencies' aggregate buying power, the State cannot leverage reduced prices and better value.

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### Centralized Master Bidders List

The CMBL is a statewide list of registered vendors who have paid a \$100 biennial registration fee to receive notification of all relevant state bid opportunities. As required by statute, all state agencies must use the CMBL in inviting bids for purchases greater than \$2,000. The list also provides GSC with information about the vendors, making vendor selection and payment processes more efficient. Currently, the CMBL has more than 15,600 vendors listed.

### Online Reverse Auctions

This innovative purchasing method has many variations, but essentially requires open bidding with price decreasing incrementally throughout the duration of the auction. Buyers define what they want and vendors compete for the lowest bid. The process involves the following steps:

- at an established time, vendors may begin posting bids on a secured Web site accessible only by qualified vendors and agency personnel;
- each bidder is able to see the last bid price offered and may respond with a lower bid; and
- at an established time, bidding is closed and the last bid offeror is eligible for contract award, if determined to be in full compliance with specifications.

business with the State.<sup>6</sup> The textbox, *Centralized Master Bidders List*, briefly describes the CMBL.

- Currently, state agencies must solicit bids for purchases over \$2,000 from the vendors listed on the CMBL. If implemented statewide, the electronic procurement network will be the sole means of soliciting vendors, making the requirement that agencies use the CMBL obsolete for this purpose. Agencies will post solicitations and receive bids online instead of soliciting vendors off the CMBL. The electronic procurement network will, in effect, become a virtual CMBL. However, the electronic procurement network will still need to notify registered vendors of all relevant bid opportunities.

**Problem: Authority to use innovative purchasing methods in the State's procurement system is unclear.**

- Without clear statutory authorization, the electronic procurement system was not structured to include the ability to purchase through reverse auctions. Currently, the private sector is increasing use of reverse auctions, described in the textbox, *Online Reverse Auctions*. Private sector purchasers maintain that the online reverse auction method allows buyers to manage a much larger pool of bids from all over the world. Reverse auctions also save time and staff resources by eliminating the need to seek potential vendors and have drawn out negotiations. These auctions also have the effect of leveling the playing field, particularly for smaller vendors.<sup>7</sup>

Although GSC recognizes the increased interest to implement reverse auctions in the new electronic procurement system, the agency is unsure of its authority to implement them. GSC has requested an Attorney General opinion on the applicability of this method, given current statutory requirements for receiving sealed bids.

- Using vendor co-ops or consortia is another form of procurement that is not currently used by GSC. This form of procurement, called direct purchasing, involves accessing a group of vendors through a single point of entry. The Texas Department of Information Resources (DIR) practices direct purchasing in its role as the state purchaser for computers and software. DIR develops a term contract with a manufacturer and then puts out a request for proposal for a reseller to provide the products directly to the state agencies. The reseller is responsible for all purchasing transactions. DIR's role is to monitor the reseller and handle complaints from customers. This form of direct purchasing is self-sustaining and allows for full administrative cost-recovery through a 3 percent markup by DIR. Using direct purchasing results in reduced processing time and allows customer agencies more

payment options, including purchasing cards, credit cards, purchase orders, and emergency fund transfers.

**Problem:** Having the Texas Department of Economic Development operate a key component of the State's procurement system is inefficient.

- Currently, the Texas Department of Economic Development (TDED) maintains the Electronic State Business Daily.<sup>8</sup> The Electronic State Business Daily is an Internet site where state agencies are statutorily required to post all procurement opportunities greater than \$25,000.<sup>9</sup>
- GSC's electronic procurement system will encompass the functions of the Electronic State Business Daily. Both enable agencies to locate vendors, and vendors to locate market opportunities online. Currently, the electronic procurement network and the State Business Daily have nearly identical posting requirements.<sup>10</sup>
- Having TDED operate the Electronic State Business Daily also results in unnecessary time delays in posting procurement opportunities and confusion among vendors. Currently, agencies must first submit information about procurement opportunities to GSC. GSC then transfers the information to TDED for posting. Vendors are unsure about which agency to contact regarding postings on the Electronic State Business Daily, and agencies are frustrated with the lag time inherent in this multi-step posting process.

## Recommendation

### Change in Statute

#### **3.1 Clarify that, upon full implementation of the electronic procurement network, all state agencies must use the network for purchasing.**

Electronic procurement provides opportunity for increasing delegation of purchasing authority, while enabling the centralized accumulation of purchasing data. As state procurement continues to move towards increased delegation, the State must make certain that all agencies participate in electronic procurement to ensure that statewide purchasing data is collected and the State's purchasing power is not diminished.

Currently, the statutory language that requires agencies to participate in the State's electronic procurement network is unclear as to what participation actually entails. This recommendation would require all agencies to perform purchasing through the network, but would not affect current exempt or delegated purchasing authority. Agencies with exempt or delegated purchasing authority would still be permitted to exercise that authority, but would be required to post and receive bids through the electronic system for all relevant procurements.

This recommendation would not apply to purchases for major construction projects. For example, highway construction and maintenance purchases would not be required to go through the electronic procurement system. The Texas Department of Transportation (TxDOT) is already statutorily authorized to develop an electronic bidding system for highway construction and maintenance.<sup>11</sup>

Other construction-related purchases exempt from use of the electronic procurement system would include those exempted under Chapter 2166 of the Texas Government Code governing building and construction acquisition.<sup>12</sup> In addition to TxDOT, these exceptions include specific projects performed by Texas Natural Resource Conservation Commission, Texas Department of Criminal Justice, Texas Department of Housing and Community Affairs, Texas Department of Agriculture, and Texas Parks and Wildlife Department.

**3.2 Require the TTPD to integrate the Centralized Master Bidders List into the electronic procurement network, but maintain the vendor notification service.**

Upon full implementation of the electronic procurement network, TTPD would transfer the functions and services currently provided by the CMBL to the electronic procurement system, effectively integrating the list. TTPD would continue to offer vendors notification of relevant requisitions on a cost-recovery basis.

**3.3 Transfer the Electronic State Business Daily to TTPD, terminating it once the electronic procurement network is fully capable of posting procurement information.**

This recommendation would transfer responsibility for the Electronic State Business Daily from the Texas Department of Economic Development to TTPD. TTPD would continue to perform the functions of the Daily until the electronic procurement network is fully capable of posting statewide procurement information. At such time, the service provided by the Daily would be superfluous and it would be discontinued.

**3.4 Authorize TTPD to establish reverse auctions as an alternate purchasing method within the electronic procurement network.**

Just as the private sector has enjoyed the use of reverse auctions, this recommendation would authorize TTPD to establish reverse auction procedures for the State's use. Although receiving sealed bids is a key aspect of the State's current competitive bidding process, this recommendation acknowledges that reverse auctions also promote fair competition and should be considered as an exception to the State's sealed bid requirements.

## **Management Action**

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**3.5 TTPD should assemble interagency expertise in the areas of procurement and information resources to help it evaluate the electronic procurement network.**

Although GSC has worked closely with vendors and some state agencies, and has complied with the requirement to develop and implement a statewide electronic procurement network, the full workability of the system has yet to be assured. To address agencies' concerns about the viability of

the electronic procurement system – most notably, its inability to fully interface with many agencies' internal accounting systems – TTPD should convene a task force of selected representatives of state agency purchasing and information resources divisions. Before statewide implementation of the network, the task force should review the electronic procurement system in its entirety and evaluate the workability of key components. Evaluation of the network would ensure that any fees are appropriate, that proper security measures are in place, and that necessary interfaces, such as those between the procurement system and individual agency financial systems, can occur. TTPD may choose to take advantage of GSC's Texas Government to Business Coordinating Council or other similar advisory groups.

### **3.6 TTPD should study and implement other innovative procurement methods where feasible.**

This recommendation would direct TTPD to research additional procurement methods in an effort to continually improve the State's ability to streamline and improve the purchasing process. This recommendation further authorizes TTPD to implement new procurement methods that comply with existing procurement statutes, and support fair competition and best value purchasing principles. For example, TTPD should examine direct purchasing as a potentially more efficient method for some types of purchases. Direct purchasing makes a private entity responsible for managing purchasing transactions, while minimizing administrative costs to the State.

## **Impact**

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In general, these recommendations seek to enhance the implementation of a statewide electronic procurement network authorized by the 75th Legislature. Requiring all state agencies to use the network would allow TTPD to maximize the State's purchasing power. It would serve as a central repository of procurement information that TTPD would use to develop additional term contracts, and obtain lower prices and better values.

Directing TTPD, with assistance from purchasing and information resource representatives from other state agencies, to evaluate the electronic procurement network will help address key concerns about the network. The most significant concern is the inability for agencies' financial accounting systems to fully interface with the network. TTPD would address this concern and any others before statewide implementation.

In seeking additional ways to improve the network, TTPD should identify and incorporate new procurement methods whenever feasible, including reverse auctions. Authorizing TTPD to use reverse auctions to buy goods and services presents additional opportunities for the State to obtain reduced prices through increased competition.

Other recommendations seek to merge services provided automatically by the new electronic procurement network. TTPD would assume responsibility for maintaining the Electronic State Business Daily. The transfer and eventual elimination of the Daily would make posting requisitions easier for agencies and eliminate duplicative postings. Integrating the CMBL into the electronic procurement network would also allow TTPD to redirect staff resources to other areas, such as contract management, discussed in Issue 10 of this report.

## Fiscal Implication

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While having no direct impact on TTPD, these recommendations bring the State closer to realizing significant savings from electronic procurement. A central, statewide electronic procurement network used by all state agencies offers significant direct and indirect savings for the State. This fully automated electronic procurement system would allow TTPD to accurately assess the State's actual purchasing needs and use its aggregate purchasing power to achieve reduced pricing and better values through economies of scale. Additionally, electronic purchasing allows for just-in-time buying and will eventually eliminate the need to warehouse goods and supplies, resulting in additional savings for the State. Finally, the elimination of multiple purchasing efforts across state agencies and implementing a standard, central vehicle for buying goods and services will result in savings of staff time and resources.

These recommendations would also allow TTPD to be receptive to new and innovative purchasing methods that could result in further savings, such as reverse auctions. The reverse auction method results in reduced costs of goods and services. It also results in diminished administrative costs by reducing the amount of time that agency staff must spend evaluating and negotiating bids.

The Electronic State Business Daily has minimal operating costs at the Texas Department of Economic Development, and could be absorbed by TTPD.

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<sup>1</sup> Texas Senate Bill 820, 75th Legislature (1997), codified in Texas Government Code Ann., ch. 2177.

<sup>2</sup> Texas Government Code Ann., ch. 2177, sec. 2177.002(d).

<sup>3</sup> Additional information on the pilot can be found on the Internet at [www.gsc.state.tx.us/elec\\_comm/ectf.html](http://www.gsc.state.tx.us/elec_comm/ectf.html).

<sup>4</sup> Texas Government to Business Task Force, Statewide Electronic Procurement Project Conference, *Online Survey Results*, Summer 2000.

<sup>5</sup> Texas Government Code Ann., ch. 2177.

<sup>6</sup> Texas Government Code Ann., ch. 2155, sec. 2155.263.

<sup>7</sup> Ann Millen Porter, "E-auction Model Morphs to Meet Buyers' Needs," *Purchasing Magazine*, June 15, 2000.

<sup>8</sup> The Electronic State Business Daily is located on the Internet at [www.marketplace.state.tx.us/1380/agency.cfm](http://www.marketplace.state.tx.us/1380/agency.cfm).

<sup>9</sup> Texas Senate Bill 1380, 75th Legislature (1997), codified in Texas Government Code Ann., ch. 2155, sec. 2155.074.

<sup>10</sup> Texas Government Code Ann., ch. 2155, sec. 2155.083 (a) and (g); and chp. 2177, sec. 2177.003 (a) and (b).

<sup>11</sup> Texas Transportation Code Ann., ch. 223, sec. 223.013.

<sup>12</sup> Texas Government Code Ann., ch. 2166, sec. 2166.003.

## Issue 4

### **GSC Continues to Struggle with Construction Management, but Added Tools Could Help the Agency Succeed.**

#### **Summary**

##### **Key Recommendations**

- Allow GSC to use a broader range of contracting methods to design and construct state facilities.
- GSC should develop and maintain a project management tracking system.
- GSC should institute a training program for project management employees.

##### **Key Findings**

- Both internal and external audits have well documented GSC's past problems in managing construction projects for the State.
- GSC did not effectively manage its most recent major construction project, the Robert E. Johnson building.
- State law limits GSC from entering into contracts with design and construction professionals that could reduce the risk of financial loss and construction delays.
- The Legislature has granted institutions of higher education the authority to pursue alternate construction contracting methods.

##### **Conclusion**

Facility construction is a significant responsibility of GSC, as the agency's \$243 million fiscal year 2000 construction budget illustrates. Working to meet the needs of a wide range of agencies has proved challenging in itself. However, GSC has experienced difficulty managing the State's building construction operations. Several projects managed by the agency have exceeded their budgets, fallen behind schedule, and contained significant design flaws. GSC's lack of a project management tracking system has aggravated the situation by rendering the agency unable to accurately account for crucial elements of its construction operations.

While GSC has had significant problems within these operations, it also does not have access to construction contracting methods that could help it run its construction functions more effectively. In fact, GSC's limited contracting options may be at the root of some of its most significant problems.

Private businesses, other governments, and school districts successfully use alternative contracting methods. Research proves their effectiveness in cost and time savings. For example, one solution to GSC's construction management problems would be to allow contracting for a construction manager at risk. This approach allows a construction manager to be closely involved in a project from design through completion. Ultimately, responsibility for a project lies with GSC. These recommendations will not guarantee that GSC fulfills its role effectively, but the agency should have access to the tools necessary to succeed.

## Support

**Current Situation:** The General Services Commission manages building construction and acquisition projects for the State.

- GSC has responsibility for acquiring, modernizing, remodeling, building, and equipping buildings for the State.<sup>1</sup> Oversight of construction projects by GSC extends to all state agencies, except those specifically exempted by state law. Agencies who have all or part of their building construction projects exempted include:
  - Texas Department of Transportation,
  - Texas Parks and Wildlife Department,
  - Institutions of Higher Education,
  - Texas Department of Housing and Community Affairs,
  - State Affordable Housing Corporation,
  - Texas Department of Criminal Justice,
  - Texas Department of Agriculture, and
  - Texas Natural Resources Conservation Commission.

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In fiscal year 2000, GSC managed 68 projects with a value of \$243 million.

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Other projects exempted from GSC oversight include repair and renovation projects, and projects built under the supervision of a public authority or local government.<sup>2</sup>

- While GSC administers the State's construction process, only the Legislature may authorize a construction project.<sup>3</sup> The Legislature appropriates funds for construction projects directly to the using agency unless GSC will construct the project, in which case, GSC receives the appropriation.
- In fiscal year 2000, GSC staff managed 68 active projects with a construction contract value of \$243 million.<sup>4</sup> GSC performs its construction activities through two programs in its Facilities Construction and Space Management Division: the Design and Construction Program, which had 15 employees in fiscal year 1999; and the Inspections program, which had 10 employees. The fiscal year 1999 budgets of these two programs totaled \$1.6 million. Almost 90 percent, or about \$1.4 million, of the total budget came from client agencies, who GSC charges an hourly fee for the time GSC project managers and inspectors spend on a project.
- State law allows GSC to contract as necessary to accomplish its construction responsibilities.<sup>5</sup> However, the bid process requires GSC to award a contract based on the lowest and best bid.<sup>6</sup> As a

result, GSC must award a construction contract to the lowest bidder meeting contract terms. No other criteria are evaluated.

- The construction management process is complex, as seen in *Improving the Construction Process*, a report issued by the State Auditor in 1994. According to the report, risks of failure can occur at each stage of a project, including the planning and design phase, contract development, bid analysis, project administration, and project close-out. The report lists more than 400 specific factors and areas of risk that should be reviewed when auditing the construction process.<sup>7</sup> Three major tasks involved in managing construction are described in the table, *GSC's Role in the Construction Process*.

<b>GSC's Role in the Construction Process<sup>8</sup></b>	
Project Analysis Management	GSC works with the requesting agency to develop a complete description of the project including justification for the agency's request for new construction, a space analysis of the agency's current and future needs, estimates of the project costs, schematic plans, and specifications of the types of materials to be used.
Project Design Management	GSC manages design professionals by selecting and contracting with professionals for each project; providing information to professionals about design preferences; and reviewing and overseeing construction documents to ensure compliance with codes, constructability and agency requirements. GSC works to ensure that each project can be constructed within budget.
Construction Management	GSC administers contract payments, monitors construction schedules, and attempts to resolve construction issues. Inspection staff verify completeness of contract requirements and ensure that work is completed.

**Current Situation: Both internal and external audits have well documented GSC's past problems in managing construction projects for the State.**

- Internal audits of GSC's Design and Construction Program in 1995 and 1998 identified significant management problems, including the absence of a project management system, reliance on numerous fragmented and redundant automated reports, and failure to adequately maintain hard copy files.<sup>9</sup>
- A 1997 report by the State Auditor's Office found that inadequate management of construction contracts led to project delays, price escalations, and strained relations between GSC and other state agencies. The report noted that schedule delays and excessive change orders resulted in increased costs for taxpayers.<sup>10</sup>

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The recent SAO-UT System report showed that GSC continues to lack the components of an effective construction program.

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- The State Auditor’s Office followed up its 1997 report in February 1999, noting that GSC “continues to have problems managing construction schedules and budgets, following good business practices, and improving client relations.”<sup>11</sup> GSC still had not developed basic construction project management processes to effectively plan, monitor, and control construction schedules and budgets, according to the report.
- In 1999, the Legislature authorized the State Auditor to contract with the University of Texas System to conduct a management evaluation of GSC’s Design and Construction program.<sup>12</sup> Findings of the evaluation, published in May 2000, show that GSC has not developed the resources necessary to manage complex construction projects. GSC continues to lack a project management system, a consistent strategy for construction management, an adequate in-house engineering staff, and a training program for project managers.<sup>13</sup>

**Problem:** GSC did not effectively manage its most recent major construction project, the Robert E. Johnson building.

- GSC finished the Robert E. Johnson (REJ) building – the agency’s most significant project failure – almost two years behind schedule and more than \$25 million over budget.<sup>14</sup> Scheduled to be completed and occupied in September 1998, the REJ building was finally completed and fully occupied in June 2000, as illustrated in the table, *Robert E. Johnson Building, Project Schedule*. The table, *Robert E. Johnson Building, Budget and Expenditures*, shows planned and actual costs of the REJ project. Some cost overruns resulted from additional square footage, primarily the conference center, which the client agencies requested.

Robert E. Johnson Building, Project Schedule <sup>16</sup>		
Phase	Scheduled Date	Actual Date
Bond Funds Received	December 1995	February 1996 & January 1998
Architectural Firm Contracted	October 1995	February 1996
Building Design	November 1995 to April 1997	February 1996 to August 1997
Construction: Foundation	January 1997 to July 1997	May to November 1997
Construction: Building	April 1997 to August 1998	August 1997 to July 2000
Agencies Move in	September 1998	February to June 2000

Delays in completing the REJ building resulted in additional costs to lease space to the agencies that planned to occupy the building.

For example, the State paid an additional \$932,000 for office space and parking fees for the State Auditor's Office because of construction delays.

GSC experienced similar delays and cost increases with state garage P. Originally scheduled to occur from February to May 1996, the design phase of the garage ran until August 1997, with subsequent construction phases running over schedule as well. The garage cost came in at \$10.4 million, more than \$1 million over GSC's original budget.<sup>15</sup> The garage has yet to be completed because of design problems with the cladding, the structure's outer skin.

<b>Robert E. Johnson Building, Budget &amp; Expenditures<sup>17</sup></b>			
<b>Phase</b>	<b>Original Budget</b>	<b>Actual Expenditures</b>	<b>Percent Increase</b>
Construction	\$25,622,450	\$43,700,013	70%
Architect/Engineer	\$1,537,347	\$4,046,635	163%
Testing, Management, & Misc Expenses	\$3,547,903	\$4,488,393	27%
Telecommunications	\$1,500,000	\$2,700,000	80%
Furniture, Fixtures, & Equipment	\$3,063,750	\$4,234,800	38%
Contingency	\$1,348,550	\$2,972,987	120%
<b>Total</b>	<b>\$36,620,000</b>	<b>\$62,151,828</b>	<b>70%</b>

- Lack of a successful project management tracking system contributes to project delays and errors. A number of audits have illustrated that GSC does not have a fluid, all-inclusive project management system in place. For example, the UT study found that GSC had multiple databases and many written procedures, but none formed an effective system. And, the State Auditor's 1999 report questioned the accuracy and completeness of GSC's project data because auditors could not determine the true status of ongoing construction projects.
- GSC has not proven that it can successfully manage contractors on a large-scale construction project, as major design flaws and other significant errors escape the agency's attention. In April 1999, eight months after REJ's scheduled completion, a report from an engineering consultant hired by GSC to assess the condition of the REJ building identified serious problems with the building. The consultant recommended that the contractor perform significant additional steps, primarily to address major leaks during rainfall. These steps included replacing interior drywall, supplementing exterior waterproofing, applying water repellent, performing limited demolition around windows, supplementing primary waterproofing and flashing, and requiring that an engineer inspect aluminum frame connections.

GSC has not proven it can manage contractors on a large-scale project.

Remediation of REJ construction deficiencies began in June 1999. In December 1999, the contractor filed a claim for \$3.72 million in extra compensation because of changes in the building design. In

### Project Delivery Methods

**Design-Bid-Build** – A traditional construction delivery method where a project's design and construction are contracted separately. Architecture is designed first, then the agency selects the general contractor who builds the structure based on the architect's design.

**Design-Build** – A single entity – usually a partnership between an architect and a builder – is responsible for both design and construction of a project. The price is guaranteed, and selection is based on best value. The design-build method allows construction to start before design is complete and better ensures constructability of the design.

**Construction-Manager-at-Risk** – A single contractor holds the subcontracts and guarantees the price of the project. If the project costs more than the guaranteed maximum price, the contractor, not the agency, is responsible. The contractor is involved in the project from inception.

**Competitive Sealed Proposal** – Similar to the design-bid-build approach, except the basis for awarding the contract is not just lowest price, but includes qualitative information.

April 2000, GSC and the contractor reached a settlement on the claim, with GSC paying the contractor approximately \$1.2 million. Working with the Attorney General, GSC is pursuing the collection of damages from the architect and the original construction manager.

- According to GSC, high turnover in agency staff has led to poorly prepared and incomplete documentation, and inadequate and inconsistent supervision of projects, including the REJ building.<sup>18</sup> The UT System study found that fluctuating workloads coupled with high vacancy rates have created serious staffing problems at GSC.<sup>19</sup> Although the Facilities Construction and Space Management Division had 35 authorized positions in February 2000, the agency had only 24 positions filled. The UT study found that GSC construction and design employees needed more staff development and training than GSC currently provided. Such training includes continuing education for licensed employees.
- Although GSC has experienced difficulty managing several of its construction projects, the agency has successfully completed others. For example, state agencies in El Paso began occupying a newly constructed state office building in January 2000, just one month behind GSC's original move-in date. The four-year project also came in on budget, totaling about \$13 million. In Fort Worth, GSC completed the \$4 million Health and Human Services Building on time and under budget in 1997. GSC also finished 12 of 18 projects for the Department of Public Safety authorized in 1998-1999 on time, although the budget for the projects had a cost-increase of about 21 percent. GSC indicates the cost increases primarily resulted from project scope changes and a bidding climate that produced higher prices than anticipated.

**Problem: State law limits GSC from entering into contracts with design and construction professionals that could reduce the risk of financial loss and construction delays.**

- GSC cannot take advantage of all the contracting options available in today's construction market. Because GSC must use competitive bids to procure construction services, construction companies must bid on projects as designed, even though a project may be poorly designed or not easy to build. As a result, ideas to improve projects or reduce costs are not brought forward and discussed with a bidder until after GSC awards the contract. This situation can result in project delays and expensive change orders, not unlike the history of the REJ building. Had GSC had access to alternative project delivery methods, the opportunity for project delays and additional costs may have been drastically reduced. For a description of common design and construction contracting practices, see the textbox, *Project Delivery Methods*.

- GSC does not have authority to enter into design-build contracts. Selecting a firm or partnership to both design and build a facility through one design-build contract helps ensure that all parties to a project work cooperatively and establishes one point of accountability.

Others in the construction industry recognize the benefits of the design-build delivery system. For example, the federal government and a number of states, including California, Florida, Alaska, Idaho, and Virginia, have expressly authorized use of design-build. In all, at least 30 states have design-build public work authorization statutes, and many are considering new or expanded versions of such legislation.<sup>20</sup> Industry trade organizations, such as the National Society of Professional Engineers and the American Consulting Engineers Council, also acknowledge the benefit of the design-build project delivery system. For more information see the textbox, *Public Benefits of Design-Build*.

<b>Public Benefits of Design-Build</b>
<p>According to the National Society of Professional Engineers, potential benefits of design-build for public agencies include:</p> <ul style="list-style-type: none"> <li>● lower project costs;</li> <li>● more efficient timelines;</li> <li>● multiple design options to choose from;</li> <li>● ability to fix project costs early in the process;</li> <li>● reduced administrative burdens;</li> <li>● single point of contact for communicating;</li> <li>● elimination of need to mediate disputes between designer and constructor; and</li> <li>● no need to monitor designer/constructor interface.</li> </ul>

For example, legislation passed by the state of Arizona in April 2000 rewrites the state's procurement code to allow government agencies at all levels to use design-build, construction-manager-at-risk, and other alternative delivery methods on public-sector projects.

- GSC cannot enter into a contract that holds a construction manager "at risk" if the project is delayed or over budget. Currently, the agency may hire a construction management company to ensure that facilities meet building specifications and projects follow contractual guidelines. The ability to hold a construction manager "at risk" for the costs of project delays or overruns would reduce the financial risks of the State. This approach also allows the construction manager to assist in building design and hiring of subcontractors to help avoid design problems and delays.

The construction-manager-at-risk delivery method continues to gain ground as a popular choice of construction contract delivery. School districts and institutions of higher education in states such as Texas, Illinois, Idaho, and Maine use this method. The city of Amarillo used the construction-manager-at-risk method to build an education support center. Private sector businesses also use the construction-manager-at-risk approach to build their projects, from a biomedical plant in Massachusetts to the Knoxville, Tenn. convention center.

GSC does not have authority to pursue competitive sealed proposals for building construction projects. Using this method of contract management could increase the quality of the project because it

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**GSC cannot contract to hold a construction manager "at risk" for project delays and cost overruns.**

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allows the agency to select the contractor through qualitative criteria in addition to quantitative criteria, such as lowest bid. Institutions of higher education in Texas, such as the UT System, as well as other state governments, including Utah, Illinois, South Carolina, and Iowa, use the competitive sealed proposal method.

**Comparison: The Legislature has granted institutions of higher education the authority to pursue alternate construction contracting methods.**

- State law allows institutions of higher education to use the design-build, construction-manager-at-risk, and competitive-sealed proposal methods of securing contracts for the construction, rehabilitation, alteration, or repair of a facility. These institutions select the contractor based on best value for the institution. They are not restricted to considering price alone, but may consider any other factor stated in the selection criteria.<sup>21</sup>

## Recommendation

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### Change in Statute

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#### **4.1 Allow GSC to use a broader range of contracting methods to design and construct state facilities.**

Authorize GSC to use the following project contracting methods:

- competitive sealed proposal,
- design-build, and
- construction-manager-at-risk.

GSC does not have the in-house staff or systems to successfully manage large construction projects, so the agency contracts for design and construction services. However, GSC's authority to contract is limited and is not consistent with best practices used by other organizations to manage the risk associated with large construction projects. The authority to negotiate with bidders, and to enter into design-build and construction-manager-at-risk contracts, could help protect the State and establish clear accountability for project delays and overruns. GSC's statute should mirror the Texas Education Code that authorizes institutions of higher education to pursue a number of different methods of contracting for construction. In addition, GSC should adopt rules that establish the circumstances for use of each method of contracting for design and construction services. The rulemaking process will provide design and construction professionals the opportunity for input into the criteria used by GSC to determine which method of contracting is best for particular types of projects.

## Management Action

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### **4.2 GSC should develop and maintain a project management tracking system.**

While GSC has a project management tracking system in progress, GSC should expedite its completion and ensure that the system addresses the inadequacies identified in the UT study. A number of audits have found that GSC lacks an effective project management system. To manage the State's building construction and acquisition needs successfully, GSC must improve its project management tracking techniques. The agency should consolidate existing multiple project databases to eliminate redundancy and inaccuracies. GSC should work with the University of Texas System's Office of Facilities Planning and Construction to implement an effective project management tracking system.

### **4.3 GSC should institute a training program for project management employees.**

The project management field is constantly changing as new technologies develop and practitioners share ideas and experiences. GSC should ensure that its employees do not become static by providing them with ample opportunities for continuing education and professional development. GSC should maintain an annual staff-training budget for each employee, and reimburse staff members for approved job-related training.

## Impact

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As the provider of the State's facilities design and construction activities, the General Services Commission has a significant responsibility. Accountability, however, must accompany this responsibility. The recommendations in this report lay the foundation for improving GSC's ability to accurately track the status, costs, and time lines of its projects, while reducing the opportunity for project delays and significant budget increases. Providing GSC with needed flexibility and additional project delivery methods will allow the agency to select the best process for each project, giving GSC the opportunity to tailor a project to the client agency's needs and the project's conditions. Finally, appropriately preparing staff to manage a range of projects should reduce turnover, increase employee efficiency, and help GSC properly manage the State's facilities construction efforts.

## Fiscal Implication

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Establishing innovative contracting procedures at the General Services Commission creates no additional costs to the State. In fact, given the large budget of the State's building design and construction activities, even modest adjustments and streamlining to GSC's project management system have the potential to save the State a significant amount of money. Some processes, such as construction-manager-at-risk, could reduce the number of facilities construction and design staff needed to manage and inspect projects. However, the primary savings will result from reducing future project cost overruns and delays. Providing additional training to construction project managers may have front-end costs, but the value of increased construction management in reduced errors and better contractor oversight will outweigh training costs.

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- <sup>1</sup> Texas Government Code Ann., ch. 2166, sec. 2166.052.
- <sup>2</sup> Texas Government Code Ann., ch. 2166, secs. 2166.003-2166.004.
- <sup>3</sup> Texas Government Code Ann., ch. 2166, sec. 2166.052.
- <sup>4</sup> Memorandum from General Services Commission (GSC), Facilities Construction and Space Management Division, to Sunset Advisory Commission, September 20, 2000.
- <sup>5</sup> Texas Government Code Ann., ch. 2166, sec. 2166.052.
- <sup>6</sup> Texas Government Code Ann., ch. 2166, sec. 2166.255.
- <sup>7</sup> Texas State Auditor's Office (SAO), *Improving the Construction Process*, report no. 95-031 (Austin, Texas, November 1994).
- <sup>8</sup> Sunset Advisory Commission overview meeting with GSC, Facilities Construction and Space Management Division (Austin, Texas, May 1, 2000).
- <sup>9</sup> GSC, *Management Control Audit of the Design, Construction and Leasing Division*, report no. 95-2 (Austin, Texas, February 13, 1995); GSC, *Special Audit of the Design and Construction Division*, report no. 96-3 (Austin, Texas, April 30, 1996); and GSC, *Follow-up Audit on the Program Control Assessment of the Design and Construction Program*, report no. 98-4 (Austin, Texas, May 12, 1998).
- <sup>10</sup> SAO, *An Audit Report on Management Controls at the General Services Commission*, Report 97-080 (Austin, Texas, August 1997) pp. 24-26.
- <sup>11</sup> SAO, *A Follow-up Audit Report on Management Controls at the General Services Commission*, Report 99-029 (Austin, Texas, February 1999), p. 15.
- <sup>12</sup> Texas Senate Bill 1127, 76th Legislature (1999), sec. 18.
- <sup>13</sup> The University of Texas (UT) System, Office of Facilities Planning and Construction, *Design and Construction Process Improvement, Phase 4: Present Recommendations* (Austin, Texas, May 1, 2000).
- <sup>14</sup> Memorandum from GSC, Facilities Construction and Space Management Division, to Sunset Advisory Commission, August 29, 2000.
- <sup>15</sup> Ibid.
- <sup>16</sup> Ibid.
- <sup>17</sup> Ibid.
- <sup>18</sup> Ibid.
- <sup>19</sup> UT System, *Design and Construction Process Improvement*, (Austin, Texas, May 1, 2000).
- <sup>20</sup> Arizona Consulting Engineers Association, *Newz and Viewz*, April 2000. Online. Available: [www.acea.org/newzviewz/nzvz4\\_00/nzvz4\\_00.htm#Design](http://www.acea.org/newzviewz/nzvz4_00/nzvz4_00.htm#Design). Accessed: September 22, 2000.
- <sup>21</sup> Texas Education Code Ann., ch. 51, secs. 51.776-51.784.

## Issue 5

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### **GSC's Leasing Program for Office Space Does Not Obtain the Best Value for the State.**

#### **Summary**

##### **Key Recommendations**

- Require GSC to procure leased space using a best-value assessment.
- Authorize GSC to negotiate with bidders to obtain a satisfactory lease for the State.
- Authorize GSC to contract with local real estate brokers to assist state agencies in locating and leasing space.

##### **Key Findings**

- GSC is responsible for acquiring office and warehouse space for most state agencies.
- GSC is authorized to use a number of methods, including competitive procurement, to obtain lease space.
- GSC leasing activities do not achieve best value for the State.
- GSC does not follow industry best practices when leasing space.

##### **Conclusion**

While authorized to use competitive proposals for leasing office space, GSC continues to exclusively use low-bid procurement methods. The low-bid method secures a price that is initially less expensive, but does not ensure that the State obtains the best value for its funds used to lease space. For example, factors such as the condition and location of the space, utility costs, access to public transportation, and security, can significantly increase costs and hinder provision of state services. In addition, the lengthy and cumbersome bidding process reduces competition and the number of willing vendors. Delays in the leasing process also lead to entering into emergency leases at significantly higher rates. Requiring GSC to procure leases using a best-value process and private sector expertise, will streamline the process and improve the value the State receives for its lease dollars.

## Support

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GSC manages almost 1,400 leases in 200 counties, at an annual cost of \$110 million.

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**Current Situation: The General Services Commission is responsible for acquiring office and warehouse space for most state agencies.**

- GSC provides office and warehouse space for state agencies by developing a strategy to meet space needs, and then directing the construction and leasing of facilities. When GSC signs a contract for the lease of space, the State, acting through GSC, is the lessee.
- Currently, GSC’s Facilities Construction and Space Management Division (FCSMD) manages 1,393 leases in more than 200 counties at an annual cost of \$110 million, with a total value over the life of the leases of \$900 million.<sup>1</sup> Leases may extend for as long as 10 years. The textbox, *State Agencies With the Most Leased Sites*, shows those agencies that lease the greatest number of sites. FCSMD performs the following leasing activities:

Bid Solicitation and Evaluation – Receives and reviews agency specifications, prepares complete specifications and Invitations for Bid, advertises solicitations, analyzes bids, and makes recommendations to the user agency.

Lease Administration – Prepares leases and supporting documentation. Receives requests for lease adjustments, authorizes changes in space and other lease modifications, and amends leases, as required.

Compliance Management – Receives reports of problems, may inspect property, notifies lessor of potential default, obtains lessor compliance, or cancels lease.

<b>State Agencies With the Most Leased Sites</b>	
Department of Human Services	362
Department of Protective and Regulatory Services	225
Department of Health	199
Texas Rehabilitation Commission	125
Department of Criminal Justice	102
Office of Attorney General	75
Parks and Wildlife Department	52
Comptroller of Public Accounts	40
Department of Public Safety	40

Manage Expiring Leases – Notifies agencies of months left on lease, determines agency requirements as lease expiration approaches, and renews leases or solicits bids for new space.

**Current Situation: GSC is authorized to use a number of methods, including competitive procurement, to obtain lease space.**

- GSC generally leases space for state agencies through sealed competitive bids, but is also authorized to use a competitive sealed *proposal* process. The proposal process allows GSC to look beyond

the bid price to other elements of a leasing proposal that may be cost-effective for the State. However, GSC staff indicate that the agency has not used the competitive sealed proposal method to acquire space.<sup>2</sup>

- When necessary, GSC may enter into an emergency lease. In general, emergency leases are required when the State does not have adequate time to procure space competitively. Emergency leases are obtained through negotiations with a property owner, without competition, and may extend for only two years. When entering into an emergency lease, GSC must consider the best interests of the State, amount and type of space, market conditions, the responsibilities of the using agency, and the impact on the public.
- State law provides that if a state agency believes that a bid for leased space selected by GSC is not the lowest and best bid, the agency may appeal GSC’s decision. If GSC and the agency cannot reach agreement within 30 days, the Governor is required to select the bidder to receive the reward. A Governor has never had to make a lease selection under this provision.

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Emergency leases are obtained through negotiations, without competition.

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**Current Situation: State agencies and institutions of higher education play an important role in leasing.**

- State agencies perform various leasing functions, including developing bid specifications, locating space, and soliciting bids. Small state agencies often rely on GSC for guidance and assistance in leasing space, while larger agencies with multiple offices assign their own staff to perform leasing functions. Other state agencies are statutorily exempt, as shown in the textbox, *Agencies Exempt From GSC Leasing Requirements*.
- State agencies, particularly large agencies, may work with a local real estate broker or property management company to find available space and determine the market rate for space. However, an agency must purchase space through a competitive bid process when competition is possible. Property owners pay for broker and property management services, but the State often pays for real estate services indirectly when such costs are included in agency rent.<sup>3</sup>
- Institutions of higher education are authorized to lease space without GSC oversight when space is paid for with funds other than General Revenue. In practice, GSC is seldom involved in higher education leasing. Consequently, universities employ their own leasing staff, who usually manage all of the university’s leasing activities with very little assistance or oversight from GSC.

<b>Agencies Exempt From GSC Leasing Requirements</b>
Texas Alcoholic Beverage Commission
Lottery Commission
Workforce Commission
Institutions of Higher Education when spending funds other than General Revenue

**Problem: GSC leasing activities do not achieve best value for the State.**

- Absent meaningful competition for state leases, GSC cannot assume that it receives the best value for its leasing dollar. Audits conducted by GSC's Internal Auditor in 1996 and 1998 show that GSC leases space without significant competition. The 1996 audit reported that for 22 leases sampled, GSC mailed 3,299 bid invitations, but received only 52 bids (slightly more than two bids per lease).<sup>4</sup> In five of the 22 leases, the current lessor's bid was the only bid received. A follow-up audit in 1998 sampled 10 leases and found that even though GSC mailed 1,590 solicitations to property owners, only 45 bids were received (a 2.8 percent response rate).<sup>5</sup>
- GSC staff indicate that the state leasing process is cumbersome for property owners, who are often unwilling to take the time to prepare and submit a bid for a state lease, and then sign a complex state contract. In addition, state bid specifications often don't mirror practices of the private sector. For example, unlike the private sector, the State seeks to purchase space on a "net usable" basis, disregarding common areas. This difference requires property owners to determine the net usable space then adjust their per-foot costs to recover the pro rata costs of shared common areas.<sup>6</sup>
- Emergency leases granted by GSC are not competitively procured. The table, *Emergency Leases*, shows the state agencies with the most emergency leases. Of GSC's 1,352 current leases, the agency obtained 243 on an emergency basis. Agencies often create the need for an emergency lease by not providing GSC with leasing specifications in a timely manner.<sup>7</sup> An emergency lease usually allows an agency to remain in a preferred facility without assessing the costs and quality of other space available in the market. Because an emergency lease may only extend for two years, GSC does not receive the lower rent often associated with a long-term lease.

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Agencies create emergency lease situations by not providing timely information to GSC.

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Emergency Leases		
	Number of Emergency Leases	Value of Leases (Over 24-Month Term of the Lease)
Department of Human Services	69	\$14,468,867
Department of Criminal Justice	33	\$10,367,032
Health and Human Services Commission	32	\$6,585,332
Department of Health	12	\$2,791,917
Department of Transportation	10	\$2,961,521
Department of Protective and Regulatory Services	9	\$2,197,686
Office of the Attorney General	8	\$1,001,850

Agencies spend more than \$25 million per year in rent for emergency leases, and GSC staff estimate that the State pays 120 percent to 150 percent more than the market rate for space in about 25 percent of its emergency leases.<sup>8</sup>

- Best-value purchasing, which assesses the overall interests of the State in awarding a bid, has been state policy for many years. Although GSC is required to award leases by using competition and determining the lowest and best bid, GSC has not adopted guidelines for determining a best bid. Consequently, GSC leases from bidders with the lowest dollar bid who meet bid specifications, regardless of other relevant factors, such as the condition and location of the space; utility costs; access to public transportation; availability of parking; security; type of telephone services; and the experience, financial condition, and reputation of the lessor. As a result, “low-bid” office space may not be the best value for the State.
- A best-value assessment of bids should always ensure that office space complies with accessibility standards. GSC staff indicate that as many as 140 out of GSC’s 1,393 leased sites may not comply with accessibility standards.<sup>9</sup>

**Problem: GSC does not follow industry best practices when leasing space.**

- Most large organizations lease space through a real estate broker or agent who identifies appropriate space in a geographic area and arranges for the inspection of the space by the client. After inspection, and usually some negotiation, the client prequalifies the space, i.e. designates the space as the most desirable, or best value, and may contract to occupy the space. GSC does not follow this best practice. State agency employees with little knowledge of local real estate markets take the lead in locating space for their agency and writing specifications. Because GSC accepts the lowest dollar bid, use of a real estate professional to prequalify space that represents the overall best value in a market is not possible.
- Private companies usually conduct extensive negotiations with vendors before investing in long-term leases. State law allows GSC to negotiate with vendors only when competition is not possible.<sup>10</sup> Therefore, GSC negotiates with a lessor when entering into an emergency lease.
- Private organizations rely on real estate professionals to verify that space meets their specifications by inspecting and precertifying facilities. Because of its limited staff and travel budget, GSC often leases space without inspecting a facility, and with no firsthand knowledge that a facility actually meets required specifications. GSC

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“Low-bid” office space may not be the best value for the State.

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Lack of necessary up-front information results in the leasing of inadequate space.

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often discovers lack of compliance with accessibility standards after the State signs a lease and an agency occupies the space.

- Unlike GSC, private organizations consider the past performance of vendors when leasing space. Newly created businesses often bid on GSC contracts to get started in the property management or construction fields. Once they obtain a GSC lease, companies construct facilities to meet GSC specifications. These newly created companies have no track record of success and are at risk of failing to meet their contractual responsibilities. When a company fails to construct leased space on time, state agencies must negotiate to extend their current leases, usually at very high costs, until their new space is finished.

## Recommendation

### Change in Statute

- 5.1 Require GSC to procure leased space using a best-value assessment.**
- 5.2 Require GSC to adopt rules that establish guidelines for the best-value assessment of bids for leased space.**
- 5.3 Authorize GSC to negotiate with bidders to obtain a satisfactory lease for the State.**

A best-value approach to procuring space is authorized in state law and referenced in GSC rules, but not mandated. Absent a specific mandate to use best-value methods, and an operational definition of how to consistently determine best value, GSC has procured leased space solely on the basis of the lowest bid, or by a large amount of emergency leases. These recommendations would require GSC to consider factors other than price alone when selecting leased space for state agencies. Utility costs, access to public transportation, parking, suitability of telephone systems, moving costs, and build-out requirements should be considered when buying leased space.

Mandating that GSC use a best-value approach to leasing, and requiring GSC to implement that mandate through agency rules, will ensure that the State gets best value for its dollars while maintaining strong competitive features of the leasing process. Similarly, authorizing GSC to negotiate with bidders when leasing space, rather than just accepting their bid, will help ensure that needs are met and best value obtained. Finally, assuring agencies that their needs will be better accommodated through the best-value process should significantly reduce the number of emergency leases.

- 5.4 Authorize GSC to contract with local real estate brokers to assist state agencies in locating and leasing space.**

This recommendation would allow GSC to implement industry best practices such as precertification of space, negotiations with lessors, and use of local real estate professionals to locate space. The authority to enter into contracts with local real estate brokers who would assist the State in locating

leased facilities should improve agency decisionmaking, increase competition, and reduce agency workload. Real estate professionals should be required by contract to ensure that space offered to the State complies with accessibility requirements and fully meets all state specifications.

### **5.5 Authorize GSC to delegate leasing authority to state agencies and institutions of higher education.**

GSC procedures for leasing space are cumbersome and time consuming. Agencies that require small amounts of space, at relatively low cost, must participate in a lengthy GSC-administered procurement process that seldom yields significant competition. Because vendors are usually unwilling to prepare and submit a bid to lease a small amount of space, GSC's process offers no real benefit to the State. This recommendation would allow GSC to authorize agencies to procure low-cost, short-term leases without GSC's direct involvement, although agencies would still be required to comply with GSC leasing regulations. Delegation of leasing authority would be consistent with GSC policies for delegated purchasing authority. Because GSC seldom leases space for institutions of higher education, delegation of all leasing authority to institutions of higher education would be consistent with current practices.

As part of this recommendation, GSC should be required to prepare an annual report to the Commission describing opportunities for delegating leasing authority to state agencies with statewide operations. The report must include input and comments from those agencies.

### **5.6 Require GSC to notify the Governor, Legislative Leadership, and the Chair of the respective agency's Board when an agency does not comply with leasing requirements.**

This recommendation would require GSC to notify state leaders, including the chairs of the Senate Finance and House Appropriations committees, of the estimated fiscal impact that results when an agency does not comply with GSC leasing requirements. Agencies frequently fail to meet GSC leasing deadlines, and then seek emergency leases that avoid competitive procurement. Emergency leases, with a value of \$50 million over a biennium, can result in significant costs to the State when it pays more than the market rate for space. GSC should notify State Leaders of the potential fiscal impact of noncompliance with state laws and regulations. Notification should increase compliance with state policies and greatly reduce the number of unjustified emergency leases.

## **Impact**

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GSC's leasing program is not managed in a manner that fulfills legislative intent to seek the lowest and best bid for leases. Obtaining space solely on the basis of low bids adds indirect costs and causes agencies to look to circumvent competitive procurement. These recommendations would bring GSC into compliance with procuring leased space on a best-value basis and give GSC the tools to effectively pursue the business interests of client agencies. GSC would receive new authority to outsource some of its activities through contracts with real estate professionals, when beneficial, and to actively negotiate for space. Giving GSC the authority to delegate responsibility for low-cost, short-term leases to state agencies would decrease GSC's workload and direct resources to larger, high-risk transactions.

## Fiscal Implication

These recommendations would have a significant positive financial implication for the State. The value of state leases is about \$900 million over the life of the leases. Saving even one-half of 1 percent of lease costs would save about \$4.5 million over the life of the leases.

GSC staff indicate that the State pays rents above market rates for some of the approximately 243 emergency leases with a value of \$25 million per year. According to GSC staff, most emergency and other leases cost between 120 percent to 150 percent of the current lease rate, particularly in the Austin area. A modest reduction in the number of emergency leases could save the State as much as \$600,000 in rent each year, with savings distributed primarily to the agencies with the largest number of leases.

GSC can accomplish all of the recommendations with existing resources, as the recommendations simply shift leasing methodology or authority and do not require new duties. The authorization to delegate leasing authority to agencies, where appropriate, could reduce the leasing division's FTE requirements. In addition, Issue 9 of this report recommends that GSC include the leasing program as one of the first areas for GSC to examine for the potential to outsource. This examination could also lead to reduced FTE requirements.

<b>Fiscal Year</b>	<b>Additional Savings to the State</b>	<b>Change in FTEs from Fiscal Year 2001</b>
2002	\$600,000	0
2003	\$600,000	0
2004	\$600,000	0
2005	\$600,000	0
2006	\$600,000	0

<sup>1</sup> Sunset Advisory Commission overview meeting with the General Services Commission (GSC), Facilities Construction and Space Management Division (May 1, 2000, Austin, Texas).

<sup>2</sup> Interview with GSC, Facilities Construction and Space Management Division staff (Austin, Texas, July 27, 2000).

<sup>3</sup> Ibid.

<sup>4</sup> GSC, *Follow-up Audit on the Program Control Assessment of the Leasing Section*, report no. 98-9 (Austin, Texas, April 20, 1998).

<sup>5</sup> Ibid.

<sup>6</sup> Telephone interview with GSC, Facilities Construction and Space Management Division staff (Austin, Texas, August 28, 2000).

<sup>7</sup> GSC, Facilities Construction and Space Management Division interview, July 27, 2000.

<sup>8</sup> Ibid.; and GSC, Facilities Construction and Space Management Division, "Leasing Corrections," e-mail to Sunset Advisory Commission, October 10, 2000.

<sup>9</sup> Ibid.

<sup>10</sup> Texas Government Code Ann., ch. 2167, sec. 2167.055.

## Issue 6

### **GSC Lacks Authority to Streamline the State's Surplus Property Program.**

#### **Summary**

##### **Key Recommendations**

- Assign responsibility for the State's surplus property disposal process to GSC.
- Require agencies to transfer ownership of surplus property to GSC for disposal.
- Authorize GSC to decide if transferred property should be sold or salvaged, based on the condition of the property.
- Authorize GSC to determine the best-value method for the sale of surplus property, based on the type and condition of the property.
- Authorize GSC to sell state surplus property directly to the public at fixed prices.

##### **Key Findings**

- The State's process for surplus property disposal is cumbersome and inefficient.
- The State uses best-value methods for purchasing new property, but not for disposing of surplus property.
- The Federal Surplus Property Program has resources that could be shared with the state program.

##### **Conclusion**

Agencies have little incentive to quickly or cost-effectively dispose of equipment and other property no longer needed. The current process, as required in statute, is lengthy and cumbersome, with limited budgetary reward at the end. As a result, many agencies simply store unneeded property, often at a significant cost. GSC is best positioned to establish a program that quickly removes surplus from an agency's storage. By providing authority to establish the best-value method of sale, and integrating state and federal surplus property activities, the State could achieve quicker results and potentially greater fiscal gains. In addition, this approach would allow other agencies and eligible entities to continue having a first chance to obtain needed state surplus items to maximize reuse of state assets.

## Support

**Current Situation:** GSC manages a limited surplus property disposal program for state agencies.

### Surplus Property Disposal Process for State Agencies

- Agency notifies GSC of the availability of the property, including a detailed description of the property and the desired price.
- GSC notifies eligible entities, including state agencies, political subdivisions, school districts, and assistance organizations, of the availability of the property.
- An eligible entity may purchase the property directly from the originating agency up to 30 days after the date of notification.
- If the property is not purchased by an eligible entity within 30 days, GSC or the originating agency may attempt to sell the property to the general public by competitive bid or auction.
- If GSC or the originating agency cannot sell the property, or has determined that the property has no resale value, the property may be “destroyed as worthless salvage.”\*

\*GSC defines salvage property as “any personal property which through use, time, or accident is so depleted, worn out, damaged, used, or consumed that it has no value for the purpose for which it was originally intended.”

Sources: Texas Government Code Ann., ch. 2175, sec. 2175.121 - 2175.304, and Texas Administrative Code Ann., Title 1, Part 5, Rule 126.1(5).

- GSC is required by statute “to establish and maintain procedures for the transfer, sale or disposal of surplus and salvage property as prescribed by law.”<sup>1</sup> The process for disposing of state surplus property is described in the textbox, *Surplus Property Disposal Process for State Agencies*.
- The role of GSC is limited to providing information about the availability of property and organizing public sales. GSC does not acquire, store, or set the price for any state surplus property.
- In fiscal year 1999, the State earned nearly \$7 million from the sale of surplus property to the general public, and \$2.5 million from sales to political subdivisions, school districts, and assistance organizations.<sup>2</sup>

**Problem:** The State’s process for surplus property disposal is cumbersome and inefficient.

- While the current process may be appropriate for disposing of vehicles and other high-value property, the effort required of agencies to dispose of low-value property is often not worth the return received. For example, Texas Parks and Wildlife Department (TPWD) staff spend an average of 40 to 50 hours over the course of one to four months to process each line item of surplus property, regardless of the current value of the property. The time commitment alone often makes agencies reluctant to dispose of low-value property because the return received is worth far less than the value of the staff time put into the disposal process.<sup>3</sup>
- Having each state agency handle its own surplus property disposal is inefficient. Many agencies do not have the expertise or the resources to cost effectively dispose of surplus property. Although GSC has recently worked with the Department of Human Services (DHS) and the Public Utility Commission on special disposal projects, it does not have the resources to work closely with many agencies to effectively dispose of surplus property.
- The State does not have a central warehouse to store and process surplus property. Each state agency must store its surplus property on its own site, which increases overall storage costs for the State. For example, until GSC helped DHS dispose of an entire warehouse full of property in 1997, DHS paid \$25,000 a month for storing surplus property it could not efficiently dispose of on its own.<sup>4</sup>

Even after eliminating this warehouse, DHS still pays \$25,000 a month for 45,000 square feet to store surplus property.<sup>5</sup> Other agencies likely have similar storage costs.

- The State does not always obtain the best value by using the required method of selling surplus property to the public – using auctions and sealed bids. In many cases, the State could quickly receive a higher net return by first attempting to sell the property at a fixed price. For example, TPWD was recently forced to sell desks through a lengthy sealed bid process, for which it received \$1 per desk. The agency could have sold the desks for at least \$10 each through a fixed price sale.<sup>6</sup>

**Why is the surplus property disposal process so cumbersome and inefficient?**

For all surplus property, regardless of value, agencies must:

- prepare a detailed description of the property and estimate its present value;
- store property while waiting for an eligible entity to purchase the property, which may take several months;
- commit staff time to process paperwork and to provide access to show the property when it is up for auction; and
- provide security to protect the property while it is in storage.

These steps apply for \$500 vehicles, \$50 power tools, or \$5 desks.

**Comparison: The State uses best-value methods for purchasing new property, but not for disposing of surplus property.**

- State agencies are not required to automatically take the lowest bid when making purchases. Instead, state purchasing laws require a best-value approach when an agency buys goods or services. A best-value approach takes into account not only the dollar cost of the goods and services, but the overall costs to the State of the purchase including installation costs, life-cycle costs, delivery terms, and the quality and reliability of the goods and services.
- A best-value approach could also apply when an agency disposes of surplus property of little value. However, the current program does not allow agencies to consider the overall disposal cost or the most cost-effective method of sale when disposing of property.

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The State does not always obtain best value for its property using auctions and sealed bids.

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**Opportunity: The Federal Surplus Property Program has resources that could be shared with the state program.**

- GSC uses four warehouses and about 50 employees to operate the Federal Surplus Property Program. GSC does not, on a regular basis, store or distribute any state property through these warehouses.
- Six states have combined the federal and state programs to make both programs more efficient. For example, Arizona uses the same buildings, equipment, and staff to dispose of federal and state property. This approach maximizes the use of limited resources, provides the state with a broader range of property to attract buyers, and concentrates the state government expertise for disposing of surplus property in one agency.<sup>7</sup>
- Federal law allows states to combine resources for the storage and distribution of federal and state surplus property, as long as the

state keeps separate inventories and financial records of federal and state property.<sup>8</sup>

**Opportunity:** GSC could effectively improve the state surplus property program, based on its own experience and lessons from other states.

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The State does not need two separate surplus property programs.

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- GSC staff have operated the federal surplus property program since 1993. While the federal program has recently experienced operating losses (including an estimated negative cash balance of \$600,000 for fiscal year 2000), program staff have valuable experience in cost-recovery operations which would be helpful for an expanded state program. For example, GSC staff have many years of experience selling federal surplus property by direct sale and could use their experience to work with agencies to establish the best sale value for surplus property.
- Direct sales are a viable alternative to auctions and sealed bids for selling surplus property around the nation. Twenty-three states sell surplus property directly to the public; 11 of these states report direct sales as the method that earns the greatest or second-greatest rate of return for their surplus property.<sup>9</sup>

## Recommendation

### Change in Statute

- 6.1 Assign responsibility for the State's surplus property disposal process to GSC.**
- 6.2 Require agencies to transfer ownership of surplus property to GSC for disposal.**

Allow GSC to select agencies to participate in the program starting January 1, 2002. GSC would transition all agencies to the program by January 1, 2003.

- 6.3 Authorize GSC to establish the process for sale or salvage of surplus property.**

Require GSC to:

- decide if transferred property should be sold or salvaged, based on the condition of the property;
- establish a process to ensure that eligible entities continue to have an opportunity to purchase surplus property before using other methods of sale;
- determine the best-value method for the sale of surplus property, based on the type and condition of the property;

- contract for the disposal of property to be salvaged;
- restrict the program to Travis County and other counties with a federal surplus property warehouse unless GSC determines that expanding the program to other counties is cost-effective; and
- adopt rules to implement the changes above.

Agencies cannot efficiently dispose of surplus property under current statutory guidelines. These recommendations would allow agencies to quickly dispose of unneeded property by significantly reducing the effort and costs involved. GSC would operate the surplus program on a cost recovery basis. Any additional income earned from sale of property would return to the originating agency, after GSC is reimbursed for administrative costs. GSC indicates that transportation of property could be accomplished with current resources. In addition, GSC should work with the Comptroller's Office to establish a designation of surplus property that prevents GSC ownership of the property for inventory purposes.

As part of the program, GSC should enter into a contract for removal of surplus property declared as salvage. Salvage property has no value for its intended purpose. The State is better served to quickly dispose of salvage property. However, just because selling the property is not cost effective does not mean others would not want to obtain and perhaps recondition the property for eventual sale. A salvage contract would allow the State to earn some income from the sale of the salvage property through the price established in the contract. To reduce storage costs, the contract should also provide for the quick removal of property GSC identifies as salvage.

The recommendation requires GSC to restrict the program to Travis County and counties that have a federal surplus property warehouse. To serve any other county, GSC must determine that the provision of surplus property disposal services to the county would be cost-effective. Agencies with surplus property in counties not served by the GSC program would also be authorized to use best value and direct sale disposal methods. The recommendation will continue to allow agencies and eligible entities an opportunity to purchase surplus items before public sale. Approximately 15,000 items with a value of \$2.8 million were transferred to political subdivisions and assistance organizations in fiscal year 2000. This approach allows such transfers to continue.

#### **6.4 Authorize GSC to sell state surplus property directly to the public at fixed prices.**

GSC should be permitted to sell property not claimed by an eligible entity directly to the public. GSC would set the fixed price for sale, in cooperation with the originating agency, if an auction or sealed bid would not maximize the return value of the property to the State.

### **Management Action**

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#### **6.5 GSC should integrate the federal and state surplus property programs.**

The State of Texas does not need to operate two separate surplus property programs. GSC should use the same staff and facilities to store and distribute federal and state surplus property, including the four federal surplus property warehouses. GSC would maintain separate inventory lists and financial records for federal and state property to satisfy federal requirements. The integration of

federal and state programs would increase the exposure of all available property to the State's customers through "one-stop shopping," which should increase the potential net return.

In addition, if the federal program continues to experience operating losses, GSC should strongly consider reducing the size of the federal program and concentrating its efforts on building a strong state surplus property program. GSC could accomplish this reduction by narrowing the types of federal surplus items the agency accepts to only those that have historically been in high demand and have easily recovered costs. By adding state surplus to the program, GSC should be able to more easily focus its federal surplus efforts on items with a high return value.

With the addition of the state surplus property program, GSC should consider using a central warehouse in Austin to store federal and state surplus property. A central warehouse would allow GSC to efficiently store and dispose of transferred property from other state agencies, significantly reducing their storage and handling costs. The central warehouse would also be a preferred place to hold direct sales to the public. Cost recovery charges on the sale of property would pay for operating the warehouse.

### **6.6 GSC should set performance standards for the timely disposal of property it receives from state agencies.**

GSC must dispose of transferred property quickly to minimize its own storage and handling costs, as it does for federal surplus property. However, GSC must also maximize the income from surplus property sales. Performance standards would ensure that GSC has established expectations for achieving quick results with maximum returns.

#### **Impact**

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The goal of the recommendations is to create an efficient surplus property program to maximize the benefits to the State for the sale of surplus property, while minimizing the costs of storing and disposing of the property. Direct sales of surplus property at fixed prices would increase the return on many low-value items, while a streamlined, integrated federal-state program, with performance requirements, would concentrate state expertise in surplus property disposal and reduce overall disposal-related expenses.

#### **Fiscal Implication**

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Assigning responsibility to GSC for the State's surplus property program will have a positive impact on participating agencies' budgets through higher income on the sale of property and reduced costs of the sale process. These savings will be spread across many agencies' budgets and funding sources, and could not be estimated for this report. GSC will recover any initial start-up costs in its budget through the cost recovery charges on the sale of surplus property. GSC staff estimate that if they choose to open and operate a joint federal-state property warehouse in Austin, seven new full-time employees and approximately \$500,000 in start-up funds would be needed.

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<sup>1</sup> Texas Government Code Ann., ch. 2175, sec. 2175.061.

<sup>2</sup> Memorandum from General Services Commission (GSC), Surplus Property Division, to the Sunset Advisory Commission, September 1, 2000.

<sup>3</sup> Telephone interview with Texas Parks and Wildlife Department (TPWD) staff (Austin, Texas, August 24, 2000).

<sup>4</sup> Telephone interview with GSC, Surplus Property Division staff (Austin, Texas, August 25, 2000).

<sup>5</sup> Memorandum from Texas Department of Health, Facilities Leasing and Records Management, to the Sunset Advisory Commission, August 30, 2000.

<sup>6</sup> TPWD interview.

<sup>7</sup> Telephone interview with Arizona Department of Administration, Surplus Property Program staff (Phoenix, Ariz., August 25, 2000).

<sup>8</sup> Telephone interview with General Services Administration Region 7 staff (Fort Worth, Texas, September 8, 2000).

<sup>9</sup> GSC, *Report on Methods for Disposal of State Surplus Personal Property*, May 1998.



## Issue 7

### The State Is Not Meeting Its Potential as a Leader in Recycling Efforts.

#### Summary

##### Key Recommendations

- Require GSC to establish a mandatory recycling program for state agencies.
- GSC should establish the responsibilities of an agency recycling coordinator.
- GSC should include recycling performance measures when managing its custodial employees, including contract employees.
- GSC should offer educational and technical recycling information to state agencies.

##### Key Findings

- Paper recycling is a priority for Texas government.
- GSC does not fully realize the benefits of paper recycling.
- GSC does not have an effective system for ensuring state agencies recycle.
- Other government entities have implemented effective recycling policies.

##### Conclusion

With the amount of waste generated by Texas state agencies, the State has the potential to be a leader in recycling. As it currently stands, however, this potential is not being realized.

The Legislature designated the General Services Commission as the agency responsible for collecting recyclable materials disposed of in buildings under GSC's management. GSC also must assist agencies with developing their recycling programs. Despite these mandates, GSC has done little to ensure that state agencies recycle, partly because the agency's authority to enforce state law regarding recycling is unclear.

Even with clear authority, GSC will have to provide better information and education to state agencies regarding recycling. GSC also will have to establish better tracking and reporting methods, and define elements of its recycling program. Done effectively, a GSC-managed recycling program could lead to a reduction in the amount of trash sent to the landfill by state employees, as well as an increase in revenue from recycling paper and other materials.

## Support

It is the policy of this state that recycling of all paper products...is vital to our economy and the preservation of our environment.

- *Texas Health and Safety Code*

### **Current Situation:** Paper recycling is a priority for Texas government.

- The Legislature has said that recycling paper is vital to the state's economy and environmental well-being.<sup>1</sup> The Legislature requires each state agency, institution of higher education, city, county, and school district to establish a recycling program, including high-grade office paper.<sup>2</sup> State law does not outline what constitutes a recycling program.
- Recycling benefits the State by reducing the amount of waste as well as the cost of sending waste to landfills. Recycling also generates revenue for the State.
- The Legislature assigned GSC responsibility for collecting recyclable materials disposed of in buildings under GSC's management.<sup>3</sup> In its Environmental Services Division, GSC has a Recycling Section, which operated with 9.5 FTEs and a budget of \$489,510 in fiscal year 1999.<sup>4</sup>
- The State earned \$52,000 for recycling almost 2,100 tons of paper in fiscal year 1999.<sup>5</sup> Sending this paper to the landfill would have cost more than \$33,000.<sup>6</sup> Thus, by recycling paper, state employees saved \$85,000 in fiscal year 1999. For a breakdown of state government's paper recycling efforts, see the chart, *State Paper Recycling, FY 1998-FY 2000*.

<b>State Paper Recycling FY 1998 - FY 2000<sup>9</sup></b>						
	<b>FY 1998</b>		<b>FY 1999</b>		<b>FY 2000</b>	
	<b>Tons</b>	<b>Revenue</b>	<b>Tons</b>	<b>Revenue</b>	<b>Tons</b>	<b>Revenue</b>
Computer paper	23.51	\$3,644.05	0.98	\$153.90	0.31	\$54.90
Sorted white ledger	76.04	\$7,970.62	26.27	\$2,633.22	0.24	\$43.71
Mixed paper	1,787.33	\$40,315.76	2,064.52	\$48,733.78	2,079.93	\$269,584.64
Other	2.85	\$78.60	0.00	\$0.00	6.96	\$0.00
<b>Total</b>	<b>1,889.73</b>	<b>\$52,009.03</b>	<b>2,091.77</b>	<b>\$51,520.90</b>	<b>2,087.44</b>	<b>\$269,683.25</b>
Cost-avoidance	—	\$30,235.68	—	\$33,468.32	—	\$33,399.04
<b>Total Savings</b>	—	<b>\$82,244.71</b>	—	<b>\$84,989.22</b>	—	<b>\$303,082.29</b>

When GSC put the State's recycling contract out for bid for fiscal year 2000, the high bidder, Balcones Recycling, overbid the prices it agreed to give the State because of confusion over GSC's definition

of mixed paper. Changing the contract's terms meant rebidding the contract. However, rather than potentially losing the State contract, Balcones opted to not only continue the contract, but renewed it for fiscal year 2001. As a result, since fiscal year 2000, the State's recycling program has seen a marked increase in revenue from recycling — \$269,683 in fiscal year 2000 compared to \$51,521 in fiscal year 1999. Still, when GSC seeks to bid the contract again, the agency has no guarantee it will receive such lucrative prices. Therefore, the need to strengthen the State's recycling efforts remain. Also, properly recycling while the agency is receiving a high value for recycled materials could greatly increase the State's revenues.

**Problem: GSC does not fully realize the benefits of paper recycling.**

- Incorrect paper recycling by employees and improper recycling collection by custodians reduces the value of the State's recycled paper. Employees frequently mix white and colored paper at their workstations, and custodians do not always keep the paper separated when they collect it. Recycled paper also becomes contaminated – and therefore worthless – when materials such as food are put in paper collection bins. If the State properly separated white paper in fiscal year 1999, it would have almost doubled its collected revenue from recycling, earning \$100,846 instead of \$51,521.<sup>7</sup>
- Missed opportunities to save money from paper recycling cause GSC to depend on General Revenue funding more than it should. In fiscal year 1999, General Revenue comprised 84 percent of GSC's recycling program budget.<sup>8</sup>

**Problem: GSC does not have an effective system for ensuring State agencies recycle.**

- Although GSC has rulemaking authority to establish procedures for state agency recycling, GSC has not adopted rules to ensure that agencies effectively implement the State's recycling laws. The statute says state agencies must have a recycling program and gives GSC responsibility for assisting agencies with their programs and for providing recycling collection services. GSC has not adopted performance measures to gauge how well state agencies participate in the State's recycling program.
- GSC provides minimal information to state employees regarding its recycling program. GSC's *Facilities Tenant Manual* includes a section on recycling. However, the manual does not set standards or mandate that employees recycle.
- No training and limited written internal procedures on recycling collection exist for custodians. GSC does not consider recycling

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Proper recycling  
could double the  
State's revenue.

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GSC has not actively  
promoted its  
recycling program.

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collection when evaluating a custodian's performance. Anecdotal information, which GSC acknowledges, indicates that custodians combine white paper with mixed paper or trash on occasions, even when separated by an agency's employees.

GSC does not track recycling efforts by agency or by building, preventing GSC from informing state agencies about their recycling efforts. GSC also does not require agencies to designate a recycling coordinator.

- GSC does not have an effective method to provide education or communication to state agencies, leading to inconsistent sorting and recycling efforts by state employees. This reduces recycling revenues. GSC's current paper recycling contract instructs the contractor to provide technical assistance and recycling training to representatives of state agencies, upon GSC request. Since the contract began in September 1999, however, GSC rarely has requested technical assistance or training from the contractor.

**Comparison: Other government entities have implemented effective recycling policies.**

- Independent of GSC, the Texas Department of Transportation (TxDOT), initiated its own formal recycling program, including hiring a full-time recycling coordinator and signing a contract with a paper recycling company. In fiscal year 1999, TxDOT diverted 695 tons of paper from the landfill, more than one-third the amount GSC diverted from the Capitol Complex.<sup>10</sup>
- In Oregon, state agencies must follow recycling policies established by the Department of Administrative Services, an agency similar to GSC. Each Oregon agency pays for its own recycling and garbage collection services. Revenue from recycling is returned to that agency.<sup>11</sup>

## Recommendation

### Change in Statute

#### 7.1 Require GSC to establish a mandatory recycling program for state agencies.

GSC should adopt rules to establish a recycling program for state agencies in GSC-maintained facilities. The program must:

- establish guidelines for proper recycling methods;
- set recycling goals and performance measures;
- require agencies to designate a recycling coordinator;

- create employee and custodial education activities;
- provide feedback and recognition to agencies when appropriate;
- require GSC to inform agencies when they do not recycle properly; and
- allow GSC to delegate recycling responsibility to an agency whose program meets or exceeds GSC standards.

Requiring GSC to adopt rules detailing elements of its recycling program and mandating state agency participation will clearly define both GSC's and agencies' roles in Texas state government's recycling efforts. Currently, GSC has authority to adopt rules regarding recycling, although the agency has not interpreted the statute this way, and therefore no rules about recycling exist. By specifically addressing each of the components listed above, GSC will be in a better position to properly implement and manage the State's recycling program.

## Management Action

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### **7.2 GSC should establish the responsibilities of an agency recycling coordinator.**

These responsibilities should include:

- representing the program to both agency management and employees;
- informing employees of the recycling program and their roles in it;
- monitoring program results to identify and resolve problems;
- communicating regularly with GSC; and
- coordinating with GSC to develop an action plan with measurable goals and a feasible timetable.

When agencies designate a recycling coordinator, it allows GSC to directly disseminate recycling information to employees. GSC should work with agency recycling coordinators to develop and maintain the recycling program. In addition, GSC should provide recycling training for coordinators.

### **7.3 GSC should include recycling performance measures when managing its custodial employees, including contract employees.**

GSC should set reasonable measures to evaluate if custodians maintain paper separation and prevent contamination of recyclables. GSC should monitor custodians with periodic reviews, spontaneous checks, and employee complaint follow-ups.

### **7.4 GSC should offer educational and technical recycling information to state agencies.**

GSC's recycling program coordinator should provide educational, advisory, and technical services to agencies in GSC-maintained facilities. Activities should include assistance in developing agency recycling procedures and evaluation of an agency's recycling methods. GSC's recycling coordinator should also work with agencies to establish incentive programs to maximize employee participation.

## Impact

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Texas state government should be a leader by example in recycling materials, particularly paper. With a large workforce, the State produces a lot of waste, much of which qualifies for recycling. Improving the State's recycling efforts will reduce the amount of waste sent to the landfill, which in turn reduces the fiscal cost of sending waste to landfills. Improved recycling efforts also will increase revenue for the State. Requiring GSC to develop a mandatory recycling program will establish procedures and set expectations that will allow state employees to achieve highly successful recycling programs.

## Fiscal Implication

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GSC's Recycling Program budget is a mix of General Revenue and cost-recovery. Improving the State's recycling efforts will cause the State's recycling program to depend less on General Revenue funds. For example, in fiscal year 1999, the State could have almost doubled its revenue from recycling if employees and custodians had recycled correctly and GSC had the clear authority to enforce state law. Assuming that the number of tons recycled as well as the amount GSC receives for each ton of paper remains the same as in fiscal 1999, the estimated savings to the General Revenue fund would be about \$49,000 per fiscal year.<sup>12</sup> This is a conservative estimate, however, because it does not factor in an increase in the tonnage of paper recycled, a potential result from implementing the recommendations. The increase in price per ton as negotiated in the fiscal year 2000 contract is also not factored in, but could result in even higher savings.

<b>Fiscal Year</b>	<b>Savings to the General Revenue Fund</b>	<b>Change in FTEs from Fiscal Year 2001</b>
2002	\$49,000	0
2003	\$49,000	0
2004	\$49,000	0
2005	\$49,000	0
2006	\$49,000	0

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- <sup>1</sup> Texas Health and Safety Code Ann., ch. 361, sec. 361.430a.
- <sup>2</sup> Texas Health and Safety Code Ann., ch. 361, sec. 361.425, says that a state agency shall work with GSC or the Texas Natural Resource Conservation Commission to “establish a program for the separation and collection of all recyclable materials generated by the entity’s operations, including, at a minimum, aluminum, steel containers, aseptic packaging and polycoated paperboard cartons, high-grade office paper, and corrugated cardboard; provide procedures for collecting and storing recyclable materials, containers for recyclable materials, and procedures for making contractual or other arrangements with buyers of recyclable materials; evaluate the amount of recyclable material recycled and modify the recycling program as necessary to ensure that all recyclable materials are effectively and practically recycled; and establish educational and incentive programs to encourage maximum employee participation.”
- <sup>3</sup> Texas Government Code Ann., ch. 2175, sec. 2175.902.
- <sup>4</sup> General Services Commission (GSC), *GSC Fiscal Year 2001 – Operating Budget Request* (Austin, Texas, March 2000). The budget request includes the final budget for the Recycling Program in fiscal year 1999.
- <sup>5</sup> GSC, *Paper Recycling Report, FY 99*, (Austin, Texas).
- <sup>6</sup> This figure was calculated by multiplying the total tons of paper recycled in fiscal year 1999 (2,091.77) by the price per ton of taking trash to the landfill (\$16).
- <sup>7</sup> This figure was calculated by adding 30 percent of mixed paper (619.356 tons) to the amount of white paper recycled (26.27 tons) in fiscal year 1999. The total (645.626 tons) was multiplied by \$100, the average price GSC received for white paper in fiscal 1999. Thus, revenue from white paper equaled \$64,562.60. The remaining 70 percent of mixed paper (1,445.16 tons) was multiplied by \$25, the price GSC received in fiscal year 1999, to get a reduced revenue of \$36,129.10. Adding the updated revenues and existing computer paper revenue (\$153.90) totaled \$100,845.60.
- <sup>8</sup> GSC, *GSC Fiscal Year 2001 – Operating Budget Request* for the Environmental Services Division’s Recycling Section (Austin, Texas, March 2000). General Revenue funding was \$410,610 out of a total budget of \$489,510 in fiscal year 1999.
- <sup>9</sup> Paper tonnage and revenue was obtained from GSC, Environmental Services Division, *Paper Recycling Reports* for fiscal year 1998 through fiscal year 2000 (Austin, Texas, August 2000). Cost-avoidance was calculated by multiplying the fiscal year total tonnage of recycled paper by the amount per ton (\$16) of taking it to the landfill. Total savings equals the revenue earned from recycling plus the cost avoided by not taking the paper to the landfill.
- <sup>10</sup> Texas Department of Transportation, *Recycling and Recycled Products Program, Fiscal Year 1999 Accomplishments*. Online. Available: [www.dot.state.tx.us/insdot/orgchart/gsd/recycle/fy99.htm](http://www.dot.state.tx.us/insdot/orgchart/gsd/recycle/fy99.htm). Accessed: August 18, 2000. Some of TxDOT’s 25 districts do not have recycling centers available in their areas, and therefore they sent their waste to the headquarters office in Austin to be recycled.
- <sup>11</sup> Oregon Department of Administrative Services, Facilities Division, *Recycling Program Information Manual*. Online. Available: [www.facilities.das.state.or.us/recycman.htm](http://www.facilities.das.state.or.us/recycman.htm). Accessed: August 7, 2000
- <sup>12</sup> This number was estimated by subtracting the actual amount of collected revenue in fiscal year 1999 (\$51,521) from the amount the State would have received if it had recycled white paper correctly (\$100,846) to determine the increased collected revenue that could replace General Revenue funding. See endnote 7 for calculations regarding the revenue if white paper was recycled properly.



## Issue 8

### GSC Does Not Take Advantage of Online Technology That Could Streamline the State's Travel Program.

#### Summary

##### Key Recommendations

- Require GSC to contract for an Internet-based travel reservation service in addition to its existing travel agency contracts.
- GSC should compare its contracted rates to average consumer fares and rates when assessing cost savings for the State Travel Management Program.

##### Key Findings

- GSC does not explore opportunities to streamline the State's Travel Management Program through online services.
- Private sector firms as well as other governmental entities use online reservation systems to streamline their employee travel programs.
- The data GSC uses to compute the State Travel Management Program's cost-savings is flawed.

##### Conclusion

Employee travel is an inevitable part of providing successful, necessary government functions. With state offices located throughout Texas, the amount of employee travel is sizable. While the State encourages use of technologies such as video conferencing to reduce the need and expense of employee travel, it does not consistently take advantage of Internet technologies that offer flexibility, convenience, and fiscal savings.

The General Services Commission oversees the State Travel Management Program, including negotiating rates and fares with airlines, rental car companies, hotels, and travel agencies. GSC has resisted using online travel reservation systems, which could improve the process of booking employee travel arrangements, and bring significant savings in time and money to the State. The technology to securely make travel reservations online already exists, and private businesses and other government entities successfully use it.

GSC should add online travel services to the travel reservation options currently available to employees. The State would continue to mandate use of contracted airfares, but would simply create controlled Internet access to these fares for state agency travel coordinators. Doing this, plus comparing the State's contracted fares to reasonable market prices, will provide the State with a more user-friendly, flexible, and accurate travel program, at a lower cost to Texas taxpayers.

## Support

In FY 99, the State spent \$85 million on state employee travel.

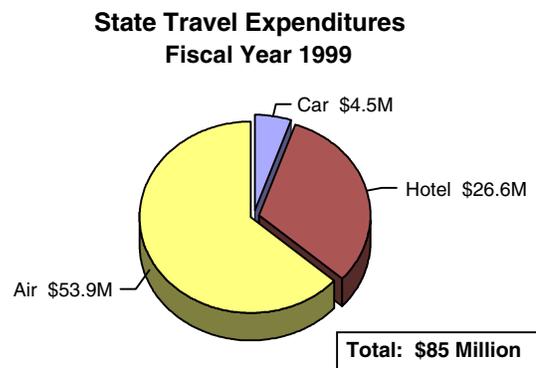
**Current Situation:** The General Services Commission negotiates travel contracts for use by Texas government employees.

- The Legislature assigned GSC the responsibility of managing the State's travel program.<sup>1</sup> Through the State Travel Management Program, GSC provides services to state agencies, their employees, and elected or appointed officers. Texas county employees also are eligible to use state travel contracts if the county opts to participate in the travel program.<sup>2</sup>

The State Travel Management Program (STMP) secures contracts with travel agencies, charge card providers, rental car companies, hotels, and meeting planning services. With the State's volume buying power, STMP can negotiate lower fares and rates for state agencies and other government travelers eligible to use the program. In fiscal year 1999, the program operated with a budget of \$266,752 and seven FTEs.<sup>3</sup>

- Executive branch state agencies must use GSC's travel contracts. Institutions of higher education are not required to use the contracts for travel agency services, but must use all other travel service contracts when spending General Revenue or Educational and General Funds.<sup>4</sup>

- In fiscal year 1999, the State spent \$85 million on state employee travel.<sup>5</sup> For a breakdown of the types and amounts of state travel expenditures, see the chart, *State Travel Expenditures, Fiscal Year 1999*.



- In fiscal year 2000, 13 travel agencies had contracts with the State to provide travel arrangements for employee travel. All of the travel agencies were based in Texas. Also in fiscal year 2000, GSC contracted with 12 airlines for 415 city-pair routes, three car rental companies, and more than 1,000 hotels.

**Problem:** GSC does not explore opportunities to streamline the State’s Travel Management Program through online services.

- GSC has not made travel reservations available for state agencies online. Some of the travel agencies under contract with the State in fiscal year 2000 offer online reservations. Because the agency has not requested online booking capabilities from travel agencies, state employees cannot book state-contracted airline, hotel, or car rental arrangements via the Internet. For details about the Internet presences of travel agencies used by the State, see the table, *Contracted Travel Agencies Online*.

State employees cannot use the Internet to book state-contracted travel arrangements.

Contracted Travel Agencies Online		
Travel Agency	Web Site	Online Reservations
Affordable Travel Inc.	None	No
Aggieland Supertravel	www.aggielandtravel.com	Yes
Alamo Travel & Tours, Inc.	www.alamotravel.com	Yes
Capitol of Texas Travel, Inc.	None	No
Globe Travel Services	None	No
Golden World Travel	www.goldenworldtravel.com	Yes
Haunschild’s Brush Country Travel	www.brushcountrytravel.com	No
Huntsville Travel	www.huntsvilletravel.com	No
Sanborn’s Travel Service	www.sanbornstravel.com	No
Shands Travel Group	www.shandstravel.com/bro.html	Yes
The Travel Store, Inc.	None	No
Travelscope International	None	No
World Wide Travel Service	www.wwts.com	Yes

In a survey of state agencies conducted by Sunset staff in the summer of 2000, many agencies responded that providing Web access to information about and reservations for State travel would be helpful.<sup>6</sup>

- As technology changes, GSC does not revisit its travel policies and procedures to ensure that the agency still provides the best value for the State. The travel industry has moved toward online reservation systems, allowing travelers to book business and pleasure travel on the Internet. GSC’s travel program has not embraced technology changes, including the possibility that an online travel system can provide quick, one-stop service, which virtually eliminates the need to spend substantial time calling travel agencies to obtain flight schedules and seat availability.

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Travel coordinators often must make multiple phone calls to a travel agency just to book an airline ticket.

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In fact, GSC instructed state agency and university travel coordinators that use of the Internet to book airline reservations is not permitted.<sup>7</sup> As a result, state agency travel coordinators make multiple calls to a travel agency to obtain information on flights and other travel services. Then they must communicate this information to the traveler and, finally, they must call the travel agency again to book the reservations. Each of these calls may be delayed if the travel agent is busy or unavailable.

- GSC resists exploring online travel reservation systems because the agency fears a loss of control and abuse of the program. Concerns that state employees will spend excessive time surfing the Internet for low travel costs, and that nonstate employees will access the State's contracted travel rates online, have caused GSC to exclude online reservation systems as a potential option for the State.

Internet technology offers secure Web sites, including multiple firewalls, log-in requirements, and individual user passwords, all of which private businesses and other government entities use. Also, state agencies enforce policies regarding Internet abuse, so an individual agency can discipline any employee who does not respect the State's policies, including the required use of contracted airfares.

**Comparison: Private sector firms, as well as other governmental entities, use online reservation systems to streamline their employee travel programs.**

- The U.S. Department of Transportation initiated FedTrip, a Web-based self-booking travel reservation system. Department employees use the FedTrip Web site to make airline, hotel, and car rental arrangements. Federal travel experts expect the automated system to save 30 percent to 40 percent over traditional transaction fees.<sup>8</sup> Making reservations online also takes up to 60 percent less time.<sup>9</sup> The system works within existing contracts, allows the use of multiple travel agencies, and is planned to be available to any federal traveler with access to the Internet. All the services in the database meet federal travel regulations, so a traveler makes reservations within the limitations of the government's contracts.<sup>10</sup>
- Dell Computer Corp., headquartered in Austin, maintains an Intranet for its employees. The Intranet includes a link to the company's Travel Department and allows employees to book reservations online using Dell's contracted rates.
- In 2000, the Society of Government Travel Professionals surveyed 67 states and provinces regarding their travel management practices. Of these, 47, or 70 percent, use the Internet in some capacity for travel management, with the fastest growing use of the Internet

coming in contracting and electronic commerce (23 of the 47 use the Internet for this aspect of travel management).<sup>11</sup>

**Problem:** The data GSC uses to compute the State Travel Management Program's cost-savings is flawed.

- To determine the State's savings from its contracted airfares, GSC compares the contracted rate to an airline's full coach price. This inflates the State's savings because even without a contract, employees are not likely to pay the full coach price. For example, most airlines offer lower fares for booking in advance or traveling at off-peak times. Also, employees could find some discounted fares through online travel agencies.
- GSC does not consider the savings from its hotel contracts when estimating cost-savings from use of travel contracts. The method of calculation GSC uses includes total statewide airfare savings and total statewide rental car savings. Hotel savings are not included.<sup>12</sup>

## Recommendation

### Change in Statute

#### **8.1 Require GSC to contract for an Internet-based travel reservation service in addition to its existing travel agency contracts.**

As business increasingly is conducted via the Internet, the State should keep pace. With the rapid growth of online travel reservation Web sites and the increasing use by businesses and some government entities of online booking systems, GSC should consider the costs and benefits of moving the State toward a predominantly online travel reservation service.

At a minimum, at least one of the State's contracted travel agencies should offer online booking for air, hotel, and car rental services for State travel at contracted rates. The contract should require the travel agency to develop a secure Web site for use by state employees and should accept reservations only with State-issued credit cards. State agencies would not be required to use the Internet-based service and could continue to work with state-contracted travel agencies through traditional methods. Therefore, GSC should maintain at least one travel agency who accepts reservations over the phone or in person.

### Management Action

#### **8.2 GSC should compare its contracted rates to average consumer fares and rates when assessing cost-savings for the State Travel Management Program.**

GSC should secure more realistic data when calculating and reporting cost-savings for the State Travel Management Program. Few passengers pay the highest full coach fare price for airline travel,

although GSC uses this fare as its benchmark comparison. GSC needs to be more aware of the savings realized from hotel contacts, as well. Using average air fares, hotel, and car rates would be more accurate.

### **Impact**

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The State lags behind the private sector in running cost-efficient, convenient services. The State Travel Management Program offers a solid example of an area where the State could improve its operations. Using online travel reservation services to purchase state-contracted travel will allow state employees to make travel arrangements much more quickly and cost-effectively. The State also should realize a reduction in paperwork and associated administrative costs.

### **Fiscal Implication**

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The State should realize financial benefits from using online travel services. While actual travel expenses will likely remain the same, savings should result from employees spending less time on administrative procedures required to book travel arrangements through traditional methods. As mentioned, federal travel experts expect the use of an online reservation system for federal government travel to take up to 60 percent less time as well as save 30 percent to 40 percent over traditional transaction fees.<sup>13</sup> Assuming comparable savings occur at the state government level, Texas should realize significant fiscal savings; however, these savings could not be estimated for this report.

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- <sup>1</sup> Texas Government Code Ann., ch. 2171, sec. 2171.051.
- <sup>2</sup> Texas Government Code Ann., ch. 2171, sec. 2171.055e.
- <sup>3</sup> General Services Commission, *GSC Fiscal Year 2000 Operating Budget Request, Travel Management* (Austin, Texas, October 20, 1999).
- <sup>4</sup> Texas Government Code Ann., ch. 2171, sec. 2171.055.
- <sup>5</sup> General Services Commission, *Statewide Consolidated Travel Data Report, Fiscal Year 1999*, "Executive Summary" (Austin, Texas, September 2000).
- <sup>6</sup> Sunset Advisory Commission, survey of state agencies regarding functions performed by the General Services Commission, June-July 2000.
- <sup>7</sup> Memorandum from Gerry Pavelka, Program Director, State Travel Management Program, to state agency and university travel coordinators, August 3, 1998.
- <sup>8</sup> GovExec.com, *Governing Executive Magazine, Surf's Up for Federal Travelers*. Online. Available: [www.govexec.com/travel/articles/0900travel.htm](http://www.govexec.com/travel/articles/0900travel.htm). Accessed: September 7, 2000.
- <sup>9</sup> Ibid.
- <sup>10</sup> Telephone interview with Arnie Linares, U.S. Department of Transportation staff (Washington, D.C., September 7, 2000).
- <sup>11</sup> Society of Government Travel Professionals, *17th Annual Survey of State & Provincial Travel Management Practices and Procedures* (Bethesda, Md., September 20, 2000). Online. Available: [www.government-travel.org/annual.html](http://www.government-travel.org/annual.html). Accessed: September 7, 2000.
- <sup>12</sup> General Services Commission, Appendix D, *Measure Definitions*, pp. 27-28.
- <sup>13</sup> Government Executive magazine, GovExec.com, "*Surf's Up for Federal Travelers.*"



## Issue 9

### GSC Does Not Have an Established Process to Evaluate the Potential to Outsource Its Services.

#### Summary

##### Key Recommendations

- Require GSC to develop a systematic approach to reviewing its commercially available activities for outsourcing.
- Allow GSC to outsource a service only if a private business can provide the service with an equal or better level of quality, and decrease the cost of providing the service by at least 10 percent.
- Require services that GSC outsources to be performance based.
- Prohibit GSC from starting any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source.

##### Key Findings

- GSC performs many tasks also offered by private sector businesses.
- GSC does not regularly assess whether its services could be provided more efficiently by outsourcing.
- The information GSC uses to evaluate its services is not useful for deciding whether to outsource a function.
- Other state agencies have effectively evaluated and outsourced support services.
- Several GSC programs have problems that could be addressed through competition.

##### Conclusion

The General Services Commission provides a wide variety of services, from leasing real estate to providing pest control for 3.6 million square feet of office space. However, private sector businesses offer many of the same services as GSC, and may provide these services more cost-efficiently. GSC lacks an established process to evaluate whether GSC, or a private vendor, can provide goods and services at the best value to the State.

Conducting a thorough cost comparison between GSC and private vendors provides decisionmakers with useful information when considering outsourcing a function. GSC should establish a regular process for reviewing its operations for outsource potential. Without such a process, GSC cannot guarantee that state agencies – as well as Texans – receive best value.

## Support

**Current Situation:** The General Services Commission performs many tasks also offered by private sector businesses.

### What is Activity-Based Costing?

According to the Texas Council on Competitive Government, activity-based costing is an accounting method that captures the “fully loaded” costs – direct, indirect, and overhead – of delivering a product or service and brings to light previously hidden costs. Such information is key to making decisions about whether to restructure or outsource an activity.

- GSC is unique among state agencies in that most services it provides are commercially available. Since GSC began many of its programs, the availability of and access to private businesses that provide similar services has greatly increased. For a detailed list of the agency’s programs, see the table, *GSC Commercially Available Services, FY 99*.

GSC Commercially Available Services, FY 99			
Service	FTEs	Budget	Current Provider
Business Machine Repair	14	\$1.5 million	GSC
Central Supply Store	8	\$338,451	GSC
Minor Construction	23	\$1.2 million	10 GSC; 13 Contract
Records Management	5	\$128,826	GSC
Leasing	15	\$563,389	GSC
Construction Inspection	8.5	\$582,056	GSC
Project Management	15.5	\$1 million	GSC
Mail & Messenger	17	\$459,008	GSC
Print Shop	81.3	\$5.2 million	80 GSC; 1.3 Contract
Vehicle Fleet	7	\$391,287	GSC
Telecommunications	74.5	\$9.2 million	69 GSC; 5.5 Contract
Travel Management	7	\$282,092	GSC
Groundskeeping	18.6	\$586,843	18 GSC; 0.6 Contract
Custodial	197	\$3.8 million	94 GSC; 103 Contract
Surplus Property	50	\$3.2 million	GSC
Asbestos Abatement	10	\$564,901	GSC
Recycling	8	\$326,228	GSC

GSC is participating in an activity-based costing project to help it determine the true costs of its purchasing practices.

- To determine how efficiently GSC provides certain services, the Legislature required GSC to participate in an activity-based costing project during the current biennium to detail the true cost of the agency’s purchasing practices. GSC must submit a report describing the agency’s experience with activity-based costing to the Legislature by January 15, 2001<sup>1</sup>. Results from activity-based costing studies can be used to make management decisions regarding outsourcing.

**Problem:** GSC does not regularly assess whether its services could be provided more efficiently by outsourcing.

- Subjecting its services to competition can help an agency, such as GSC, determine if it is delivering the highest quality services at the

lowest possible cost compared to private sector businesses. Without competition, the State may act as a monopoly, lacking incentive to reduce costs, improve quality, and increase efficiency.<sup>2</sup>

- GSC does not compare the cost of providing a service in-house to the cost of outsourcing the service. GSC benchmarks the fees and rates of its full cost-recovery operations against private sector providers, but the agency does not use this information to decide whether to outsource a function. GSC’s sole purpose in benchmarking is to justify its own operations and establish competitive fees and rates. For programs that are not full cost-recovery, GSC does not conduct any regular cost-analysis, including comparing costs with private businesses or identifying potential for outsourcing opportunities.

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Efforts to compare GSC with the private sector have mostly been directed by the Legislature.

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GSC recently created the Office of Business Development to oversee the agency’s activity-based costing and activity-based management processes. However, the Office is still in the information-gathering stage, and therefore assessing its future impact was not possible for this report.

- When in-depth cost-comparisons between private businesses and GSC are performed, an outside agency usually initiates and conducts them. See the table, *GSC Program Areas Studied for Outsourcing*, for examples of recent reviews of GSC operations conducted by other entities.

<b>GSC Program Areas Studied for Outsourcing</b>			
<b>Program Area</b>	<b>Who Studied</b>	<b>Results</b>	<b>Why Studied</b>
Capitol Zone Maintenance	Consultant	Due to Legislature in January 2001	House Bill 1, 76th Legislature (1999), Art. IX, Sec. 9-6.43
Business Machine Repair	Consultant	Due to Legislature in January 2001	House Bill 1, 76th Legislature (1999), Art IX, Sec. 9-6.43
Leasing	Consultant	Due to Legislature in January 2001	House Bill 1, 76th Legislature (1999), Art. IX, Sec. 9-6.43
Construction Management	University of Texas System & State Auditor’s Office	Reports due to State Auditor by December 2000	Senate Bill 1127, 76th Legislature (1999)
State Print Shops in Travis County	GSC/Council on Competitive Government	Consolidated 32 state agency print shops, currently seven. <sup>3</sup>	House Bill 2626, 73rd Legislature (1993)
Capitol Complex Telephone System	Council on Competitive Government	No significant savings identified. <sup>4</sup>	Identified by the Council Competitive Government
Vehicle Fleet Management	Council on Competitive Government	Ongoing	House Bill 3125, 76th Legislature (1999)

**Problem: The information GSC uses to evaluate its services is not useful for deciding whether to outsource a function.**

- When evaluating the rates and fees of its products and services, GSC does not collect information that is appropriate in deciding whether to outsource functions. The agency does not regularly look at costs such as employee benefits, equipment depreciation, or facilities.<sup>5</sup>

For example, when establishing cost-recovery fees and rates, GSC identifies competitors, and examines how the current price and quality of GSC's services or products compare to these competitors. If GSC's prices are higher, the agency adjusts its prices; GSC does not determine what it would cost to outsource to such competitors.

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GSC's pricing studies do not gather realistic information to guide true cost comparisons.

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- GSC does not adhere to Texas Council on Competitive Government (CCG) methodology when evaluating its programs. CCG's cost-analysis process includes determining total in-house costs as well as the complete cost to contract. CCG defines the total cost to contract as the sum of contractor costs, contract administration costs, conversion costs, unavoidable state costs, and any loss on the sale of capital assets.<sup>6</sup> When reviewing its programs and services, GSC does not look at any of these costs.

When comparing the cost of providing a service, CCG must consider the cost of supervising the work of a private contractor and indirect costs. These include the costs of the Comptroller, Attorney General, and other support agencies.<sup>7</sup> Also, a bid or contract must include an analysis of health care benefits, retirement, and workers' compensation insurance for a contractor's employees that are reasonably comparable to the health care benefits, retirement, and workers' compensation insurance of the State.<sup>8</sup> GSC does not conduct a similar analysis.

- GSC does not conduct pricing reviews that include realistic comparative information. For example, when comparing its Central Supply Store to private vendors, GSC compares the GSC shelf price to the business' "street" price. GSC does not take into account if the vendor would charge a lower price or offer a bulk discount rate for a product or service if the vendor secured the State's business.

**Comparison: Other state agencies have effectively evaluated and outsourced support services.**

- In January 1994, the Comptroller's Office elected to outsource its print shop, and put its operations up for bid. Because the Comptroller wanted to test competition, both public and private sector bidders were eligible. Three bids were received, and the General Services Commission won the award. The print shop

became a full cost-recovery operation with about 25 full-time employees, and GSC continues to work with the Comptroller's Office to maintain print shop services under an interagency contract.<sup>9</sup> The Council on Competitive Government estimates the savings to date at \$ 750,000.<sup>10</sup>

- The Texas Department of Transportation's Dallas District recently outsourced road maintenance for Interstate 20 throughout the district. As of September 2000, VMS Inc., a private business, cares for about 50 miles of the Interstate, plus its adjoining right of way. The contractor has responsibility for every maintenance function from mowing, litter pickup, pavement repair, signal maintenance, and sign maintenance. TxDOT will only respond to roadway emergencies on I-20 when absolutely necessary. Other states, including Florida and Virginia, outsourced similar services to VMS.<sup>11</sup>

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GSC now runs the  
Comptroller's print  
shop, after it was  
put out for  
competitive bid.

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**Opportunity: Several GSC programs have problems that could be addressed through competition.**

- GSC's construction management program has experienced significant project delays and high turnover of construction inspection and project management personnel. With the current high level of construction activity in Texas, competition for quality construction oversight personnel is intense. While GSC has purchased these services from the private sector on occasion, the agency still attempts to perform many construction management services in-house.
- Real estate professionals commonly lease office and warehouse space. However, GSC primarily uses its own employees to lease space for state agencies. The Sunset review of GSC's leasing activities showed that the employees are not always familiar with available lease space on the market, and have little time to inspect and assess the appropriateness of proposed lease space. For more information on GSC's leasing activities, see Issue 5 of this report.
- GSC still uses a 15-year old billing system for telecommunications services even though the system has experienced significant problems and repair costs. However, billing services are a commonly available commercial activity.
- In fiscal year 2000, 10 agencies made up 50 percent of the Business Machine Repair Program's business.<sup>12</sup> Agencies that don't use the Business Machine Repair program contract out or employ their own technicians.<sup>13</sup> Also, the program has experienced a high turnover rate, as skilled, knowledgeable technicians leave for the private sector.<sup>14</sup> Yet, GSC still operates the Business Machine Repair program in-house.

## Recommendation

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### Change in Statute

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#### **9.1 Require GSC to develop a systematic approach to reviewing its commercially available activities for outsourcing.**

This review should:

- identify if competitive vendors exist in the private sector;
- adhere to principles of Texas Council on Competitive Government's cost methodology; and
- document cost savings from outsourcing.

When an activity is available in the private sector, GSC should compare the cost of contracting to the cost of performing the activity in-house to determine the best value to the State. When conducting cost comparisons, GSC should ensure that all direct and indirect costs are considered. GSC should develop a schedule of programs to review each year, with all commercially available programs undergoing review at least once every six years. GSC should consult with CCG as necessary when planning and conducting its reviews.

#### **9.2 Allow GSC to outsource a service only if a private business can provide the service with an equal or better level of quality, and decrease the cost of providing the service by at least 10 percent. GSC should be authorized to compete in the bidding process.**

The State should not sacrifice quality of its goods and services when deciding whether or not to outsource a function; a lower bid price means nothing if the quality of the good or service decreases. Private sector businesses that secure contracts as a result of outsourcing should be held to the same standards that a state agency would. If quality is held constant or improves, and the contract yields 10 percent or better savings, Texas taxpayers are the beneficiary.

#### **9.3 Require services that GSC outsources to be performance based.**

Opting to outsource a function does not alleviate GSC of its responsibilities; ultimately, the agency still maintains statutory responsibility for delivering a product or service. GSC should set measurable standards that a contractor must consistently meet. For example, GSC should require contractors to provide periodic reports or updates, track user satisfaction, and follow up on all complaints.

#### **9.4 Prohibit GSC from starting any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source.**

Before implementing a new program, GSC should conduct a full analysis on the availability and cost of similar products and services in the private sector.

## Management Action

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### 9.5 GSC should first perform competitive cost-analyses in several key areas.

Areas GSC should study first include:

- construction management;
- leasing of office and warehouse space; and
- business machine repair.

GSC has experienced significant problems in these areas and competition would allow the agency to achieve higher quality services for the state agencies that are its customers. Some of these areas have undergone an activity-based costing review and should have accurate cost-of-service information to conduct a competition analysis.

### 9.6 GSC should provide employees with training regarding the use of an activity-based cost accounting system.

If employees are to sufficiently evaluate the agency's programs, they must be trained to use the tools correctly. GSC should identify positions that will directly use activity-based costing and train them on the process. GSC took a step in this direction during the recent activity-based costing projects involving Business Machine Repair, Leasing, and Capitol Zone Maintenance by training four employees. However, to ensure adequate coverage, more agency employees should be trained in the future.

## Impact

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For GSC to decide whether to provide a particular service in-house or through a contractor, the agency first must know the true costs of the activity. This should help GSC:

- identify cost-ineffective and wasteful activities;
- enhance the agency's ability to budget for its programs and operations;
- review organizational procedures and streamline where costs are out of line; and
- provide reliable data to ensure that services are cost competitive with the private sector.

Realistically comparing GSC's programs with similar ones provided by the private sector will result in the best value for GSC's customers as well as Texas taxpayers. Should GSC outsource functions, the agency still remains fully responsible for the provision of the affected services and maintains control over management decisions.

## Fiscal Implication

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While a specific fiscal impact cannot be calculated for this report, comparing GSC's services to the private sector will result in the State receiving the best value for its money. With fiscal year 1999 expenditures totaling \$136.2 million and about 732 FTEs, GSC's potential savings from outsourcing is significant. In areas where GSC finds that a private vendor can more cost-effectively deliver a

good or service, the State will realize cost savings by outsourcing. In those situations when GSC provides a good or service efficiently, subjecting the program to a regular review will ensure that the agency is indeed running a streamlined, cost-effective operation.

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<sup>1</sup> Texas House Bill 1 (General Appropriations Act), 76th Legislature, section 9-6.43 (1999).

<sup>2</sup> Texas Council on Competitive Government (CCG), *Cost Methodology* (Austin, Texas, October 1996).

<sup>3</sup> CCG, *Projects Undertaken*. Online. Available: [www.ccg.state.tx.us/undertaken.html](http://www.ccg.state.tx.us/undertaken.html). Accessed: September 5, 2000.

<sup>4</sup> Ibid.

<sup>5</sup> Mevatec Corporation, *State of Texas Activity Based Management Summary of Findings, General Services Commission Final Report* (Huntsville, Ala., September 2000).

<sup>6</sup> CCG, *Cost Methodology*.

<sup>7</sup> Texas Government Code Ann., ch. 2162, sec. 2162.103.

<sup>8</sup> Ibid.

<sup>9</sup> General Services Commission (GSC), *GSC Management Retreat, Print & Mailing Operations*, pp. 2-3.

<sup>10</sup> CCG, *Status and Savings of Projects*. Online. Available: [www.ccg.state.tx.us/status.html](http://www.ccg.state.tx.us/status.html). Accessed: September 18, 2000.

<sup>11</sup> Texas Department of Transportation, "Dallas Leads State in Experimental Maintenance Contract" (news release), September 14, 1999. Online. Available: [www.dot.state.tx.us/insdtdot/geodist/dal/newsrel/1999/022%2D99.htm](http://www.dot.state.tx.us/insdtdot/geodist/dal/newsrel/1999/022%2D99.htm). Accessed: September 13, 2000.

<sup>12</sup> GSC, Support Services Division, *Business Machine Repair Number Agency Serviced*, September 1999 through April 2000.

<sup>13</sup> Sunset Advisory Commission overview meeting with GSC, Support Services Division, (Austin, Texas, May 2, 2000).

<sup>14</sup> Interview with GSC, Support Services Division staff, (Austin, Texas, May 23, 2000).

# Issue 10

## Significant State Dollars Are at Risk Due to Poor and Inconsistent Contract Management.

### Summary

#### Key Recommendations

- Require the Texas Technology and Procurement Department (TTPD) to develop statewide contracting guidelines and training materials, and to provide ongoing assistance to state agencies with their contracting efforts.
- Require the Office of the Attorney General to provide legal assistance to TTPD in the development and implementation of statewide contracting guidelines.
- Create an interagency working group to provide input and assist TTPD in defining the State's needs regarding statewide contracting guidelines.
- Require state agencies to follow the contracting guidelines.

#### Key Findings

- The State contracts for about \$14 billion in goods and services with limited contract oversight.
- Several recent studies and investigations highlight state agencies' poor contract management and the significant costs to the State as a result.
- The trend towards outsourcing more state services will demand more effective contract management.

#### Conclusion

State agencies continue to have problems in managing contracts, placing billions of state dollars at risk of misuse and fraud. This fact is particularly troublesome given increasing interest in outsourcing government services. Providing TTPD with authority to develop contract guidelines and requiring state agencies to follow these guidelines would reduce many contract management problems while saving state dollars. Training and the use of general contract guidelines would also reduce the burden currently placed on individual state agencies to develop their own contracts and would provide increased efficiencies in monitoring similar kinds of contracts. The benefits of consistent guidelines extend to the vendor community as well. Vendors doing business with the State would experience greater consistency between state agency contracts, resulting in reduced legal expenses for vendors and increased competition. These results translate into security and savings for the State.

## Support

**Current Situation:** The State contracts for about \$14 billion in goods and services with limited contract oversight.

- The State spends about \$14.2 billion each year for contracted goods and services.<sup>1</sup> These contracts, including specifications, performance measures, and oversight provisions, are developed by individual state agencies. While the Legislature has provided some direction, as summarized in the textbox, *1999 Contract Management Legislation*, the administration and oversight of contracts are primarily left up to the individual agencies.<sup>2,3</sup>
- GSC provides limited oversight of a minor percentage of state agencies' contracts, focusing primarily on compliance with procedural requirements. GSC conducts two forms of post-procurement audits for delegated and nondelegated purchases for all state agencies and institutions of higher education.<sup>4</sup> The textbox, *Purchasing Audits*, briefly describes these functions.

### 1999 Contract Management Legislation

H.B. 2641 – Sunset legislation requires health and human services agencies to develop contract management standards, track contracts in a centralized database, and perform risk-based monitoring.

S.B. 177 – Requires most agencies exempt from GSC purchasing rules to develop and incorporate specific contract provisions, including remedies and sanctions and liability insurance. Other features of the legislation require that the agency establish by rule contract monitoring roles and regularly review payment methods.

### Purchasing Audits

- Pre-payment procurement audits are conducted for all service contracts, emergency purchases, and research purchases exceeding \$25,000, after the procurement process has been completed, but before payments are released to the vendor. In these audits, GSC assesses compliance with applicable purchasing statutes and rules.
- Post-procurement and payment audits are conducted at least once during a biennium for each state agency and higher education institution for compliance with purchasing statutes, rules, and procedures. Statute also requires GSC to submit a noncompliant audit report to State Leadership.

GSC also assists some agencies, upon request, in developing contract language and negotiating contracts. GSC is involved in drafting and reviewing more than 2,800 annual and long-term contracts ranging from rental cars to real estate acquisitions to telecommunications.<sup>5</sup>

In contrast to delegated and nondelegated purchase contracts, GSC provides no oversight of contracts entered into by agencies with exempt purchasing authority. Exempt purchase contracts represent the majority of state contracts. In 1999, exempt purchases accounted for more than 82 percent of all statewide purchases.<sup>6</sup>

- The State Auditor's Office (SAO) also provides periodic oversight of agency contracts through its auditing functions. SAO selects and reviews those contracts it determines pose the greatest risk, based on the dollar amount of the contract, an agency's past experiences, and current control measures in place. In addition to auditing, SAO has developed statewide guidelines and training for effective contract management. Appendix C, *The State Auditor's Office Elements of an Effective Contract Administration System*, outlines the principles that SAO has developed based on its evaluation of previous contract management problems.<sup>7</sup> However, the training is only voluntary and agencies are not required to implement these best practice elements.
- The Legislative Budget Board (LBB) provides some degree of oversight through agency reporting requirements. The Legislature requires state agencies to notify LBB of all contracts for construction, consulting, and professional services greater than \$14,000, and all major information systems contracts greater than \$100,000.<sup>8</sup> This information is compiled by LBB and reported to the Legislature for each fiscal year. While this function serves to identify major state contracts, it does not serve to improve the manner in which these contracts are written and managed.

**Problem:** Several recent studies and investigations highlight state agencies' poor contract management and the significant costs to the State as a result.

- Statewide studies performed by various oversight bodies have concluded that many state agencies are not effective in managing contracts. State agencies have difficulty writing clear statements of work, defining desired outcomes and expected results, and incorporating these into their contracts.<sup>9</sup> The table, *Statewide Contract Management Reports*, summarizes the conclusions of four such studies.
- Over the years, various entities such as SAO, Sunset Advisory Commission, House Appropriations Committee, and individual agencies have identified numerous examples of ineffective contract management problems.

In 1995, the Texas Commission on Alcohol and Drug Abuse (TCADA) was placed under conservatorship amid allegations of gross fiscal mismanagement of contracts. Conservators and an investigative task force, comprised of the Texas Rangers, SAO, and the State Comptroller's Office, reported mismanagement of contracts resulting in the misuse of state funds at the state and local level, and monetary losses to the State. Approximately \$49.7 million was called into question, although this amount was later reduced to \$9 million. The task force found that many of the contract providers examined had

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Exempt purchases account for more than 80 percent of State purchases.

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Many state agencies simply do a poor job of managing contracts.

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some level of noncompliance with their contracts, including misuse of funds, questionable expenditures, conflicts of interests, and internal control weaknesses.<sup>10</sup>

The severity of TCADA's contract management problems precipitated the delegation of interim charges to both the House and Senate General Investigating Committees to assess the contract procedures of other state agencies and recommend improvements to prevent future abuse and fraud. In 1996, the Joint General Investigating Committee on state contracting issued a series of statewide recommendations. Some of these were adopted in Sunset legislation aimed at contract management in health and human services agencies.<sup>11</sup>

<b>Statewide Contract Management Reports</b>	
<i>Proposal to the Senate Investigative Task Force for Audits of Contracts and Contractual Processes, Fiscal Year 1995, Office of the State Auditor<sup>12</sup></i>	The SAO proposal identified multiple systemic problems with state agency contracting policies, including: <ul style="list-style-type: none"> <li>• agency contracts are vague or loosely written and inadequate to hold contractors accountable;</li> <li>• agencies' contract monitoring efforts focus on program compliance rather than fiscal accountability of contractors; and</li> <li>• agency contract monitoring does not include statewide accountability, allowing contractors to double bill and charge varying rates.</li> </ul>
<i>Joint General Investigating Committee Report on State Contracting, October 14, 1996, Joint General Investigating Committee<sup>13</sup></i>	The report summarized SAO findings of problems common to all agencies including a lack of terms, conditions, and standard procedures, poor record keeping, and inadequate communication among responsible parties throughout the contracting process. To address these problems, the Committee issued several recommendations to improve contract management, including specific recommendations for selecting contractors, standard contract provisions, and payment methodologies.
<i>1998 Financial and Compliance Audit Results, Office of the State Auditor<sup>14</sup></i>	SAO found that while state agencies and universities are generally good at managing programs and services that they administer themselves, they do not perform as well at monitoring and enforcing contracts with outside parties. SAO identified the following areas as recurring issues in state agency contracting: <ul style="list-style-type: none"> <li>• not identifying which contracts have the highest risk of noncompliance and adjusting monitoring activities accordingly;</li> <li>• delayed receipt and review of contractor reports;</li> <li>• inadequate or nonexistent contract monitoring tracking systems; and</li> <li>• not holding contractors accountable.</li> </ul>
<i>The 1999 Statewide Single Audit Report, Office of the State Auditor<sup>15</sup></i>	Based on audits of several federally funded programs, SAO concluded that agencies continue to have serious problems in monitoring contracts for delivery of services. Specifically, the report noted problems in the Texas Commission on Alcohol and Drug Abuse, the Texas Department of Housing and Community Affairs, the Department of Protective and Regulatory Services, and the Texas Education Agency.

More recently, legislative oversight agencies concluded similar findings of gross fiscal mismanagement at the Texas Department of Economic Development (TDED) with regard to its Smart Jobs Program. The State Auditor's Office and Sunset staff found that TDED was unable to determine whether Smart Jobs grant recipients were complying with requirements. Specifically, TDED failed to monitor performance of job training and expenditures for training. The agency's failure to monitor expenditures exposed State assets to potential fraud and risked an increase in the State's unemployment insurance tax. These findings led Sunset staff to recommend transferring the Smart Jobs Program to the Texas Workforce Commission.<sup>16</sup>

Finally, an ongoing example of agency difficulty in managing contracts is found in GSC's telecommunications program. Disputed provisions of a contract between GSC and a telecommunications vendor led to delays in upgrading and delivering telecommunications services to GSC's customer agencies. While no State dollars were directly lost, the delays resulted in lost opportunities for savings. GSC's telecommunications contract is discussed in greater detail in Issue 2 of this report.

**Need: The trend towards outsourcing more state services will demand more effective contract management.**

- Recent legislative and management efforts suggest a shift toward increased outsourcing of government services. Without high quality contract development and management, state funds for these services will be increasingly at risk.

Legislation passed in the 76th legislative session (1999) requires the General Services Commission to develop detailed recommendations for improving the efficiency of the State's vehicle fleet operations, including the outsourcing of operations and management where appropriate.<sup>17</sup>

The 76th Legislature also directed that a project to implement activity-based costing (ABC) using five pilot agencies, be administered through the Comptroller of Public Accounts. The directive established an ABC project management team, comprised of representatives of legislative and executive oversight offices, to develop a project plan and training curriculum, and identify processes to be analyzed using ABC. This information will be used in determining what agency activities may be outsourced.

State Comptroller Carole Keeton Rylander created e-Texas, a blue ribbon commission charged with evaluating state government to determine ways to make it more efficient and more competitive. As part of this ongoing effort, the e-Texas commission will apply the "Yellow Pages test" to state government. As defined by the

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If outsourcing increases, current contracting efforts will place more state dollars at risk.

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Comptroller's Office, the Yellow Pages test states that government should not perform any function that can be performed better and at a lower cost by a private entity.<sup>18</sup>

- Multiple efforts to move state functions and services to the Internet have also gained support. These services rely on information technology service providers under contract to the State.

Under the direction of the Legislature, GSC has launched a pilot electronic procurement marketplace that will allow state agencies to perform state purchasing through an Internet Website managed by a private contractor. Responsibility for maintaining vendor information would shift from GSC to the vendors, as they would have access to the system to update their profiles and respond to requests for bid.

The Legislature also established the Texas Electronic Government Task Force, led by the Department of Information Resources, to establish TexasOnline, a statewide initiative to provide an open window to government services and information for the public.<sup>19</sup>

The State's Quality Assurance Team, comprised of the State Auditor's office and the Legislative Budget Board, provides oversight of major information resources projects whose cost exceeds \$1 million.<sup>20</sup> Because information technology is dynamic, these types of outsourced projects require flexible contracts that can accommodate change. These projects present an increased management challenge as they require specialized expertise for negotiating contract terms and performing contract monitoring.<sup>21</sup>

**Opportunity: TTPD could develop contracting guidelines and provide assistance to state agencies to improve the State's contract management.**

- As recommended in this report, the Texas Technology and Procurement Department (TTPD) should be designated as the centralized procurement agent for the State. As part of its purchasing authority, TTPD will inherit GSC's standard practices and procedures for state purchasing, including state agency guidelines for preparing formal requests for bids, distribution, and evaluation of proposals, on-site tests and inspections, processing best and final offers, and final bid selection. TTPD will also be required to maintain a training and certification program for all state purchasing employees.
- Although contracting plays a critical role in procurement, the State has not designated similar authority for developing contract management guidelines. As the State's purchasing agent, TTPD could identify numerous problems in the management of other agencies' contracts. However, the Department will not have the necessary authority to respond to these problems. Providing TTPD with centralized contract management authority would allow the

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No state agency has the responsibility to guide the State's contract management.

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Department to address many of these contracting problems and prevent future problems through training and assistance.

## Recommendation

### Change in Statute

- 10.1 Require the Texas Technology and Procurement Department (TTPD) to develop statewide contracting guidelines and training materials, and to provide ongoing assistance to state agencies with their contracting efforts.**
- 10.2 Require the Office of the Attorney General to provide legal assistance to TTPD in the development and implementation of statewide contracting guidelines.**
- 10.3 Create an interagency working group to provide input and assist TTPD in defining the State's needs with regard to statewide contracting guidelines.**

The Texas Technology and Procurement Department would be charged with developing contracting guidelines for state agencies, including guidelines for effective contract monitoring, contractor selection, subcontractor performance, and standard contract provisions for common types of contracts. These guidelines would have to be flexible to meet varying agencies' needs. The Department would also be required to develop training materials for these guidelines and provide ongoing assistance to state agencies in applying the guidelines.

In producing these guidelines and training materials, TTPD should seek assistance from the State Auditor's Office in incorporating guidelines and best practices already developed by SAO. The Office of the Attorney General (OAG) should also provide assistance. Through an interagency agreement, OAG would provide legal assistance to TTPD in the development of contract guidelines and in the general implementation of these recommendations, including providing ongoing guidance and assistance to state agencies regarding contract management.

An interagency working group would assist TTPD in developing appropriate contracting guidelines for state agency use. The working group would include SAO, OAG, and the Comptroller of Public Accounts. As the State's chief fiscal officer, the Comptroller would provide TTPD with a statewide financial perspective. TTPD would select other participants in the interagency working group including legal and program representatives from other agencies, as well as a representative from an institution of higher education. The working group would expire on September 1, 2002. However, TTPD would retain authority to reconvene members of the working group, as needed, to provide assistance in responding to future changes in state policy or industry practices.

#### **10.4 Require state agencies to follow all contract management guidelines developed by TTPD.**

State agencies would be required to follow contract management guidelines developed by TTPD, including guidelines for contract monitoring, contractor selection, subcontractor performance, and standard terms and conditions for common types of contracts. The guidelines would provide the flexibility necessary to meet varying agencies' needs. The State Auditor's Office would be able to gauge agencies' compliance with these guidelines, as part of its ongoing duties.

#### **Impact**

The development of mandatory, statewide guidelines for contracting will improve contract administration and minimize the risks of mismanaged State funds and poorly performed or delayed state services. Additionally, these recommendations would reduce the burden currently placed on individual state agencies to develop their own contracts with limited guidance or expertise and could provide improved methods for contract monitoring. Given increased interest in outsourcing government activities and services, these recommendations are particularly critical in providing the state with the necessary tools to effectively manage contracts.

#### **Fiscal Implication**

These recommendations would result in more effective contract management and potentially, millions of dollars in savings. However, initial fiscal investments are necessary in the development of contract guidelines, training, and assistance.

Through an interagency agreement, the Office of the Attorney General would provide legal assistance in the development of contracting guidelines. Sunset staff estimate that OAG will need to assign the equivalent of one full-time attorney to provide support to TTPD in the initial stages of implementing these recommendations. The OAG can absorb this cost within its operating budget.

For the continued administration of TTPD's contract management authority, including developing training materials and providing assistance to state agencies, Sunset staff estimate that the Department will need two additional attorneys. As discussed in Issue 3 of this report, TTPD is expected to realize up to \$397,000 in savings and freed staff resources as a result of electronic procurement. TTPD should redirect some of this savings and staff resources to the performance of its new contract management responsibilities.

<b>Fiscal Year</b>	<b>Cost to the General Revenue Fund</b>	<b>Change in FTEs from Fiscal Year 2001</b>
2002	\$138,900	2
2003	\$138,900	2
2004	\$138,900	2
2005	\$138,900	2
2006	\$138,900	2

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- <sup>1</sup> Joint General Investigating Committee (JGIC), State of Texas, *Joint General Investigating Committee Report on State Contracting* (Austin, Texas, October 14, 1996), p. 4; and State of Texas, *Text of Conference Committee Report House Bill No. 1 (General Appropriations Act) as modified by House Bill 4, Senate Bill 1898, and House Bill 2272 and Governor's Veto Proclamation* (Austin, Texas, 1999), p. XIV.
- <sup>2</sup> Texas House Bill 2641, 76th Legislature (1999).
- <sup>3</sup> Texas Senate Bill 177, 76th Legislature (1999) as codified in Texas Government Code Ann., ch 2259.
- <sup>4</sup> Texas Government Code Ann., ch. 2155, subch. F.
- <sup>5</sup> Letter from General Services Commission, Legal Services to Sunset Advisory Commission staff, August 16, 2000.
- <sup>6</sup> Information provided by General Services Commission, Central Procurement Services, (Austin, Texas, May 2000.)
- <sup>7</sup> Interview with Office of the State Auditor (Austin, Texas, July 14, 2000).
- <sup>8</sup> State of Texas, *Text of Conference Committee Report House Bill No. 1 (General Appropriations Act) as modified by Senate Bill 4 and Governor's Veto Proclamation and Contingent Appropriations Included in House Bill No. 3211, Regular Session.* 1999. Sec. 9-7.05, p. IX-64.
- <sup>9</sup> Interview with Office of the State Auditor (Austin, Texas, October 2, 2000).
- <sup>10</sup> JGIC, *Report on State Contracting*; Office of the State Auditor, *A Combined Audit Report on the Texas Commission on Alcohol and Drug Abuse* (Austin, Texas, June 1997), report no. 97-062; and Texas Sunset Advisory Commission, *Staff Report: Texas Commission on Alcohol and Drug Abuse* (Austin, Texas, 1996).
- <sup>11</sup> JGIC, *Report on State Contracting*; and Texas Government Code Ann., ch. 2155, sec. 2155.144 (i) - (o).
- <sup>12</sup> Office of the State Auditor (SAO), *Proposal to the Senate Investigative Task Force for Audits of Contracts and Contractual Processes, Fiscal Year 1995* (Austin, Texas, December 1995).
- <sup>13</sup> JGIC, *Report on State Contracting*.
- <sup>14</sup> SAO, *A Report on the 1998 Financial and Compliance Audit Results* (Austin, Texas, May 2000), Report No. 99-555.
- <sup>15</sup> SAO, *The 1999 Statewide Single Audit Report*, (Austin, Texas, May 2000), Report No. 00-555.
- <sup>16</sup> SAO, *An Audit Report on the Department of Economic Development*, Report no. 00-008; and Texas Sunset Advisory Commission, *Staff Report: Texas Department of Economic Development*. 2000.
- <sup>17</sup> Texas Government Code Ann., ch. 2171, sec. 2171.104.
- <sup>18</sup> State Comptroller of Public Accounts, e-Texas, Online. Available: [www.e-texas.org/X/whatis.html](http://www.e-texas.org/X/whatis.html). Accessed September 19, 2000.
- <sup>19</sup> State of Texas, Department of Information Resources, Online. Available: [www.texasonline.state.tx.us/about.html](http://www.texasonline.state.tx.us/about.html). Accessed: September 19, 2000, and Texas Government Code Ann., ch. 2054, sec. 2054.062.
- <sup>20</sup> State of Texas, *General Appropriations Act* (1999), Sec. 9-6.22, p. IX-46.
- <sup>21</sup> Interview with Texas Quality Assurance Team with representatives from the Office of the State Auditor and the Legislative Budget Board (Austin, Texas, August 8, 2000).



## **ACROSS-THE-BOARD RECOMMENDATIONS**

<b>General Services Commission</b>	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>A. GENERAL</b>
Update	1. Require at least one-third public membership on state agency policymaking bodies.
Update	2. Require specific provisions relating to conflicts of interest.
Update	3. Require that appointment to the policymaking body be made without regard to the appointee's race, color, disability, sex, religion, age, or national origin.
Update	4. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Update	5. Specify grounds for removal of a member of the policymaking body.
Already in Statute	6. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Apply	7. Require training for members of policymaking bodies.
Already in Statute	8. Require the agency's policymaking body to develop and implement policies that clearly separate the functions of the policymaking body and the agency staff.
Already in Statute	9. Provide for public testimony at meetings of the policymaking body.
Update	10. Require information to be maintained on complaints.
Update	11. Require development of an equal employment opportunity policy.
Apply	12. Require information and training on the State Employee Incentive Program.



<b>Texas State Cemetery Committee</b>	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>A. GENERAL</b>
Already in Statute	1. Require at least one-third public membership on state agency policymaking bodies.
Already in Statute	2. Require specific provisions relating to conflicts of interest.
Already in Statute	3. Require that appointment to the policymaking body be made without regard to the appointee's race, color, disability, sex, religion, age, or national origin.
Already in Statute	4. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Apply	5. Specify grounds for removal of a member of the policymaking body.
Apply	6. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Apply	7. Require training for members of policymaking bodies.
Apply	8. Require the agency's policymaking body to develop and implement policies that clearly separate the functions of the policymaking body and the agency staff.
Apply	9. Provide for public testimony at meetings of the policymaking body.
In GSC Statute	10. Require information to be maintained on complaints.
In GSC Statute	11. Require development of an equal employment opportunity policy.
In GSC Statute	12. Require information and training on the State Employee Incentive Program.



## **AGENCY INFORMATION**

# Agency Information

## AGENCY AT A GLANCE

- The General Services Commission (GSC) provides business services for state agencies and other governmental entities. The Legislature first created a single state agency to provide business services in 1919 by consolidating 21 state agencies and establishing GSC's predecessor, the State Board of Control.
- GSC's Central Procurement Services Division administers the state procurement process to acquire goods and services for state agencies. Using statewide term contracts and open-market requisitions, GSC managed more than \$1 billion in purchases for state agencies in fiscal year 1999.
- GSC provides support services, including building maintenance and custodial services, printing services, mail services, business machine repair, and centralized travel services, for state agencies.
- The Telecommunications Services Division of GSC, created in 1975, plans, operates, and manages the State's telecommunications system used by employees throughout the state, including more than 22,000 users in the Capitol Complex.
- GSC manages 22 state-owned buildings and 10 parking garages in the Capitol Complex. In addition, GSC leases more than 11.7 million square feet of space for about 100 state agencies located throughout the state.
- GSC oversees the construction and renovation of state buildings, and currently manages 48 capital projects with a total budget of more than \$340 million.

The mission of the General Services Commission is to provide or acquire goods, services, and facilities for state agencies and political subdivisions such as cities, counties, and school districts.

### Key Facts

- **Funding.** GSC spent \$136.2 million in fiscal year 1999. Of this, \$79.6 million went for capital projects, \$34.4 million for personnel costs, and \$22.2 million for operating costs.
- **Sources of Revenue.** Bonds issued by the Texas Public Finance Authority to purchase, construct, renovate, and repair state facilities constituted \$70 million of GSC's fiscal year 1999 budget. General revenue funds made up \$36.7 million, \$23.2 million came from

**GSC on the Internet**

Information about GSC, available through the GSC Web site, includes the agency's rules, publications, and information about agency activities. Information about GSC is located on the Internet at [www.gsc.state.tx.us](http://www.gsc.state.tx.us).

GSC has provided centralized support services for state agencies in Travis County since 1919.

**General Services Commission Laws and Rules**

Laws establishing and governing GSC are maintained by the Texas Legislative Council on the Internet at <http://tlis/statutes/codes/GV000245.html>

Rules adopted by the General Services Commission are maintained by the Secretary of State on the Internet at [http://info.sos.state.tx.us/pub/plsql/readtac\\$ext.viewtac](http://info.sos.state.tx.us/pub/plsql/readtac$ext.viewtac)

reimbursements from other agencies, and the remaining revenue came from various other sources.

- **Staffing.** GSC had 818 full-time equivalent positions in fiscal year 1999, 731.5 of which were filled on average during the year. Twenty-seven staff were located at surplus property warehouses in Fort Worth, Lubbock, Houston, and San Antonio, and the remainder work in Austin. GSC supplements its staff by contracting with private vendors for a portion of their janitorial and maintenance services.
- **Procuring Goods and Services.** GSC procures goods and services essential to government agencies, including telecommunication services, information technology equipment and services, state employee travel and credit card services, and term contracts for equipment and consumable supplies.
- **Managing State Facilities.** Through its facilities management programs, GSC plans and oversees state construction projects; provides janitorial, ground, and facility maintenance services; obtains and distributes federal surplus property; and manages the State Cemetery under the direction of the State Cemetery Committee.

**MAJOR EVENTS IN AGENCY HISTORY**

- 1919** The Legislature consolidates 21 state agencies, creating the State Board of Control with the responsibility of purchasing supplies for all state agencies, auditing all departments and institutions, and designing, constructing, and maintaining public buildings and grounds and state parks.
- 1975** The Board of Control receives responsibility for planning, establishing, and managing a telecommunications services system for all state agencies.
- 1977** The State Building Commission is abolished and its powers transferred to the Board of Control.
- 1979** The Board of Control is renamed the State Purchasing and General Services Commission (SPGSC) and charged with operating a central supply store and a business machine repair facility.
- 1987** The State Travel Management Program and Vehicle Fleet Management Program are created at SPGSC.
- 1991** SPGSC is renamed the General Services Commission and the number of commissioners increases from three to six.

- 1993 GSC is given responsibility for Historically Underutilized Businesses, and state surplus and salvage property functions.
- 1997 Oversight of the State Cemetery is transferred from GSC to the State Cemetery Committee. GSC is charged with establishing and managing an electronic procurement marketplace.

**ORGANIZATION**

**Policy Body**

The General Services Commission is composed of six commissioners appointed by the Governor, with the advice and consent of the Texas Senate, to staggered six-year terms. The Governor designates the Chair of the Commission. GSC Commissioners select an Executive Director who manages the agency’s affairs under the Commission’s direction. Commissioners and the Executive Director develop and implement policies that clearly define the responsibilities of the Commission and the staff.<sup>1</sup> The chart, *General Services Commission Policy Body*, identifies current Commission members.

<b>General Services Commission Policy Body</b>		
Commissioner	City	Term of Office
Gene Shull, Chair	Tyler	February 1997 to January 2003
James A. Cox, Jr., Vice Chair	Austin	March 1999 to January 2005
Tomas Cardenas, Jr.	El Paso	March 1999 to January 2005
Dionicio Vidal (Sonny) Flores	Houston	March 1997 to January 2001
Fred N. Moses	Plano	August 1998 to January 2001
Barbara Rusling	Waco	February 1997 to January 2003

GSC staff operate the State Cemetery under policies set by the State Cemetery Committee. The Cemetery Committee is composed of three voting members appointed as follows: one member of the general public appointed by the Governor; one member of the general public appointed by the Governor from a list submitted by the Lieutenant Governor; and one member of the general public appointed by the Governor from a list submitted by the Speaker of the House of Representatives. The Executive

<b>State Cemetery Committee</b>		
Voting Members		
Commissioner	City	Term of Office
Martin L. Allday, Chair	Austin	September 1997 to February 2003
George Christian	Austin	September 1997 to February 2001
Ralph Wayne	Austin	September 1997 to February 2005
Non-Voting Members		
Jim Muse, Executive Director General Services Commission		
Lawrence Oaks, Executive Director Texas Historical Commission		
Laura David, Special Projects / Historical Sites Texas Parks and Wildlife Department		

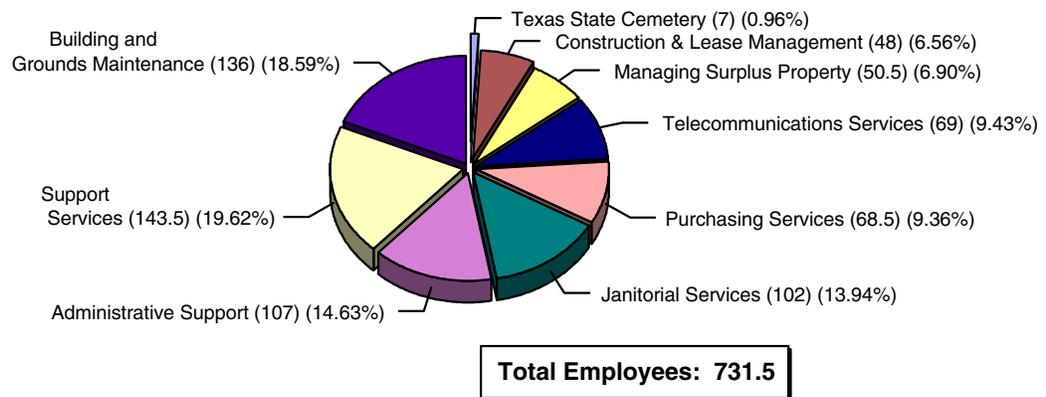
Directors of the Texas Historical Commission, General Services Commission, and Texas Parks and Wildlife Department appoint one employee from their respective agencies to serve as a non-voting advisory member on the Committee. The Governor designates the presiding officer of the committee from among its members. The presiding officer serves in that capacity for two years.

**Staff**

GSC’s Executive Director manages the agency’s operations under the direction of the GSC Commissioners. State law specifies that GSC have three deputy executive directors who report to the Executive Director, and that each agency division be managed by a division director who reports to one of the deputy directors. In addition, GSC’s Director of Facilities Construction and Space Management must be a registered architect or engineer.

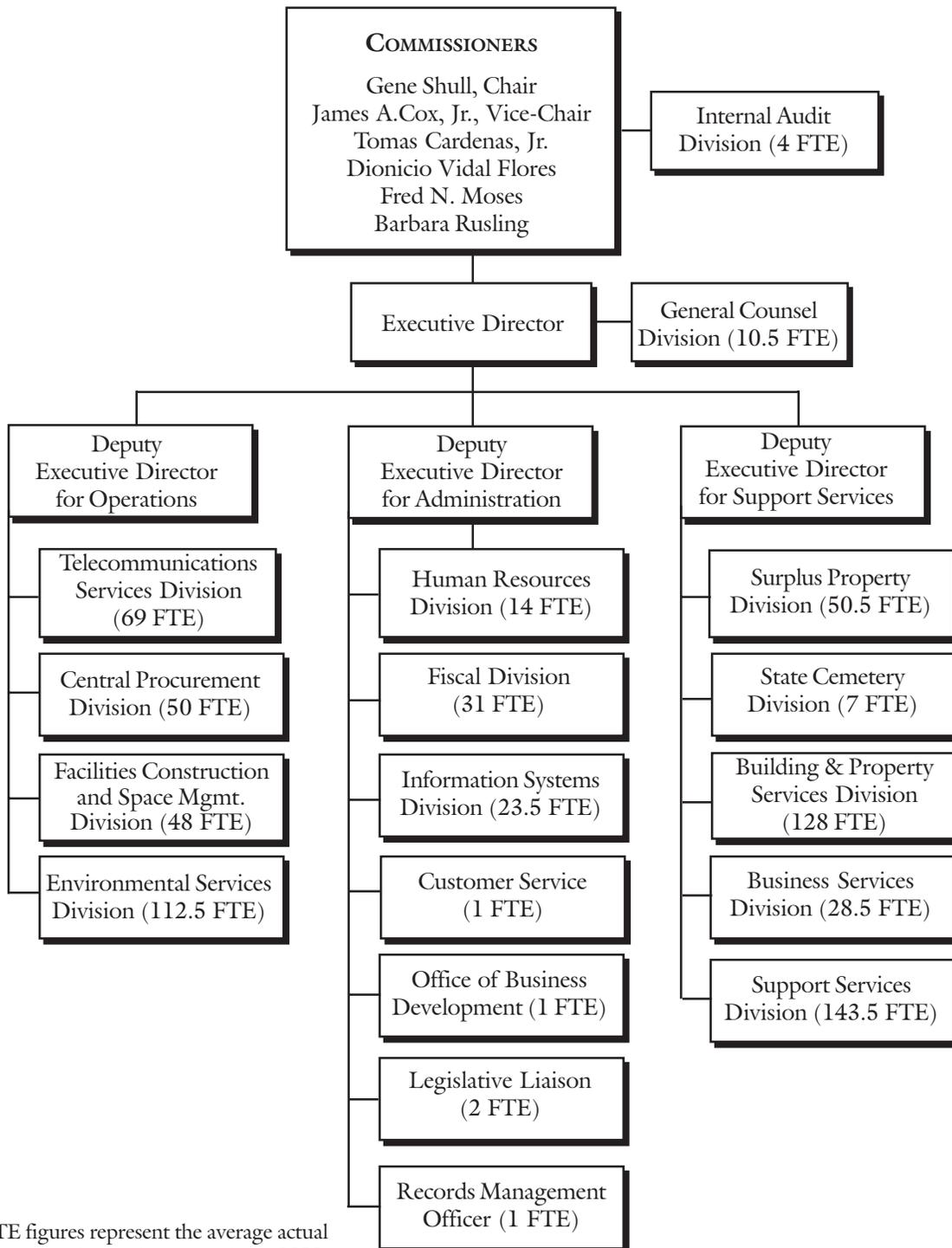
GSC staff are organized under deputy directors for Operations, Support Services, and Administration. The *General Services Commission Organizational Chart* identifies the agency divisions within these categories. The type of work that GSC employees do is broken down in the chart, *Tasks Performed by GSC Employees*.

**Tasks Performed by GSC Employees**



A comparison of the agency’s workforce composition to the minority civilian labor force over the past four years is shown in Appendix D, *Equal Employment Opportunity Statistics 1996 to 1999*.

## General Services Commission Organizational Chart



All FTE figures represent the average actual number of employees during fiscal year 1999.

**FUNDING**

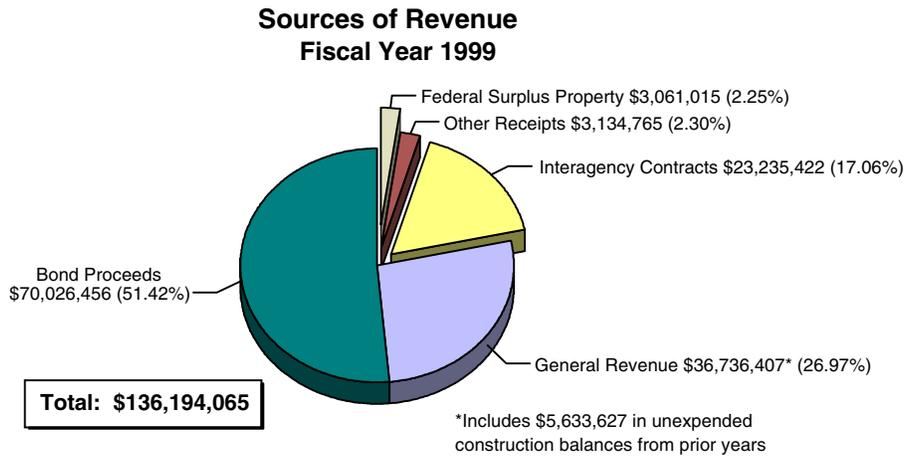
**Revenues**

GSC expended \$136.2 million during fiscal year 1999, including more than \$70 million from bond proceeds, as shown in the chart, *Sources of Revenue – Fiscal Year 1999*. Bond proceeds are derived from bonds issued by the Texas Public Finance Authority to purchase, construct, renovate, and repair state facilities. General Revenue funds made up \$36.7 million of GSC’s fiscal year 1999 budget. An additional \$23.2 million came from reimbursements GSC received through interagency contracts for goods and services provided to other agencies.

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General Revenue funds a little more than one-fourth of GSC’s budget.

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Riders to the General Appropriations Act allow GSC to receive and spend amounts in addition to the agency’s budgeted funds. These pass-through expenditures for fiscal year 1999 include \$66.5 million for the TEX-AN Telecommunications Revolving Account, \$2.1 million for the Capitol Complex Telecommunications Revolving Account, \$3.1 million for Central Store Industry Expenditures, and \$44.9 million for debt service for Texas Public Finance Authority Revenue Bonds.

GSC processes a large number of financial transactions that are paid by individual agencies and are not recorded as GSC expenditures. In fiscal year 1999, these included almost \$1 billion in purchase orders processed by GSC’s Central Procurement Division, \$85 million in statewide travel payments, and \$113.4 million in state lease contracts.

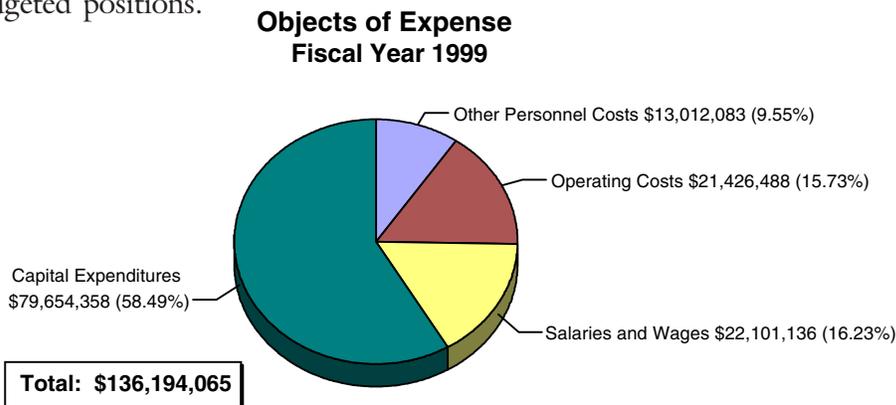
During fiscal year 1999, GSC received \$1,041,720 in Governor’s Office Emergency Deficiency Grant funds. Emergency grants were spent for modifications to the Travis Building, agency consolidation in the Brown/Heatly Building, and remodeling of the Governor’s Mansion.

A significant part of GSC’s budget, more than \$23 million, is funded from payments made to GSC by government entities for the goods and services they receive from GSC. The table, *GSC Divisions Funded From Interagency Receipts – Fiscal Year 1999*, shows how GSC budgets its interagency receipts.

<b>GSC Divisions Funded From Interagency Receipts Fiscal Year 1999</b>	
<b>Agency Division</b>	<b>Amount of Interagency Receipts</b>
Telecommunications	\$8,635,004
Support Services	6,259,769
Building and Property Services	1,731,409
Facilities Construction and Space Management	1,616,891
Construction Interagency Contracts	1,409,177
Information Systems	747,910
Central Procurement	448,740
Environmental Services	424,860
Business Services, Surplus Property, State Cemetery	144,318
Emergencies/Miscellaneous Contracts	624,565
Administrative Divisions and Internal Audit	1,192,779
<b>Total</b>	<b>\$23,235,422</b>

**Expenditures**

More than half of GSC’s fiscal year 1999 expenditures – \$79 million – fund GSC capital projects, as shown in the chart, *Objects of Expense – Fiscal Year 1999*. Salaries and other personnel costs make up \$35 million of the agency’s expenditures and provide funding to support 818 budgeted positions.



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In fiscal year 2000, GSC managed 68 construction projects with a capital budget of \$243 million.

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The General Appropriations Act allocates funds to GSC to perform specific agency functions, called agency strategies. The amounts expended by GSC for those strategies are shown in the table, *GSC Expenditures by Strategy – Fiscal Year 1999*. Information about agency expenditures from Historically Underutilized Businesses (HUBs) can be found in Appendix E, *Historically Underutilized Business Statistics 1996 to 1999*.

In fiscal year 2000, GSC managed 68 active construction projects with a total capital budget of \$243 million. All but five of GSC's construction projects are scheduled for completion in fiscal year 2000.

<b>GSC Expenditures by Strategy Fiscal Year 1999</b>	
<b>Goal/Strategy</b>	<b>Amount Expended</b>
<b>Goal A: Goods and Services</b>	
Centralized Purchasing	\$3,558,251
Custodial Services	4,873,008
Central Office Services	6,577,424
Capitol Complex Telephone	6,794,992
TEX-AN Network Services	1,857,194
Fleet Management	376,920
Travel Management	251,999
Competitive Government	120,740
Federal Surplus Property	2,722,319
<b>Total - Goods and Services</b>	<b>\$27,132,847</b>
<b>Goal B: Facilities Management</b>	
Facilities Operation	\$21,351,813
Deferred Maintenance	3,483,209
Leasing Services	572,718
Office Space Management	75,972,899
<b>Total - Facilities Management</b>	<b>\$101,380,639</b>
<b>Goal C: Energy Office</b>	
Energy Office	\$1,408,315
<b>Goal D: Indirect Administration</b>	
Indirect Administration	6,272,264
<b>GRAND TOTAL</b>	<b>\$136,194,065</b>

## AGENCY OPERATIONS

GSC's primary function is to provide central services for state agencies and local governments. GSC's activities can be organized into three major categories:

- procuring goods and services for customers;
- providing facilities management services; and
- providing administrative support to agency staff.

### Goods and Services

GSC provides or procures a variety of goods and services for government agencies, including office supplies and equipment, telecommunications services, mail delivery, printing, travel services, and vendor and purchaser training. GSC also maintains lists of businesses that want to work with the State, including a list of Historically Underutilized Businesses (HUBs). These activities are shown in the table, *GSC Goods and Services Divisions - Fiscal Year 1999*.

**Audit Findings and Legislative Mandates**

In 1999, the State Auditor reported that "GSC has made little progress in correcting longstanding problems in critical operations in the key areas of cost recovery, construction management, and procurement."\* The Legislature has mandated the following activities to address audit findings and improve agency operations:

- An activity-based costing study by the State Auditor to establish the cost of GSC services.
- A study of the feasibility of vehicle pooling conducted by the Council on Competitive Government
- Review of GSC construction management practices by the University of Texas System
- Review of purchasing practices by the University of Texas System
- An e-commerce demonstration project in cooperation with the Comptroller of Public Accounts

\* *Management Controls at the General Services Commission*, Office of the State Auditor, February 1999

<b>GSC Goods and Services Divisions Fiscal Year 1999</b>				
Division	Programs	Funding	Sources of Funding	Employees
Central Procurement Services	<ul style="list-style-type: none"> <li>● Procurement</li> <li>● Special Projects</li> <li>● Vendor Relations</li> <li>● Training &amp; Certification</li> <li>● Cooperative Purchasing Service &amp; Catalog Purchasing</li> <li>● State Agency Procurement Support Team</li> <li>● Electronic Procurement Pilot Program</li> </ul>	\$2.4 million	General Revenue (71%) and Cost Recovery (29%)	50
Business Services	<ul style="list-style-type: none"> <li>● Bid Services</li> <li>● Historically Underutilized Businesses (HUBs)</li> <li>● Records Management</li> </ul>	\$1.0 million	General Revenue (59%) and Cost Recovery (41%)	28.5
Telecommunications Services	<ul style="list-style-type: none"> <li>● TEX-AN Network</li> <li>● Capitol Complex Telephone System</li> </ul>	\$8.7 million	Cost Recovery (100%)	69
Support Services	<ul style="list-style-type: none"> <li>● Central Supply Store</li> <li>● Business Machine Repair</li> <li>● Travel &amp; Vehicle Management</li> <li>● Staff Services (Print shop and Mail Operations)</li> </ul>	\$7.2 million	Cost Recovery (82%) and General Revenue (18%)	143.5

Central Procurement Services Division

GSC has statutory responsibility to “operate an effective and economical system for purchasing goods and services.”<sup>2</sup> The Central Procurement Services Division (CPS) is responsible for the purchase, lease, and rental of supplies, materials, services, and equipment for all state agencies and public institutions of higher education. The Division also purchases for local governments under the cooperative purchasing program and purchases school buses for the State’s independent school districts. CPS had 50 employees and a budget of \$2.4 million for fiscal year 1999.

Although state law directs CPS to purchase goods and services for state agencies, it also exempts certain state agencies and purchases from centralized purchasing, and delegates other purchases to state agencies. For example, the State Bar of Texas is exempt from the State’s purchasing requirements. The statute also exempts certain purchases made by universities and the services of public utilities.

Other purchases are delegated to state agencies either by state law or by GSC rule. State law delegates purchases of less than \$25,000, professional and consulting services under \$100,000, research-related purchases made by universities, and lease-purchase of school buses.

GSC has delegated several additional types of purchases to state agencies including emergency purchases, and routine services such as pest control, janitorial, and copier maintenance. The table, *Overview of GSC Purchasing Authority*, summarizes the purchasing authority of state agencies, universities, and GSC, and authority delegated by state law or agency rule. As seen in the table, statute or GSC policy delegates about 70 percent of state purchases.

The Central Procurement Services Division performs three basic types of purchasing for state

<b>Overview of GSC Purchasing Authority*</b>		
<b>Type of Authority</b>	<b>Total Purchases FY 1999</b>	<b>Types of Purchases</b>
Authority Granted to Agencies and Universities in Statute	\$4,883,207,970	<ul style="list-style-type: none"> <li>• Catalog purchases from Qualified Information</li> <li>• Systems Vendors (QISVs)</li> <li>• Professional services</li> <li>• Consulting services</li> <li>• Interagency purchases</li> <li>• Utilities purchases</li> <li>• Higher Education Assistance Fund (HEAF) purchases</li> <li>• Other statutory exemptions</li> </ul>
GSC Purchasing Authority	\$641,027,467	<ul style="list-style-type: none"> <li>• Term contracts</li> <li>• Schedule purchases</li> <li>• Open-market purchases</li> <li>• Services over \$100,000</li> <li>• Request for Proposals</li> </ul>
GSC Purchasing Authority Delegated to State Agencies	\$417,662,581	<ul style="list-style-type: none"> <li>• Commodity purchases under \$25,000</li> <li>• Services under \$100,000</li> <li>• Direct publications</li> <li>• Distributor purchases</li> <li>• Fuel, oil, and grease purchases</li> </ul>

\*GSC Procurement Manual, Section 1.0.

agencies: open-market purchases, term-contract purchases, and scheduled purchases. Open-market purchases are used when an agency has a one-time need for an item. GSC receives the specifications developed by the requisitioning agency for the item, solicits and evaluates bids, and awards the contract. The agency receives and pays for the goods itself.

GSC uses term-contract purchases for items that agencies need on an ongoing basis, such as office supplies, furniture, and equipment. GSC develops the specifications, solicits bids, and awards the contract for a specific period of time, guaranteeing a price, but not the volume to be purchased. If an agency needs the product, it is ordered through the contract.

The third type of purchase is the scheduled purchase. For certain items that have a limited shelf life, GSC periodically makes bulk purchases, such as food, calendars, and vaccines, based on agency orders.

The Division performs its work through numerous teams, described below.

**Procurement.** Two procurement teams perform the daily operations of the State's centralized procurement office. Each team consists of a Procurement Program Director, a procurement team, contract specialists, open-market specialists, and administrative support. In fiscal year 1999, the two teams operated with a combined budget of about \$830,000 and 22 employees. The teams:

- process open-market requisitions on behalf of 221 state agencies;
- administer statewide term contracts and procurement schedules;
- conduct daily procurement processing functions;
- provide information and customer service; and
- review proposed service contract specifications and request-for-proposal specifications submitted by state agencies.

On average, each purchaser processes 15 to 20 term contracts and 70 to 100 open-market purchases per month. When making purchases, GSC must give preference to:

- products of workshops, organizations, or corporations whose primary purpose is training and employing individuals having mental retardation or a physical disability;
- energy-efficient products;

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GSC only purchases  
about 30 percent of  
goods and services  
procured by the  
State.

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- products produced or grown in Texas; and
- products made of recycled materials.<sup>3</sup>

**Special Projects.** The Special Projects team supports CPS through a variety of activities. The team drafts, reviews, and manages legislative issues, the internal policies and procedures manual, and the CPS quarterly newsletter. The team also serves as the GSC liaison to the Recycling Development Board, Texas Council on Purchasing from People with Disabilities, Texas Correctional Industries, and State Agency Coordinating Council. The team compiles monthly workload measures and quarterly performance measures. The Special Projects team operated with a budget of about \$200,000 and four employees in fiscal year 1999.

The **Vendor Advisory Committee** assists GSC in developing a fair, simple, and accessible procurement system for the State. The Committee is statutorily responsible for representing the vendor community before GSC, providing information to vendors, and obtaining vendor input on state procurement practices. Committee members are appointed by GSC and are chosen by polling GSC purchasers on who they would nominate as a vendor for the Committee. These vendors must represent both large and small businesses, and provide a variety of goods and services to the state.

**Vendor Relations.** The Vendor Relations team, created in October 1998, is responsible for vendor training, counseling, and outreach, as well as investigations of complaints and resulting suspension, debarment, and/or mediation. In addition to these main duties, team members assist vendors in collecting late payments from purchasing entities, inspect goods and services provided to the State, and perform all administrative duties for the Vendor Advisory Committee. The program operated with four employees and a budget of about \$98,000 in fiscal year 1999.

The program also maintains the “past performance” database to provide a monthly listing of all vendors that have been the subject of five or more complaints in one month. On average, GSC receives 144 complaints each month. Late delivery is the most common performance complaint. The team evaluates past performance information and determines what action will be taken with the vendor. Of the 13,298 vendors on the Centralized Master

Bidders List, seven have been suspended and six have been debarred, as of October 1999.

**Training and Certification.** GSC is required to establish and administer a system of training, continuing education, and certification for state agency purchasing personnel.<sup>4</sup> The Training and Certification team, comprised of three employees with a budget of \$436,000, administers the required statewide purchaser training and certification program. The program operates on a 100 percent cost-recovery basis. Since the program began in 1997, more than 3,000 people have attended the classes.

The team also establishes and administers statewide purchaser certification. Texas is the only state to require certification of its purchasers and purchasing managers. The Certified Texas Purchasing

Manager test is under development and expected to be available by October 2000.

**Cooperative Purchasing Services and Catalogue Purchasing (CPSCP) Program.** The CPSCP Program consists of two program areas, the Cooperative Purchasing Program (Co-Op) and the Qualified Information Systems Vendor (QISV) Program.

The **Co-Op Program** allows local governments, political subdivisions, and assistance organizations to take advantage of the State's volume buying power. The program operated with four employees and a budget of \$268,000 in fiscal year 1999. Program staff answer members' questions, maintain the Co-Op Web site, recruit new members, and educate current members on how to use the program. To participate, eligible entities must submit an application and a \$210 application fee along with any required documents. Co-Op members have the option to use the GSC term contracts and the QISV Program for their purchasing needs. Currently, about 1,400 entities are Co-Op members.

The Legislature created the **QISV Program** in 1993 to qualify vendors to sell automation and telecommunications products and services to the State of Texas. The QISV Program was administered by three employees with a budget of about \$98,000 in fiscal year 1999. To sell or lease to a state agency, a vendor must apply to GSC for designation as a qualified information systems vendor. Vendors must submit:

- an application along with a catalogue containing each product and service (the catalogue must be available on the Internet);
- a maintenance, repair, and support plan for each product or service;
- proof of financial resources; and
- three customer references.

Once approved by GSC, the 2,300 certified QISV vendors can sell to state agencies and Co-Op members directly through their catalogues.

**State Agency Procurement Support Team.** The State Agency Procurement Support Team consists of the internal procurement, procurement review, and state agency oversight programs.

The **Internal Procurement** team is responsible for the acquisition of all supplies, equipment, and services for GSC. The program had six employees with a budget of \$169,000 in fiscal year 1999. Team members also procure services for maintenance, repair, security, and operating supplies and materials for the Capitol Complex, the North Austin Zone, federal surplus property district offices, and state office

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About 1,400 local governments and organizations take advantage of the State's buying power through GSC's Cooperative Purchasing Program.

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buildings in San Antonio, El Paso, Corpus Christi, Houston, Fort Worth, and Waco. Team members also administer the statewide telecommunications service contracts. In fiscal year 1999, the program's purchases totaled more than \$20 million.

The **Procurement Review** team performs procurement audits of commodity and service procurements made by 221 state agencies and institutions of higher education, provides training in response to audit findings, and maintains the State of Texas Procurement Manual. The team performs two types of procurement audits. Prepayment audits are conducted for emergency, service, and research contracts exceeding \$25,000; and for real property leases and monthly payments rendered for the 1,400 leases for state offices located throughout the state.

Post-procurement audits are conducted for delegated purchases. Each state agency must be audited once a biennium. The audit consists of a 10 percent random sampling of the agency's overall purchases, and each purchase is audited for use of the correct procurement method and compliance with statutes, rules, and procedures. Agencies failing to achieve 90 percent audit compliance must be audited again within six months. In fiscal year 1999, 57 state agencies scored below the required 90 percent compliance rate.

The **State Agency Oversight** team is responsible for procurement oversight for the state agencies identified by GSC, legislative mandates, or the State Auditor's Office for failure to comply with procurement policies. The oversight team must review and approve all of the agencies' solicitations of bids for all procurements prior to proceeding with an award.

**Electronic Procurement Pilot Program.** Senate Bill 820 of the 75th Legislature (1997) charged GSC with establishing and operating an electronic procurement marketplace, including an electronic commerce network.<sup>5</sup> GSC formed an Electronic Commerce Task Force (ECTF) in July 1997, consisting of representatives from GSC, Comptroller's Office, Texas Department of Transportation, Texas Department of Health, Department of Information Resources, Texas A&M University, University of Texas Health and Science Center in San Antonio, State Auditor's Office, Texas Department of Economic Development, and several other state agencies. A timeline of ECTF and its operations is depicted in the textbox, *Electronic Procurement Timeline*.

The Electronic Procurement Pilot Program aims to make all procurement processes available electronically by all state agencies and Co-Op members. Currently, the electronic procurement pilot awarded to Syscom, Inc., is gathering data necessary for State Leadership to

determine the benefits of an electronic procurement system. The pilot will provide the State with information for a cost-benefit analysis, including any potential statutory changes necessary to implement the program statewide, and a cost-recovery model.

On April 3, 2000, the first electronic procurement transactions were made through the Web-based electronic procurement system using the Internet. These transactions included a term contract issued to the Texas Industries for the Blind and Handicapped, a bid solicitation by Texas Department of Transportation for bulk fuels, and an order to the GSC Central Supply Store by the Texas Department of Health.

Business Services Division

The Business Services Division supports the purchase of goods and services for state agencies and facilitates public access to state records. The division operated with 28.5 employees on a budget of \$1 million in fiscal year 1999. About half this amount came from General Revenue, while the remainder was generated through the assessment of registration fees for the Centralized Master Bidders List (CMBL). The table, *Business Services Funding and Employees*, summarizes the division's operating resources for fiscal year 1999.

**Bid Services.** The Bid Services Program coordinates the competitive bid process and maintains three statewide lists of bidders:

- the Centralized Master Bidders List,
- surplus property bidders, and
- Historically Underutilized Businesses (HUBs).

GSC is required to maintain the Centralized Master Bidders List, a subscription mailing list comprised of all vendors wishing to do business with the State.<sup>6</sup> Vendors pay a \$100 registration fee to be added to the CMBL and regularly receive bid announcements for a period of two years. Statute requires all state agencies to use the CMBL to invite

Electronic Procurement Timeline		
1997	July	Electronic Commerce Task Force created by GSC
	December	Electronic feasibility awarded to Phoenix Planning and Evaluation, Rockville, Md.
1998	May	Electronic commerce feasibility completed
1999	January	ECTF publishes the electronic commerce Report to the Legislature
	October	ECTF announces RFO for electronic procurement solutions
2000	February	Pilot awarded to Syscom, Inc., Baltimore
	March	Development and implementation of pilot solution(s)
	April	First transactions made through Web-based electronic procurement system
	August	End of pilot solution(s)
2001	September	Report pilot findings to 77th Legislature
	January	Recommendations for statutory changes related to electronic procurement
	September	Implement production of electronic procurement for statewide use (proposed)

Business Services Funding and Employees		
Program	Funding	Employees
Bid Services	\$424,903 (Cost-Recovery)	10.5
HUB	\$417,652 (General Revenue)	13
Records Management	\$194,285 (General Revenue)	5
<b>Total</b>	<b>\$1,036,840</b>	<b>28.5</b>

bids for purchases greater than \$15,000. Currently, the CMBL has 15,600 vendors listed. The Texas Department of Transportation and institutions of higher education are authorized to maintain their own bidders lists.<sup>7</sup> However, these entities must use the CMBL whenever possible.

The division also maintains the surplus property mailing list. This list contains more than 6,000 vendors who are invited to bid on property made available through GSC's Surplus Property Division. No fees are associated with this mailing list, which is supported by General Revenue.

**Historically Underutilized Businesses (HUBs).** The HUB Program identifies state contracting opportunities for HUBs and provides them with education and outreach efforts. The program identifies and certifies HUBs for state agencies and provides assistance to agencies in meeting HUB-use goals.

GSC must perform periodic compliance reviews of HUBs to certify their eligibility. HUB eligibility is limited to for-profit entities located

principally in Texas and owned, operated, and controlled by economically disadvantaged persons as defined in statute.<sup>8</sup> GSC performs approximately 1,500 HUB compliance reviews per year. Currently, 5,477 certified HUBs operate in the state. This number is expected to increase as a result of modifications to the program by Senate Bill 178, passed by the 76th Legislature.

Senate Bill 178 imposed other changes to the state HUB program, which are summarized in the textbox, *SB 178 Provisions*. These changes affect all agency purchases, contracting, and subcontracting.

**Records Management.** The Records Management Program provides public access to state records in accordance with the Texas Open Records Request Act. The program manages the agency's record retention and inventory, including destruction of records.

#### SB 178 Provisions

SB 178 codifies state agency practices and duties with regard to Historically Underutilized Businesses as follows:

- changes the definition of HUB eligibility from “socially disadvantaged” to “economically disadvantaged;”
- authorizes GSC to approve and enter into agreements with local government HUB certification programs;
- requires agencies to make a good-faith effort to increase the award of goods, services, and construction contracts to HUBs;
- directs the State Auditor's Office (SAO) to monitor agencies' compliance with good-faith effort plans and report state agencies not in compliance to GSC;
- requires agencies with budgets greater than \$10 million to appoint HUB coordinators;
- directs GSC to develop a mentor-protégée program and requires agencies with budgets greater than \$10 million to implement the program;
- directs GSC to design forums in which HUBs may give technical and business presentations demonstrating their capabilities; and
- requires SAO to review all agency contracts with expected values of at least \$100,000 for subcontracting opportunities with HUBs.

### Telecommunications Services Division

The Telecommunications Services Division manages two major programs: the TEX-AN statewide telecommunications network and the Capitol Complex Telephone System (CCTS). The division also sells telecommunications equipment to customers of both programs.

The agency is charged with fulfilling the telecommunications requirements of all state agencies and providing centralized telephone service to the Legislature and state agencies in the Capitol Complex.<sup>9</sup> The division had 69 employees and expenditures of \$8.7 million in fiscal year 1999. The budget is funded entirely on a cost-recovery basis through fees charged to customers for TEX-AN and CCTS services, and for telecommunications equipment.

The **TEX-AN Network** provides a wide variety of telecommunications services to more than 500 state agencies, local governments, and other tax-funded organizations. The division contracts with more than 20 vendors to provide local and long-distance voice and data transmission, Internet access, cellular phones, calling cards, equipment purchasing and installation, and other services. Division staff support the network by ordering services for customers, handling the billing process, coordinating vendor-customer relations, and acting as the first line of assistance for network problems. State agencies accounted for 52 percent of the customers and 90 percent of the \$60 million in total sales in fiscal year 1999.

The **Capitol Complex Telephone System** provides local phone service, voice mail, and other services exclusively to more than 22,000 users among 94 state agencies in the Capitol Complex, resulting in \$6 million in annual sales. The Material Control and Purchasing Operations section sells telephones, wire, jacks, and other network equipment to TEX-AN and CCTS customers. Division staff also work on strategic planning to support the agency's membership in the state Telecommunications Planning Group, the Greater Austin Area Telecommunications Network, and the Commission on State Emergency Communications.

### Support Services Division

The Support Services Division operates a range of programs to provide efficient, cost-effective services to state entities, including vehicle repair, interagency mail delivery, and a central supply store. In fiscal year 1999, the division had 143.5 employees and expenditures of \$7.2 million, 82 percent of which is funded on a cost-recovery basis.

#### **TEX-AN 2000**

The Telecommunications Services Division is converting its customers to the new TEX-AN 2000 statewide telecommunications system, which promises lower rates, higher quality service, and greater customer choice for services than the TEX-AN III system, in use since 1994. GSC estimates an annual savings of nearly \$7.5 million to the State once the transition to TEX-AN 2000 is complete. More information can be found on the Internet at [www.tex-an.net](http://www.tex-an.net)

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The Central Supply Store had \$3.4 million in sales to state agencies in fiscal year 1999.

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**Central Supply Store.** The Legislature established the Central Supply Store in 1971 as a cost-effective source for state agencies to procure small desktop items, paper products, and other office supplies.<sup>10</sup> About 80 percent of the items stocked in the store are purchased using the State Automated Contract. The store sells supplies at about 25 percent less than commercial market costs, and passes the savings on to GSC customers. The store operates on 100 percent cost-recovery, with operating costs coming from a 15 percent average markup on goods sold. The store had expenditures of \$323,950 and eight employees in fiscal year 1999. Store sales for fiscal year 1999 totaled \$3.4 million.

The Central Supply Store serves about 200 executive and legislative agencies and universities, most of which are located in Austin. Store employees will deliver purchases to agencies within the Austin metropolitan area within three business days. GSC estimates that state agencies saved more than \$1 million in fiscal year 1999 by using the store.

**Business Machine Repair.** The Business Machine Repair (BMR) Program offers office machine repair services to state agencies in Austin, as required by statute.<sup>11</sup> Services include:

- repairs on personal computers, printers, computer terminals, calculators, dictation machines, fax machines, typewriters, and various other equipment;
- service on most brands and models of equipment purchases by user agencies;
- on-site and depot service;
- personal computer upgrades;
- monitor repairs; and
- providing repair parts for self-service agencies.

BMR is a full cost-recovery operation. Revenue comes from three sources: an hourly per-call rate, an annual maintenance contract rate, and profit from a 15 percent markup on parts. The program had 14 employees with expenditures of \$1.3 million in fiscal year 1999. GSC estimated that employees completed 7,316 service requests with an average turnaround time of 14.23 hours in fiscal year 1999.

**Travel and Vehicle Management Program.** The State Travel Program was created in 1987 to provide centralized management and coordination of state business travel in an effort to reduce expenses and improve services for state agencies.<sup>12</sup> Executive agencies are

required to participate in the Travel Program by using the contracts for travel services awarded by GSC. These contracts include services from travel agencies, charge card providers, rental car companies, airlines, hotels, and group/meeting planning services. Institutions of higher education are not required to use the contracts for travel agency services, but must use all other travel service contracts when the services are purchased by General Revenue, or Educational and General Funds.

About 240 state agencies and universities use the State's Travel Program, with approximately 60,000 to 70,000 employees traveling on State business each year. The program's seven employees assist state agencies in managing their travel expenditures, monitor the State's travel activity, and secure contracts with travel agencies that provide services to state agencies and counties. Funding for the Travel Program comes from General Revenue and from sales of the Texas State Travel Directory, which GSC produces, and administration costs of hotel rate agreements. The program's fiscal year 1999 expenditures totaled \$251,998.

Recent legislation extended the State's travel program to certain county employees. House Bill 255, passed in 1997, allows a Texas county sheriff, deputy sheriff, or juvenile probation officer who is transporting a State of Texas prisoner under a felony warrant to use the program's contract airline fares. In 1999, Senate Bill 204 made it possible for county officers and employees traveling on official county business to use the State's contract airfares as well.

The program's effectiveness is judged by the number of travelers using travel contracts and the estimated cost-savings resulting from use of these travel contracts. In fiscal year 1999, GSC estimated that the State saved \$19.8 million on airline and rental car costs through the contracts.

GSC serves 112 state agencies and universities through its **Vehicle Fleet Management System**. GSC collects and tracks data for the State's fleet vehicle reporting system to help each state agency manage its fleet.<sup>13</sup> To do this, GSC maintains a complete inventory of the 50,000-plus agency vehicles by class of vehicle and determines the average cost of operation for each class of vehicle. Agency staff also provide routine periodic vehicle maintenance to state agencies located in Travis County.

Other program activities include operation of a 24-hour alternative fuels refueling station in the Capitol Complex, evaluation of alternative fuel waiver requests from state agencies and universities, and management of the 150 vehicles in GSC's fleet. By law, GSC must encourage and provide for the conversion and use of motor vehicles capable of using alternative fuels, especially compressed natural gas.

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GSC tracks more than  
50,000 vehicles in  
the state fleet.

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The Vehicle Fleet Management program operated with 2.5 employees in fiscal year 1999 on a budget of \$157,466, most of which came from General Revenue. In 1999, the Legislature passed House Bill 1325, which directed GSC to complete a State Vehicle Fleet Management Plan to improve the operation of the State’s vehicle fleet. The bill directed GSC to consider the elimination of underused vehicles and the consolidation of independent agency fleets into one or more regional or statewide motor pools.

**Staff Services Program.** The agency’s **Mail Operations** consists of four sections: Internal Mail, Mail and Messenger, Outgoing Mail, and the State Mail Office. Tasks performed by these sections are outlined in the table, *GSC Mail Operations*. GSC provides all mail services for internal customers and a variety of mail services to state agencies within Travis County.

Twenty-nine employees work in Mail Operations, which is funded primarily through General Revenue. In fiscal year 1999, employees metered 4.6 million pieces of mail and delivered more than 875,000 pieces of interagency mail. The fiscal year 1999 budget totaled about \$1 million.

<b>GSC Mail Operations</b>	
<b>Section</b>	<b>Responsibilities</b>
Internal Mail	<ul style="list-style-type: none"> <li>Picks up, time-stamps, sorts, opens, and distributes all incoming mail for GSC.</li> </ul>
Mail and Messenger	<ul style="list-style-type: none"> <li>Provides services to 150 state agencies at 195 locations in Travis County including:                             <ul style="list-style-type: none"> <li>-- interagency mail;</li> <li>-- incoming and outgoing U.S. Postal Service mail;</li> <li>-- state warrants from the Office of the Comptroller; and</li> <li>-- accountable mail, such as certified, registered, and express mail.</li> </ul> </li> </ul>
Outgoing Mail	<ul style="list-style-type: none"> <li>Provides services to all GSC customers and 70 agencies in Travis County, including:                             <ul style="list-style-type: none"> <li>-- metering all classes of outgoing mail;</li> <li>-- folding, labeling, and inserting;</li> <li>-- preparation of mail for processing through State contracts for postage discounts; and</li> <li>-- assisting customers with mail piece design and consultation services to achieve cost-effective and efficient mailing practices.</li> </ul> </li> </ul>
State Mail Office	<ul style="list-style-type: none"> <li>Administers state mail services contract.</li> <li>Mails equipment and services reviews and consultations, such as analysis, bid evaluations, and cost-benefit analysis.</li> <li>Develops and distributes guidelines.</li> <li>Serves as liaison with the U.S. Postal Service.</li> </ul>

GSC operates two full-service **print shops** as authorized by statute.<sup>14</sup> Key services provided include pre-press activities, such as traditional camera and digital imaging, offset printing, and complete binding capabilities. In fiscal year 1999, GSC’s two print shops, plus a third shop which closed in December 1999, employed 80 employees and processed more than \$5.7 million in annual sales, 89 percent of which consisted of jobs for 53 other state agencies. The print shops operate on a full cost-recovery basis, funded by revenue received from sales to state agencies.

In 1994, the Council on Competitive Government directed GSC to develop a plan to consolidate the 33 state agency print shops into nine print shops in

Travis County. By fiscal year 1999, the state print shops in Travis County had consolidated to six (excluding the University of Texas at Austin), employing 126 employees with combined annual sales of \$12.9 million. GSC issues an annual report to the Legislature on the performance of all six state print shops.

## Facilities Management

GSC constructs, leases, and maintains state buildings and grounds. Services include facility design and construction, janitorial and grounds maintenance, facility leasing, and facility repair and maintenance. GSC also operates the Texas State Cemetery and administers the federal and state surplus property programs. These services are shown in the table, *GSC Facilities Management Divisions, Fiscal Year 1999*.

<b>GSC Facilities Management Divisions Fiscal Year 1999</b>				
<b>Division</b>	<b>Programs</b>	<b>Funding</b>	<b>Sources of Funding</b>	<b>Employees</b>
Facilities Construction and Space Management	<ul style="list-style-type: none"> <li>● Design and Construction</li> <li>● Inspections</li> <li>● Facilities Leasing</li> <li>● Facilities Planning</li> </ul>	\$2.4 million	Cost-Recovery (52%) and General Revenue (48%)	48
Environmental Services	<ul style="list-style-type: none"> <li>● Custodial Operations</li> <li>● Environmental Hazards</li> <li>● Recycling</li> </ul>	\$4.7 million	General Revenue (80%) and Cost-Recovery (20%)	112.5
Building and Property Services	<ul style="list-style-type: none"> <li>● Maintenance and Operations</li> <li>● Minor Construction</li> <li>● Risk Management/Safety and Health</li> </ul>	\$9.7 million	General Revenue (89%) and Cost-Recovery (11%)	128
Surplus Property	<ul style="list-style-type: none"> <li>● Federal Surplus Property</li> <li>● State Surplus Property</li> </ul>	\$3.1 million	Cost-Recovery (98%) and General Revenue (2%)	50.5
Texas State Cemetery	<ul style="list-style-type: none"> <li>● Operations</li> <li>● Research</li> <li>● Administration</li> </ul>	\$371,694	General Revenue (100%)	7

### Facilities Construction and Space Management Division

GSC has statewide responsibility for meeting the space needs of state government.<sup>15</sup> The Facilities Construction and Space Management (FCSM) Division builds and renovates state buildings, obtains lease space for state agencies, and forecasts state agency needs for buildings and properties. The division prepares the biennial Master Plan for the Capitol Complex and ensures that state offices meet accessibility standards. The division includes four programs:

- Design and Construction,
- Facilities Leasing,
- Facilities Planning, and
- Inspections.

The division spent \$2.4 million in fiscal year 1999 and was staffed with 48 employees. About half of the division's funding, or \$1.37 million, came from fees paid by agencies that contract for the division's services.

**Design and Construction.** The Design and Construction Program manages state construction projects from initial planning, through preparation of a project analysis and legislative funding, to the time that the facility is built and occupied. The program's 15 employees currently manage about 48 construction and maintenance projects with a total value of more than \$340 million. Information about GSC's construction projects with a budget of \$10 million or greater is shown in the table, *GSC - Major Construction Projects at December 1999*.

<b>GSC - Major Construction Projects at December 1999</b>			
	<b>Original Budget</b>	<b>Budget Revisions</b>	<b>Planned Completion Date</b>
Texas School for the Deaf	\$45,000,000	\$7,062,739	12/1/97
Renovation of Hobby Building	12,000,000	1,715,113	8/3/00
Corpus Christi State University	10,000,000	(508,000)	9/3/00
Sam Houston Building Renovation	15,491,826	(921,295)	5/3/00
Houston Building Purchase and Renovation	15,800,000	43,000	4/30/00
REJ Legislative Office Building	46,000,000	2,300,000	4/30/00
El Paso Building Purchase and Renovation	21,400,000	(428,520)	4/30/00
School for the Deaf Renovations	22,500,000	0	5/26/00
Parking Garage - Capitol Complex Lot 17	14,320,000	(3,369,076)	8/17/00
Completion of REJ Building	15,180,000	(1,695,607)	6/30/00
Parking Garage Capitol Complex Lot 17	15,180,000	(1,695,607)	2/29/00
Health Department Building	32,621,319	0	8/31/01

Tasks performed by program staff include project analysis, project design management, and construction management. Staff also develop uniform general contracting conditions and assess the impact of various alternative energy strategies. A few state agencies are exempted from GSC oversight and permitted to manage their capital construction projects, as shown in the textbox, *State Agencies Authorized to Manage Capital Construction Projects*. Key duties of the program include:

Project Analysis

- Design and Construction normally contracts for the preparation of a project analysis based on a description of the project submitted by a user agency.
- The project analysis contains a project justification, agency space needs, schematic plans, construction materials, site plans, and the estimated overall costs.
- Cost estimates in the project analysis provide the basis for funding requests made to state budget offices.

**State Agencies Authorized  
to Manage Capital  
Construction Projects**

- General Services Commission
- Texas Department of Transportation
- Texas Parks and Wildlife Department
- Texas Department of Mental Health and Mental Retardation
- State Preservation Board
- Adjutant General's Department

Project Design

- GSC selects a design professional.
- The user agency reviews and approves the design.
- GSC advertises the project and selects a builder.

Construction Management

- Program staff administer contract payments.
- Design professionals are supervised in performing their duties.
- Coordinates with the GSC Inspection program.

**Inspections.** The Inspections Program examines new and renovation construction projects managed by GSC to ensure compliance with national construction codes. The 8.5 program employees:

- maintain construction documents;
- ensure contractor compliance;
- communicate with the contractor, design professional, and project manager; and
- conduct detailed, general, and final inspections of projects.

The phases of inspection include review of site work, architecture, mechanical systems, electrical systems, and plumbing. Program staff also monitor project time schedules and assist in processing change orders.

**Facilities Leasing.** The Facilities Leasing Program leases space for state agencies and sees that the space meets agency needs at the lowest possible costs. The program has 15.3 employees who oversee 11.7 million square feet of space, used by more than 100 state agencies at a cost of \$108.5 million per year. Staff coordinate with state agencies to develop lease specifications, advertise space, and award and manage contracts. The program's budget comes entirely from General Revenue

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GSC oversees 11.7 million square feet of state office space.

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appropriations. As lessee, GSC must approve and sign all contractual documents pertaining to agency leases. However, larger state agencies with multiple regional offices assign staff to assist GSC in performing leasing functions.

**Facilities Planning.** The Facilities Planning Program prepares the Facilities Master Plan (FMP), submitted to the Legislature and the Governor by July 1 of even numbered years. The FMP includes:

- a projection of the space state agencies will need;
- an examination of the condition and use of state buildings;
- information about leasing, maintenance costs, and economic and market conditions; and
- an analysis of the benefits of leasing space versus construction.

Program employees conduct Buy vs. Build vs. Lease evaluations to determine the most efficient way to meet space needs, and identify needed capital improvements related to life safety, fire safety, asbestos abatement, air quality, and mechanical systems. Program staff also allocates space to state agencies. Agencies wishing to occupy space in a state-owned facility submit a request to the program identifying personnel to be located in the space, space required for other than personnel (i.e. storage, data processing, etc.), a preference for location, and a justification of why the space is required. Preference is given to meeting the space needs of current tenants and of those agencies funded through General Revenue.

#### Environmental Services Division

The Environmental Services Division maintains responsibility for custodial operations, recycling, asbestos abatement, and pest control in many state buildings. The division's fiscal year 1999 expenditures were \$4.7 million, more than 80 percent of which came from General Revenue. About 112.5 employees and 103 contract employees work in the division's Custodial Operations, Environmental Hazards, and Recycling programs.

**Custodial Operations.** The Custodial Operations Program provides detailed cleaning services for more than 3.5 million square feet in 36 state office buildings around the state. Of this, private sector contractors and Texas Industry for the Blind and Handicapped service centers clean about 2 million square feet in 21 buildings, while division employees maintain the rest of the buildings on GSC's inventory. The GSC building inventory is outlined in Appendix F, *GSC Inventory of Facilities*.

Program employees perform such tasks as vacuuming, emptying trash, buffing, stripping, waxing, sealing, and carpet shampooing. The fiscal

year 1999 program expenditures included \$2.3 million for custodial operations and \$1.4 million for contract custodial services, supporting 94 employees and 103 contract employees. Some agencies, such as the Texas Department of Transportation, Texas Department of Criminal Justice, and Texas Department of Health, have authority to own and maintain buildings, and therefore provide similar or identical services.

**Environmental Hazards.** The Environmental Hazards Program provides environmental management and maintenance services for all GSC-operated facilities. The program also serves state agencies in non-GSC facilities on a cost-recovery basis. Services include asbestos abatement, indoor air quality investigation, HV/AC inspections and redemption, hazardous waste disposal, hazardous materials emergency response, pest control, and environmental site assessments. Institutions of higher education and certain state agencies that maintain their own buildings and grounds do not use GSC services.

Funding for the Environmental Hazard Program comes equally from General Revenue and cost-recovery. The program's fiscal year 1999 expenditures were \$517,489, with a staff of 10 employees. GSC works with a number of regulatory entities, such as the Environmental Protection Agency, the Texas Natural Resource Conservation Commission, and the Texas Department of Health, to comply with applicable federal, state, and local laws and regulations.

**Recycling.** The Legislature directed GSC to establish and maintain paper recycling procedures for each building under its control.<sup>16</sup> GSC works with state agencies and institutions of higher education on a program for collecting all recyclable materials, such as aluminum, steel containers, aseptic packaging, high-grade office paper, and corrugated cardboard.<sup>17</sup>

Funding for the Recycling Program comes from approximately 65 percent General Revenue and 35 percent cost-recovery. The fiscal year 1999 expenditure for the program was \$482,591, with 8.5 employees. The Recycling Program consists of a program manager, a purchaser, a truck operations supervisor, and truck staff, who collect and transport non-hazardous waste material from specified state buildings to the contracted recycling facilities.

In fiscal year 1999, GSC recycled approximately 2,100 tons of paper. The agency received \$100 per ton for white paper, \$145 for computer printout paper, and \$20.50 for mixed paper. About 5 percent of the paper recycled was white paper, less than 1 percent computer paper, with the remainder being mixed paper.

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GSC spent \$1.4 million for contracted custodial services in fiscal year 1999, 61 percent of its budget in this area.

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GSC manages nine million square feet for 15,000 tenants.

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### Building and Property Services Division

GSC is required to control, maintain, and protect all public buildings, grounds, and property of the State.<sup>18</sup> The Building and Property Services Division provides utilities and maintenance service to 45 buildings and 17 parking garages across Texas. The division had 128 employees and expenditures of \$9.7 million in fiscal year 1999. An additional \$12 million was appropriated for payment of utilities for facilities on GSC's building inventory, including those outside of Austin, and for repayment of LoanStar project loans. Division staff and resources are distributed among the Maintenance and Operations, Minor Construction, and Risk Management and Safety programs.

**Maintenance and Operations.** The Maintenance and Operations Program maintains and repairs internal and external building systems in the Austin Capitol Complex, the North Austin Zone Complex, and six facilities outside the Austin area. The program had 115.5 employees and expenditures of \$8.6 million in fiscal year 1999, funded entirely with General Revenue. Program staff manage about 8 million square feet of space for about 12,000 building tenants within the Austin area. Outside Austin, GSC manages property service contracts for approximately 1 million square feet of space in six office buildings occupied by 3,300 tenants.

Services performed through this program include maintenance and repairs of electrical, HV/AC, plumbing, hardware, and fire alarm systems, as well as maintenance of three power plants that provide heating and cooling for the complexes. Other program services include preventive maintenance, grounds maintenance, deferred maintenance, and energy and utilities management.

#### **Deferred Maintenance Project Criteria**

- Repair or replacement of critical building systems to avoid liabilities associated with health and safety, federally mandated compliance programs, or disruption of vital government operations.
- Upgrade building systems to increase building capacity.
- Improve performance levels consistent with industry standards through preventive maintenance practices.

- Preventive maintenance services include regular inspections of equipment, part replacements, and minor repairs to building systems.
- Grounds maintenance efforts include landscaping services for all GSC facilities, custodial services in garages, and managing outside areas in critical situations, such as erecting barricades in emergencies and placing sand or salt on icy roads.
- The Deferred Maintenance Section performs capital improvements needed at state facilities. Program staff approve projects based on impact to health and safety and appropriate asset management. The textbox, *Deferred Maintenance Project Criteria*, describes how projects are prioritized. Work is performed primarily by private contractors. The Minor Construction Program, described below, also performs some of the work.

The 76th Legislature authorized \$14.9 million for approximately 60 deferred maintenance projects in fiscal year 2000 and 2001. Projects include installing fire sprinklers, replacing chillers and boilers, and repairing leaking roofs.

- GSC also provides and manages the utilities for approximately 42 facilities totaling more than six million square feet. The Energy and Utilities section evaluates building use to identify efficiency measures, offers technical assistance on maintaining energy efficiency, and provides input in the design review phase of construction projects.

Some state agencies, such as the Department of Health, Department of Transportation, Department of Criminal Justice, Department of Public Safety, State Preservation Board, and Texas Workforce Commission, have authority to own and maintain their own buildings to meet the special needs of the agency. For example, the Department of Criminal Justice is better able to maintain state prisons than GSC. Individual state facilities are also exempt from GSC's building inventory. The Capitol and Capitol Extension, the historic General Land Office/State Visitor's Center, Pease Mansion, and the new State Museum are the responsibility of the State Preservation Board, which is directed by the Legislature to maintain these historically significant facilities.

**Minor Construction.** The Minor Construction Program provides minor building renovations or rehabilitations for state agencies, such as carpet replacement, minor architectural changes, and other projects that are not considered routine maintenance. About 10 employees perform these services on a full cost-recovery basis. GSC also maintains seven contracts with private firms for services beyond the capability of GSC staff. In fiscal year 1999, staff performed 382 minor construction projects at a cost of nearly \$1.1 million.

**Risk Management/Safety and Health.** The Risk Management/Safety and Health Program minimizes risks encountered by GSC employees in the execution of the agency's activities. Specific services of this program are summarized in the textbox, *Risk Management Services*.

#### Surplus Property Division

**Federal Surplus Property.** The agency administers the Federal Surplus Property for the State of Texas.<sup>19</sup> The Surplus Property Division acquires, catalogues, and stores federal surplus property, and sells the property to state agencies,

#### **Risk Management Services**

- Identify and mitigate agency liability exposures and monitor risk management policies and procedures.
- Direct the agency's safety and health program and coordinate the reporting of Workers' Compensation Claims.
- Manage the electronic access control system and the internal building security system of the Central Services Building.
- Represent the agency to the State Office of Risk Management, the Division of Emergency Management of the Texas Department of Public Safety, and the Governor's Emergency Management Council.

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Last fiscal year, GSC distributed federal surplus property worth more than \$43 million.

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local governments, and other public and non-profit entities (known as “donees”) at a cost-recovery price. The division has the option to sell items that have remained unclaimed by eligible donees for at least nine months to the general public through auction. In fiscal year 1999, the division distributed more than \$43 million worth of surplus property to over 13,000 eligible donees, who GSC estimates saved \$7 million by using the program.

The federal General Services Administration (GSA) establishes rules and procedures for the distribution of federal property among the 50 states and the eligibility requirements for donees to purchase property. GSA also requires donees to use donated items for the original requested purpose for a specific period of time, after which the donee may use, sell, or dispose of the item in any way it sees fit. Division staff is responsible for:

- screening available property and soliciting desirable items for the State;
- transporting the property from its original location to one of the four state warehouses in Fort Worth, Houston, Lubbock, and San Antonio;
- storing the property safely and maintaining an updated inventory;
- marketing the property to eligible recipients to match demand with supply; and
- monitoring the use of property by donees to ensure compliance with the original purpose.

**State Surplus Property.** The division also collects information about state surplus property from state agencies and disseminates the information to the public through a monthly listing of property, available electronically and by mail for a small fee. The division is required to maintain a mailing list of organizations and individuals willing to receive state surplus property, either by donation to a public or non-profit entity or through a public sale if a donee cannot be found. State surplus property, unlike federal property, remains in the possession of the agency that owns it until a donee or a buyer is found.

In fiscal year 1999, the division had 48.5 employees for the federal program, including 27 at the warehouses, and two employees for the state program. The federal program had annual expenditures of approximately \$3 million, funded entirely on a cost-recovery basis through shipping and handling fees charged to the donees. The division calculates handling fees based on the current condition and market value of the property, as well as the need of eligible donees and the length of time the property has remained in storage. The guidelines,

which must be approved by GSA, result in an average handling charge of 8 to 12 percent of the original acquisition cost of the item. The state program has an annual budget of approximately \$400,000, funded through General Revenue, through fees charged to participants in public sales, and through charges for hard copies of the monthly listing.

### Texas State Cemetery

The Texas State Cemetery operated with seven employees and expenditures of \$371,694 in fiscal year 1999. A Superintendent runs the day-to-day activities of the cemetery, which consists of the Operations, Research, and Administration departments.

The **Operations Department** oversees funerals and maintenance of the grounds and Visitor Center. The **Research Department** maintains and preserves all records and artifacts, administers visitor programs, maintains the Cemetery Web site, and plans and constructs exhibits in the Cemetery's gallery. The **Administration Department** is responsible for all administrative procedures, including budgeting, purchasing, personnel, training classes, and scheduling visitor tours. In fiscal year 1999, approximately 6,000 school children and 1,000 additional visitors received guided tours at the Cemetery.

#### **Persons Eligible for Burial in the State Cemetery**

- Former members of the Legislature or members who die in office.
- Former elective state officials or elective state officials who die in office.
- Former state officials or state officials who die in office who have been appointed by the Governor and confirmed by the Senate and who serve at least 12 years in the office to which appointed.
- Persons specified by a Governor's proclamation.
- Persons specified by a concurrent resolution adopted by the Legislature.
- Persons found by the committee to have made a significant contribution to Texas history.

The Cemetery is directed by the Texas State Cemetery Committee, composed of three members appointed by the Governor and three non-voting advisory members representing the Texas Historical Commission, General Services Commission, and Texas Parks and Wildlife Department. The Committee oversees all Cemetery operations and sets rules regarding Cemetery administration.

#### **Current Projects at the Texas State Cemetery**

- South Plaza renovation
- Memorial Center for family services and/or visitation
- 11,200 square feet of sidewalks
- Gold Star Mothers Monument honoring Texas mothers whose children were killed in war
- Management of the land at 45th Street and Bull Creek Road for future cemetery expansion

The Committee is authorized to establish and operate, or to contract with, an affiliated non-profit organization to raise funds for or provide services to the Committee.<sup>20</sup> The Committee has established a State Cemetery Project Account within the Texas Parks and Wildlife Department's non-profit foundation to raise funds or provide services to carry out any purpose of the Committee. As of May 2000, the State Cemetery Project account had a balance of about \$11,000.

To create a cemetery-museum that would reflect the history of Texas, a \$4.7 million restoration and enhancement project was initiated in 1994 and completed in 1997. The project was a joint undertaking by the General Services Commission, Texas Parks and Wildlife Department, Texas Department of Transportation, Texas Historical Commission, Lower Colorado River Authority, State Preservation Board, and Texas Department of Criminal Justice. The project created three new components of the Cemetery – a Visitors Center, which houses exhibitions to highlight the history and traditions of cemeteries throughout the state; a columbarium wall for ceremonial entrance for state funerals, and niches for burial urns; and the renovation and restoration of the monuments and grounds. The project was funded by a grant from the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and the General Services Commission.

### **Administrative Services**

GSC maintains several administrative services divisions to support the agency's employees and operations, including the Fiscal, Human Resources, Information Systems, Internal Audit, Legal, and Customer Service divisions, as well as the Office of Business Development.

#### Fiscal

The 31 employees in the Fiscal Division focus on two programs: fiscal activities and warehouse operations. Fiscal operations at GSC include accounts payable, payroll, budgeting, cash management, and general accounting. Warehouse operations involve receiving, maintaining inventory for building and custodial operations, deliveries, and overseeing the statewide property accounting system. In fiscal year 1999, the division had expenditures of \$1.1 million, financed primarily by General Revenue and interagency contracts.

#### Human Resources

The Human Resources/Staff Development Division administers employee benefits, performs interviewing and hiring, develops and provides training for employees, processes payroll transactions, and writes and maintains personnel policies and procedures. The division has an Internal Ombudsman, who maintains the agency's affirmative action plan and handles employee complaints, grievances, and mediations. The division's 14 employees process about 1,000 Personnel Action Forms per year. They also post about 240 jobs, hire 154 new employees, and offer 190 training classes annually.

### Information Systems

The Information Systems Division supports the agency in the areas of applications development, systems administration, and help desk/customer support. Staff support a variety of applications and computing environments ranging from large procurement and telecommunications billing applications to client/server systems. The division has overall responsibility for development, maintenance, and administration of GSC's Web site. Recent initiatives undertaken by the division's 23.5 employees include electronic commerce/electronic procurement pilot projects, web-ready requests for work orders, and integrated inventory management. The division had expenditures of \$2.4 million for fiscal year 1999.

### Internal Audit

Employees in the Office of Internal Audit review GSC programs to determine whether agency goals and objectives are being achieved, and then recommend ways to improve performance. This involves ensuring compliance with laws, rules, and regulations, and policies and procedures. The office's four employees have recently reviewed the Customer Service Program, rewrote the office's manual, and conducted program control assessments on GSC's central store, fiscal warehouse/inventory, and print shop west.

### Legal

The Office of General Counsel provides legal advice to GSC Commissioners, the Executive Director, executive staff, and other agency employees. Responsibilities include responding to open records requests; rendering legal opinions concerning contracts, rules, procedures, and legislation; coordinating litigation and claims with the Attorney General's Office; and interpreting laws and regulations affecting GSC. The office's 10.5 employees have recently assisted with implementation of legislative changes; wrote and approved contracts for GSC programs and services, such as the Business Machine Repair program; and helped with the e-commerce pilot project.

### Customer Service

The employee of the Customer Service division works with the other divisions of GSC to develop, print, collect, and tabulate the customer service cards sent to state agencies and other organizations that use GSC services. The employee also contacts agencies that report low scores on their cards to discuss the reasons for low ratings given to GSC staff performance.

### Office of Business Development

The employee of the Office of Business Development evaluates current activity-based costing (ABC) projects in GSC programs, implements new ABC projects, and reviews the business processes of GSC as a whole.

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<sup>1</sup> Texas Government Code Ann., Section 2152.

<sup>2</sup> Texas Government Code Ann., Section 2155.061.

<sup>3</sup> Texas Government Code Ann., Sections 2155.441 to 2155.447.

<sup>4</sup> Texas Government Code Ann., Section 2155.078.

<sup>5</sup> Texas Government Code Ann., Section 2177.

<sup>6</sup> Texas Government Code Ann., Section 2155.263.

<sup>7</sup> Texas Government Code Ann., Section 2155.268 (a), as modified by SB 178 of the 76th Legislature.

<sup>8</sup> Texas Government Code Ann., Section 2161.001 (3) defines an “economically disadvantaged person” as one who belongs to a certain group including Black Americans, Hispanic Americans, women, Asian Pacific Americans, and Native Americans, and who has suffered the effects of discriminatory practices over which the person has no control.

<sup>9</sup> Texas Government Code Ann., Sections 2170.051 and 2170.059.

<sup>10</sup> Texas Government Code Ann., Section 2172.001.

<sup>11</sup> Texas Government Code Ann., Section 2172.002.

<sup>12</sup> Texas Government Code Ann., Section 2171.

<sup>13</sup> Texas Government Code Ann., Section 2171.101.

<sup>14</sup> Texas Government Code Ann., Section 2172.002.

<sup>15</sup> Texas Government Code Ann., Sections 2166 and 2167.

<sup>16</sup> Texas Government Code Ann., Section 2175.902.

<sup>17</sup> Texas Health and Safety Code Ann., Section 361.425.

<sup>18</sup> Texas Government Code Ann., Section 2165.001(a).

<sup>19</sup> Texas Government Code Ann., Section 2175.362.

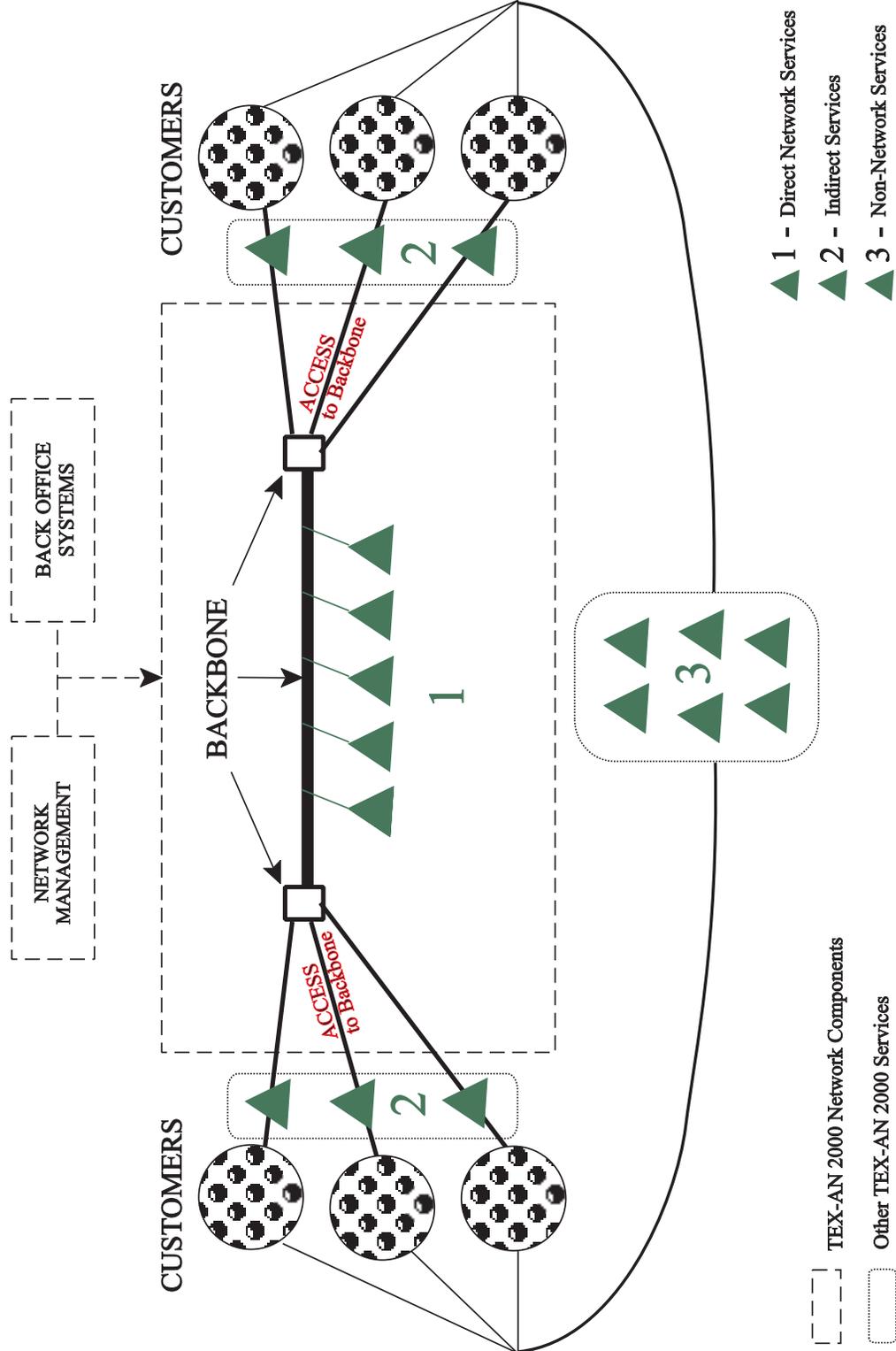
<sup>20</sup> Texas Government Code Ann., Section 2165.256(s).

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# **APPENDICES**

# Appendix A

## Diagram of TEX-AN 2000 Services



## Appendix A

### Explanation of TEX-AN 2000 Services Diagram

TEX-AN 2000 Network Components [ ]

The network consists of:

**Backbone:** The infrastructure needed to carry voice, data, and video signals through the network. This includes physical and electronic components such as fiber-optic cable, circuits, routers, and ATM/Frame Relay technology.

**Access:** The links that connect the customers to the network backbone.

**Network Management:** Tools to integrate the use of all network components and to improve overall network performance.

**Back Office Systems:** Tools to keep track of how customers interact with the network and to meet specific customer needs in using network services. Systems include Billing; Trouble Reporting and Tracking; Moves, Adds, and Changes; Historical Analysis and Reporting; and Web-Based Ordering.

**Direct Network Services (▲1):** Delivered to the customer exclusively through the TEX-AN 2000 network backbone. See text box, *TEX-AN 2000 Services*, for a list of services by category.

Other TEX-AN 2000 Services [ ]

The other services of the TEX-AN 2000 System are not delivered through the network backbone. However, they may be obtained through optional TEX-AN 2000 requirements contracts, and monitored for customer use by the network Back Office Systems.

**Indirect Services (▲2):** Designed to help the customer use the network, but not delivered through the network.

**Non-Network Services (▲3):** Delivered independent of the network through direct customer-vendor relationships.

**TEX-AN 2000 Services**

**▲1: Direct Network Services**

- Data
- Long Distance Voice
- Audio Conferencing
- Video
- Internet Access
- Software Modeling
- Security
- Operator/Information Assistance
- Advanced Services (Circuit Emulation, Integrated Access, Sales Support, more)

**▲2: Indirect Services**

- Equipment Purchasing/Installation
- Directory Publishing
- Software Modeling

**▲3: Non-Network Services**

- Local Telephone
- Cellular Services/Equipment
- Pager Services/Equipment
- Calling Cards
- Web Hosting/Development
- Firewalls
- Payphone Long Distance/Operator
- Interpreter

## Appendix B

<b>TEX-AN 2000 Service Providers</b>		
<b>Service</b>	<b>Provider(s) as of September 2000</b>	<b>Notes</b>
Network Backbone <ul style="list-style-type: none"> <li>• Transport</li> <li>• User Termination</li> <li>• Data (ATM/Frame relay)</li> </ul>	AT&T	
Network Access	AT&T	
Local Telephone Voice	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• E-Spire</li> <li>• SW Bell</li> <li>• Time Warner</li> </ul>	
Long Distance Voice	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• SW Bell</li> </ul>	
Audio Conference	GSC	Services not provided as planned in the original TEX-AN 2000 contract.
Video	GSC	
Internet Access	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• Qwest</li> <li>• SW Bell</li> </ul>	
Software Modeling	GSC	
Security	GSC	Services not provided as planned in the original TEX-AN 2000 contract.
Operator / Info Assistance	GSC	No bids were received.
Advanced Services <ul style="list-style-type: none"> <li>• Circuit Emulation</li> <li>• Integrated Access</li> <li>• Sales Support</li> <li>• Service Level Agreements</li> </ul>	GSC	Services not provided as planned in the original TEX-AN 2000 contract. GSC is negotiating with alternate providers for some services.
Network Management <ul style="list-style-type: none"> <li>• Monitoring</li> <li>• Performance</li> <li>• Configuration</li> <li>• Management Control</li> </ul>	GSC	Services not provided as planned in the original TEX-AN 2000 contract.
Bank Office Systems <ul style="list-style-type: none"> <li>• Moves, Adds, Changes</li> <li>• Trouble Reporting /Tracking</li> <li>• Consolidated Billing</li> <li>• Historical Analysis / Reporting</li> <li>• Web-Based Ordering of Services</li> </ul>	GSC	Services not provided as planned in the original TEX-AN 2000 contract. GSC is negotiating with alternate providers for some services.

## Appendix B

<b>TEX-AN 2000 Service Providers</b>		
<b>Service</b>	<b>Provider(s) as of September 2000</b>	<b>Notes</b>
Equipment Purchase / Installation	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• Management Applications</li> <li>• SW Bell</li> </ul>	
Directory Publishing	GSC	Original vendor provided inadequate services.
Cellular Services / Equipment	<ul style="list-style-type: none"> <li>• Alltel</li> <li>• AT&amp;T</li> <li>• GTE</li> <li>• Houston Cellular</li> <li>• Plateau Wireless</li> <li>• SW Bell</li> <li>• Sprint PCS</li> <li>• West Central Wireless</li> <li>• Western Wireless / Cellular One</li> </ul>	
Pager Services / Equipment	<ul style="list-style-type: none"> <li>• Lubbock Radio / Stenocall</li> <li>• MCI WorldCom</li> <li>• Metrocall</li> <li>• Pagenet</li> <li>• WCS</li> <li>• Western Wireless / Cellular One</li> </ul>	
Calling Cards	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• MCI WorldCom</li> <li>• NTS</li> <li>• Qwest</li> </ul>	
Web Hosting / Development	<ul style="list-style-type: none"> <li>• AT&amp;T</li> <li>• Management Applications</li> <li>• MCI WorldCom</li> <li>• Qwest</li> <li>• SW Bell</li> <li>• West Central Wireless</li> <li>• The Wilkins Group</li> </ul>	
Firewalls	<ul style="list-style-type: none"> <li>• Educational Networks of America</li> <li>• GTE</li> <li>• SW Bell</li> <li>• Unisys</li> </ul>	
Payphone Long Distance / Operator	Qwest	
Interpreter	<ul style="list-style-type: none"> <li>• LanguageLine</li> <li>• Qwest</li> </ul>	Services not provided as planned in the original TEX-AN 2000 contract. GSC has negotiated an agreement with alternate providers.

## Appendix C

### The State Auditor's Office Elements of an Effective Contract Administration System

Control Area	Elements
Contractor Selection	<p><b>Procurement process should be sufficient to ensure that the best contractors are fairly and objectively selected.</b></p> <ul style="list-style-type: none"> <li>• Whenever feasible, and unless otherwise prohibited by law or other restrictions, contractors should be selected through competitive procurement procedures.</li> <li>• Past performance should be considered in subsequent selection/contract renewal decisions.</li> <li>• Formal, documented procedures should be used to assess prospective contractors' strengths and weaknesses.</li> </ul>
Contract Provisions	<p><b>Contract provisions and agency regulations should be sufficient to hold contractors accountable for delivery of quality services and prevent the inappropriate or inefficient use of public funds.</b></p> <p>Contract provisions should contain all of the following:</p> <ul style="list-style-type: none"> <li>• clear statements of services and goods expected from contractor.</li> <li>• clearly defined performance standards and measurable outcomes.</li> <li>• clear statements of how contractor performance will be evaluated.</li> <li>• sanctions sufficient to hold contractors accountable for failing to meet intended objectives.</li> <li>• appropriate restrictions regarding the contractors' use of public funds.</li> <li>• specific audit clauses which allow the funding agency and other oversight entities access to the contractors' books and records.</li> </ul>
Payment Reimbursement Methodology	<p><b>Methods used to establish contractor reimbursement should be sufficient to ensure that the State pays fair and reasonable prices for services.</b></p> <ul style="list-style-type: none"> <li>• Prior to the contract award, the cost of services as well as the services themselves, should be analyzed to determine the most effective payment methodology.</li> <li>• Approval of proposed contractor budgets should focus on ensuring that proposed expenses are reasonable and necessary to accomplish program objectives. Both program results and contractor efficiency should be considered as part of the budget approval process.</li> <li>• For unit-rate contracts, the rate setting process should ensure that there is a reasonable correlation among the quality of the services provided, costs of providing the services, and the rate paid.</li> </ul>
Contractor Oversight	<p><b>Contractor oversight should be sufficient to ensure that contractors consistently provide quality services (by measuring performance against well-documented expectations) and that public funds are spent effectively and efficiently.</b></p> <ul style="list-style-type: none"> <li>• Monitoring functions should focus on the outcomes of services provided and the cost-effectiveness/prudence of contractor expenditures in addition to compliance with regulations.</li> <li>• Results of monitoring reviews, audits and investigations should be routinely followed up on to ensure corrective actions have been taken and to identify common problem areas.</li> <li>• A formalized risk-assessment process should be used to select contractors for review and identify the level of review necessary at each contractor.</li> <li>• Standardized criteria should be established to evaluate contractor performance.</li> </ul>

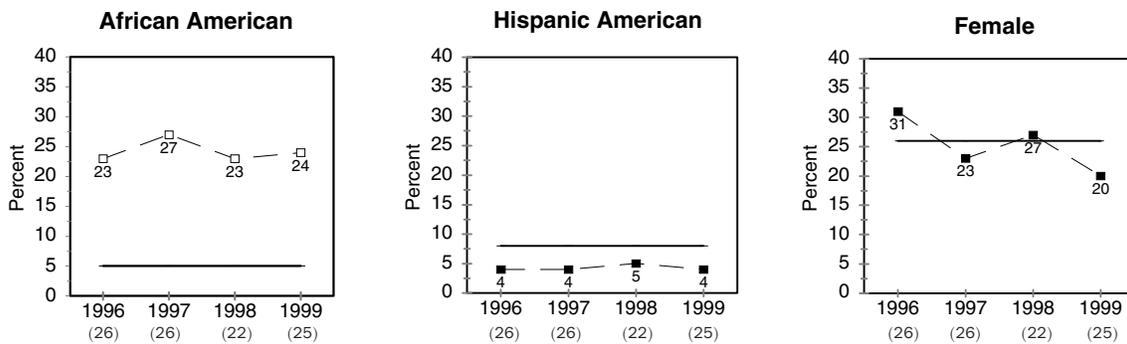


## Appendix D

### Equal Employment Opportunity Statistics 1996 to 1999

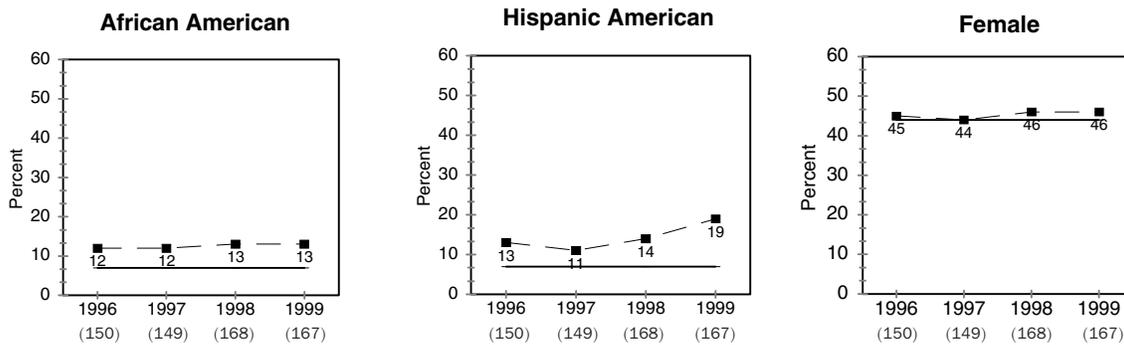
In accordance with the requirements of the Sunset Act, the following material shows trend information for the agency's employment of minorities and females.<sup>1</sup> The agency maintains and reports this information under guidelines established by the Texas Commission on Human Rights.<sup>2</sup> In the charts, the flat lines represent the percentages of the statewide civilian labor force that African Americans, Hispanic-Americans, and females constitute in each job category. These percentages provide a yardstick for measuring agencies' performance in employing persons in each of these groups. The dashed lines represent the agency's actual employment percentages in each job category from 1996 to 1999. Finally, the number in parentheses under each year shows the total number of positions in that year for each job category.

#### State Agency Administration



The agency far exceeded the civilian labor force percentage for African-Americans in administrative positions, but consistently lagged behind the civilian labor force for Hispanics. The agency's female representation within this job category has fluctuated and was below the standard in 1999.

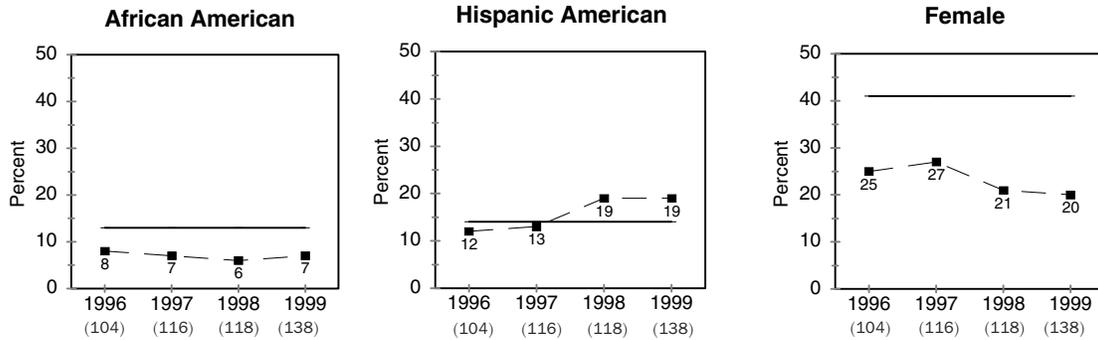
#### Professional



The agency generally met or exceeded the civilian labor force for African-Americans, Hispanics, and females in professional positions.

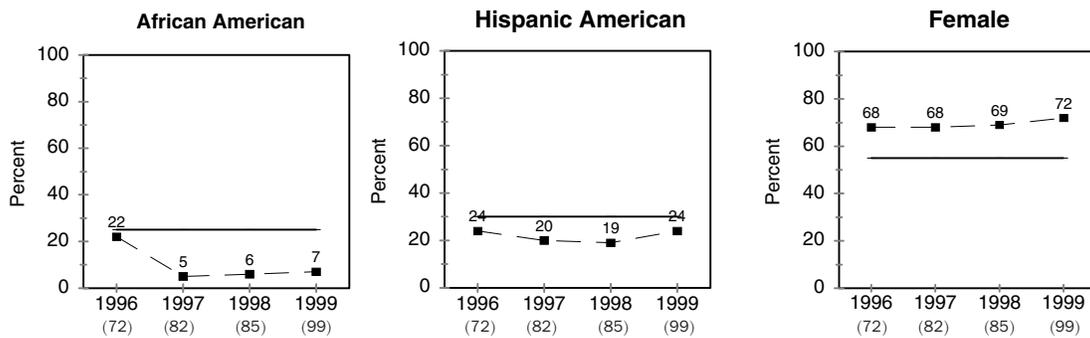
## Appendix D

### Technical



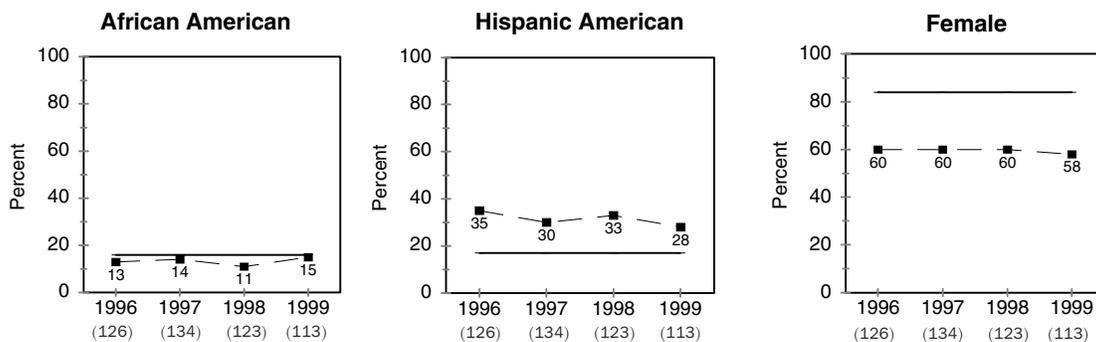
While the agency consistently met or exceeded the civilian labor force standard for Hispanics in technical positions, it fell below the standard in employing African-Americans and females in this category.

### Paraprofessional



While the agency exceeded the civilian labor force standard for females working in paraprofessional positions, its Hispanic and African-American labor force has consistently fell below the standard.

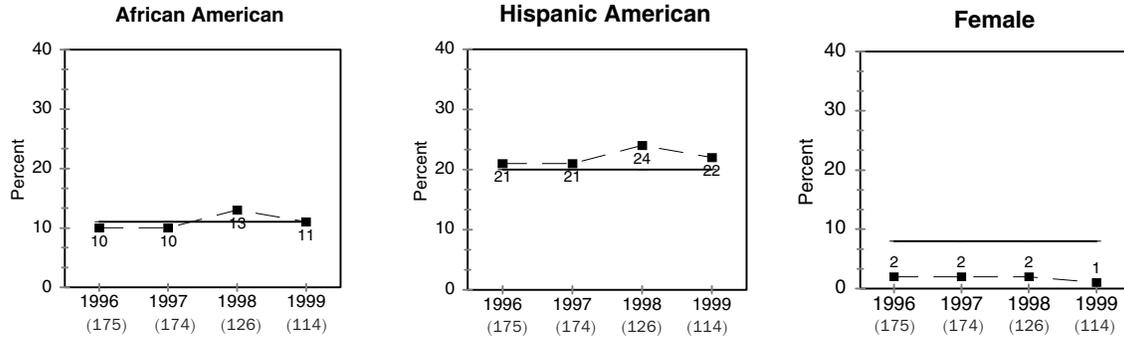
### Administrative Support



While the agency exceeded the civilian labor force for Hispanics in administrative support positions, it was below standards for and females.

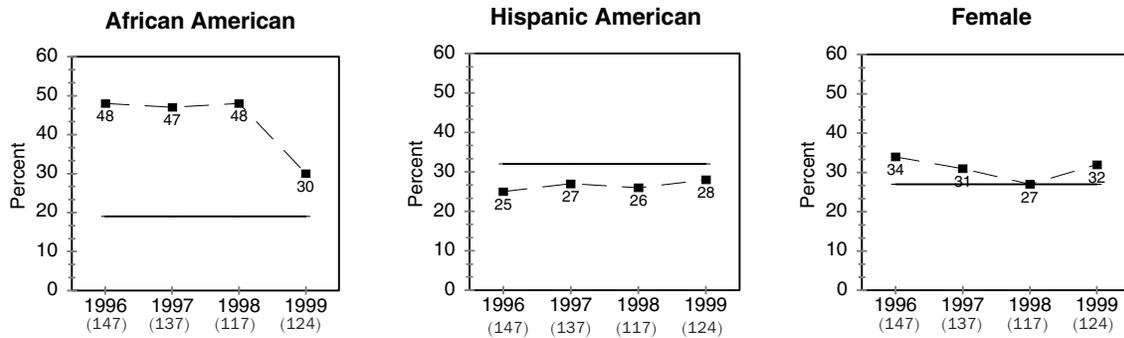
## Appendix D

### Skilled Craft



For skilled craft positions, the agency was below the civilian labor force standard for women, while generally meeting the standards for Hispanics and African-Americans.

### Service/Maintenance



While the agency exceeded the civilian labor force standard for African-Americans and females in service/maintenance positions, it was consistently below the standard for Hispanics.

<sup>1</sup> Texas Government Code Ann., ch. 325, sec. 325.011(9)(A).

<sup>2</sup> Texas Labor Code Ann., ch. 21, sec. 21.501 (formerly required by rider in the General Appropriations Act).



## Appendix E

### Historically Underutilized Businesses Statistics

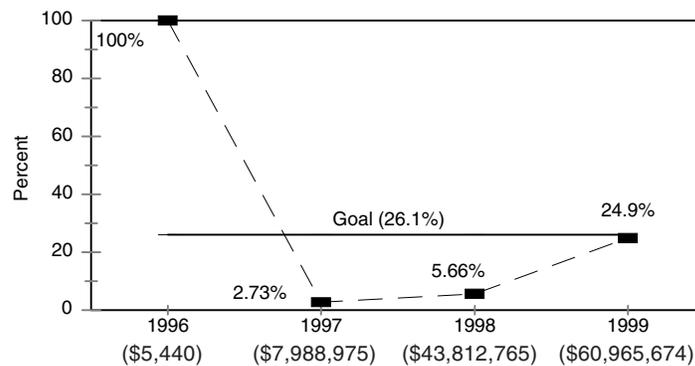
#### 1996 to 1999

The Legislature has encouraged agencies to increase their use of Historically Underutilized Businesses (HUBs) in purchasing goods and services. The Legislature also requires the Sunset Commission to consider agencies' compliance with laws and rules regarding HUB use in its reviews. In 1999, the Commission purchased 21.7 percent of goods and services from HUBs. The charts below, provide detail on HUB spending by type of contract for fiscal years 1996 to 1999, and compares these purchases with statewide goals for each spending category. In the charts, the flat lines represent the goal for each purchasing category, as established by the General Services Commission. The dashed lines represent the agency's actual spending percentages in each purchasing category from 1996 to 1999. Finally, the number in parentheses under each year shows the total amount the agency spent in each purchasing category.

#### Heavy Construction

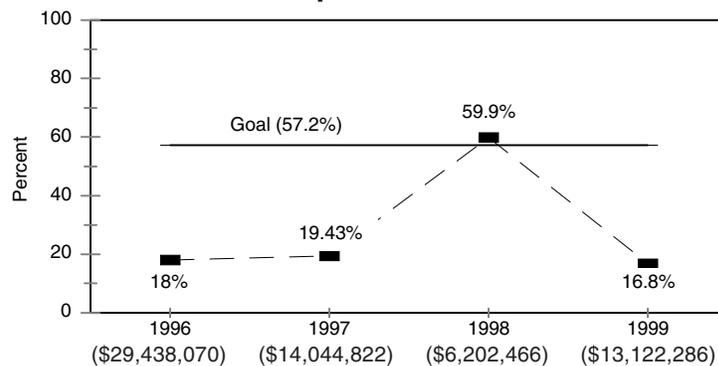
GSC did not spend any funds on Heavy Construction between fiscal years 1996 and 1999.

#### Building Construction



Although exceeding the statewide HUB goal for Building and Construction Services in 1996, GSC fell significantly below the goal in 1997 and 1998. However, the agency made progress in 1999, nearly meeting the statewide goal.

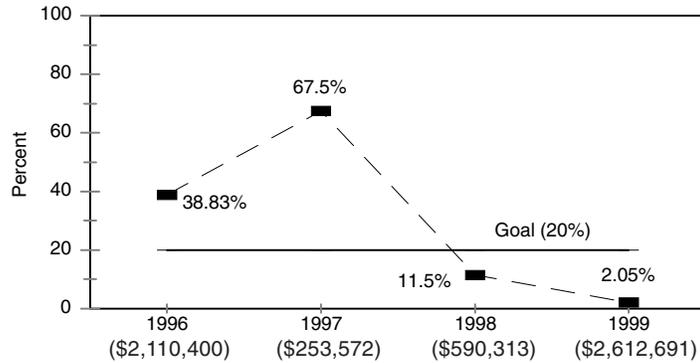
#### Special Trade



GSC has generally been below the statewide HUB goal with regard to purchasing Special Trade services from HUBs. In 1998, GSC slightly exceeded the goal, but fell below again in 1999.

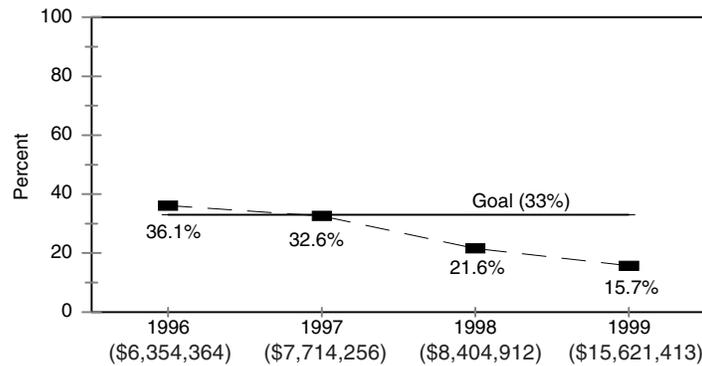
## Appendix E

### Professional Services



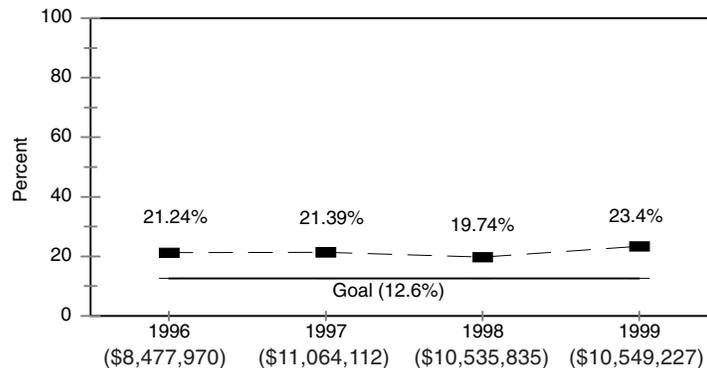
Although exceeding statewide HUB goals for Professional Services in 1996 and 1997, GSC did not meet the goal in 1998 or 1999. In fact, the percentage of dollars spent with HUBs for these services fell from 67.5 percent in 1997, to 2.05 percent in 1999.

### Other Services



The percentage of GSC expenditures with HUBs for Other Services has steadily decreased since 1997 and dropped below the statewide goal in 1998 and 1999.

### Commodities



GSC has consistently exceeded HUB goals for Commodities.

## Appendix F

<b>GSC Inventory of Facilities</b>			
<b>Building</b>	<b>City</b>	<b>Cleaned by</b>	<b>Sq Ft Cleaned</b>
Aircraft Pooling Board	Austin	Contract Services	41,908
Bolm Road Warehouse	Austin	GSC	14,013
Brown-Heatley	Austin	Contract Services	163,419
Cemetery	Austin	GSC	2,250
Central Services	Austin	GSC	82,395
Commission for the Blind Admin	Austin	Contract Services	45,614
Disaster Recovery Operations Center	San Angelo	Contract Services	22,545
Elias Ramirez	Austin	Contract Services	200,186
EO Thompson	Austin	Contract Services	57,800
F. Joseph Cosmetology	Austin	Contract Services	17,480
Fort Worth State Office Building	Fort Worth	Contract Services	66,440
GJ Sutton	San Antonio	Contract Services	61,443
Hobby, Tower 1	Austin	Contract Services	165,350
Hobby, Tower 2	Austin	Contract Services	42,136
Hobby, Tower 3	Austin	Contract Services	114,420
Human Services Warehouse	Austin	Contract Services	22,876
Insurance	Austin	GSC	80,921
Insurance Annex	Austin	GSC	10,360
JE Rudder	Austin	Contract Services	73,141
JH Starr	Austin	Contract Services	82,526
John H. Reagan	Austin	GSC	146,237
LBJ State Office Bldg.	Austin	Contract Services	238,432
Lorenzo De Zavala Archives and Library	Austin	GSC	101,421
Natural Resources Center	Corpus Christi	Contract Services	78,858
Price Daniel Sr.	Austin	GSC	99,819
Sam Houston	Austin	GSC	134,130
Senate Print Shop	Austin	GSC	14,051
State Support Center	Austin	GSC	13,215
Stephen F. Austin	Austin	GSC	351,787
Supreme Court	Austin	GSC	65,114
TJ Rusk	Austin	Contract Services	78,876
Tom C. Clark	Austin	GSC	89,809
Waco State Office Building	Waco	Contract Services	65,396
William B. Travis	Austin	GSC	430,616
WP Clements	Austin	Contract Services	378,628
<b>Total Square Feet Cleaned</b>			<b>3,653,612</b>



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## Appendix G

### Staff Review Activities

The Sunset staff engaged in the following activities during the review of GSC.

- Worked extensively with agency staff – executive management and staff throughout the agency’s programs.
- Attended GSC Commission meetings and met with GSC Commission members.
- Attended State Cemetery Committee meetings and met with State Cemetery Committee members.
- Conducted a written survey of all Texas state agencies regarding their views on GSC.
- Interviewed staff from the Comptroller of Public Accounts, Texas Department of Economic Development, Texas General Land Office, Texas Department of Health, Department of Human Resources, Department of Information Resources, Texas Department of Transportation, Department of Protective and Regulatory Services, Texas Parks and Wildlife Department, Department of Public Safety, Texas Public Utilities Commission, Health and Human Services Commission, and the University of Texas at Austin.
- Met with staff of legislative offices and legislative oversight agencies, including the State Auditor’s Office, Legislative Budget Board, and State Quality Assurance Team.
- Interviewed staff of the U.S. General Services Administration and U.S. Department of Transportation.
- Interviewed staff of Dell Computer Corporation, Sprint, TRX, Balcones Recycling, the Society of Government Travel Professionals, and travel agencies that contract with the State.
- Interviewed staff from other states, including the Colorado Department of Personnel and the Arizona Department of Administration.
- Met with and attended meetings of the State Agency Coordinating Council, Vendor Advisory Committee, Small Agency Coordinating Council, Texas Council on Competitive Government, Comptroller’s e-Texas Commission, Telecommunications Planning Group, and TEX-AN Users Group.
- Visited the federal surplus property warehouse in San Antonio.
- Attended GSC’s presentation: “The Historically Underutilized Business Requirements of Senate Bill 178,” the Texas Association of Mexican American Chambers of Commerce Convention and Business Expo in San Antonio, and the Texas Statewide Electronic Procurement Project Conference in Austin.



**SUNSET REVIEW OF THE  
GENERAL SERVICES COMMISSION**

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