



November 2021
PE 21-09-643

PERFORMANCE UPDATE GENERAL SERVICES DIVISION DEPARTMENT OF ADMINISTRATION

AUDIT OVERVIEW

The General Services Division Is Finding It Difficult to Properly Maintain State Facilities Because the Department of Administration Purchases Properties with Little Concern of the Financial Implications



JOINT COMMITTEE ON GOVERNMENT OPERATIONS

Senate

Mark Maynard, Chair
Chandler Swope
Dave Sypolt
Glenn Jeffries
Richard D. Lindsay II

House of Delegates

Unassigned
Unassigned
Unassigned
Unassigned
Unassigned

Agency/ Citizen Members

Vacant
Vacant
Vacant
Vacant
Vacant

JOINT COMMITTEE ON GOVERNMENT ORGANIZATION

Senate

Mark Maynard, Chair
Chandler Swope, Vice-Chair
Mike Maroney
Patrick Martin
Eric Nelson
Randy Smith
David Stover
Dave Sypolt
Jack Woodrum
Owens Brown
Mike Caputo
Glenn Jeffries
Richard D. Lindsay II
Mike Woelfel

House of Delegates

Brandon Steele, Chair
Geoff Foster, Vice-Chair
Phillip W. Diserio, Minority Chair
Jim Barach, Minority Vice-Chair
Trenton Barnhart
Josh Booth
Roger Conley
Roy Cooper
Mark Dean
Don Forsht
Danny Hamrick
Josh Holstein
Dean Jeffries
Joe Jeffries

Shannon Kimes
Carl Martin
Margitta Mazzocchi
Charlie Reynolds
Doug Smith
Terri Funk Sypolt
Evan Worrell
Barbara Evans Fleischauer
Evan Hansen
Doug Skaff
Kayla Young



WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

Building 1, Room W-314
State Capitol Complex
Charleston, West Virginia 25305
(304) 347-4890

Aaron Allred
Legislative Auditor

John Sylvia
Director

Jill Mooney
Research Manager

Kayla Wilson
Research Analyst

Brandon Burton
Referencer

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

November 14, 2021

The Honorable Mark Maynard
West Virginia State Senate
Building 1, Room 217-W
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

The Honorable Brandon Steele
West Virginia House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Performance Review Act, we are transmitting the 2021 audit of the General Services Division. The issue covered herein is *"The General Services Division Is Finding It Difficult to Properly Maintain State Facilities Because the Department of Administration Purchases Properties With Little Concern of the Financial Implications."*

We transmitted a draft copy of the report to the Department of Administration on September 22, 2021. We held an exit conference on September 27, 2021. We received the agency response on October 8, 2021.

Let me know if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "John Sylvia".
John Sylvia

Joint Committee on Government and Finance

CONTENTS

Executive Summary	7
-------------------------	---

Issue 1: The General Services Division Is Finding It Difficult to Properly Maintain State Facilities Because the Department of Administration Purchases Properties with Little Concern of the Financial Implications	9
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---

List of Tables

Table 1: Operating Expenses Paid From Fund 2257 Instead of Fund 2241 FY 2007 through FY 2021	12
Table 2: End-of-Year Fund Balance Capitol Dome and Capitol Improvements Fund (2257) FY 2000 through FY 2021	13
Table 3: Operating Expenses Paid from Fund 2462 Instead of Fund 2241 FY 2015 through FY 2021	14
Table 4: End-of-Year Fund Balances Funds 2241, 227, 2462 FY 2004 through FY 2021	15
Table 5: Buildings Recently Purchased or with Debt Service Total Revenue Less Total Expenditures for the Years Specified	16
Table 6: Most Recent Buildings with Debt Service Total Revenue Less Total Expenditures for the Years Specified	17
Table 7: State Building Commission Fund (2241) FY 2000 through FY 2021	18
Table 8: Debt Service Payments FY 2022 through FY 2030	19

List of Appendices

Appendix A: Transmittal Letters	25
Appendix B: Objectives, Scope and Methodology	27
Appendix C: Agency Response	29

EXECUTIVE SUMMARY

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this second follow-up review of its September 2015 report on the General Services Division (GSD) within the Department of Administration (DOA) as authorized by West Virginia Code §4-10-8(b)(5). The first follow-up report was issued in October 2017. The objectives of the follow-up report is to determine the extent to which the DOA has responded to the recommendations made in the September 2015 report, and to assess the agency's overall financial condition as of fiscal year 2021.

Frequently Used Acronyms in This Report

DOA: Department of Administration

GSD: General Services Division

PERD: Performance Evaluation and Research Division

Report Highlights

Issue 1: The General Services Division Is Finding It Difficult to Properly Maintain State Facilities Because the Department of Administration Purchases Properties with Little Concern of the Financial Implications *(September 2015 Issue 1 title)*

- The DOA used \$1.3 million in GSD funds towards the construction of new Surplus Property facilities. Although the amount exceeds \$1 million, the DOA is within the intent of PERD's recommendation to avoid purchasing real property above the value of \$1 million since Surplus Property repaid \$1 million of the GSD funds.
- The DOA increased rent as reported in the October 2017 follow-up report. However, rent has not been increased during fiscal years 2018 through 2021, and it still has several buildings in which the cost to maintain them exceeds revenue. However, the DOA indicated that it plans to increase rent for fiscal years 2023 and 2024 for 11 state office buildings.
- The DOA continues to have insufficient funds in Fund 2241 to pay all operating costs for the real property in its portfolio. Consequently, the GSD continues to pay operating expenses from Fund 2257 which is required to be used for maintenance, repairs and improvements of the Capitol Dome and state-owned buildings.
- State-issued bonds for DOA properties are required by law (W. Va. §5-6-8(a)) to be solely paid from Fund 2241; however, the DOA still realizes the need to initially pay some state bond payments from other funds. The amounts are eventually paid back from fund 2241 and the amounts are considerably lower than in previous years. **The DOA needs to continue the progress of making bond payments solely from fund 2241 as required by law.**

PERD's Response to the Agency's Written Response

On October 8, 2021, PERD received a written response to the report from the acting cabinet secretary of the Department of Administration, which can be found in Appendix C. The agency generally agrees with the overall evaluations and conclusions of the report. The agency acknowledges its financial situation, and has stated that it intends to comply with the recommendations as much as is financially possible.

ISSUE 1

The General Services Division Is Finding It Difficult to Properly Maintain State Facilities Because the Department of Administration Purchases Properties with Little Concern of the Financial Implications *(September 2015 Issue 1 title)*

Recommendation 1 (2015)

The Legislature should consider requiring the Department of Administration to perform and document a cost-benefit analysis prior to any purchase of real property in excess of a specified threshold purchase price.

Level of Compliance: Requires Legislative Action

The Legislature has not acted on this recommendation. The Department of Administration (DOA) took administrative action and stated that it intends to conduct a cost-benefit analysis prior to any purchase of real property. The DOA developed a ‘building purchase checklist’ that requires the agency to perform certain actions prior to purchase such as an engineering analysis, appraisal, assessment of property, cost estimates, and risk assessment. Since the DOA has self-imposed a moratorium on purchasing real property above the price of \$1 million, the DOA has not had the opportunity to use the building purchase checklist. While the current administration has indicated the intent to perform and document cost-benefit analysis prior to purchasing real property, future administrations may elect not to do so. **Therefore, while the DOA responded to the recommendation administratively, the Legislative Auditor continues to recommend the Legislature consider requiring the Department of Administration to perform and document a cost-benefit analysis prior to any purchase of real property in excess of a specified threshold purchase price.**

While the current administration has indicated the intent to perform and document cost-benefit analysis prior to purchasing real property, future administrations may elect not to do so.

Recommendation 2 (2015)

The Legislature should consider placing a moratorium on the Department of Administration from purchasing real property above the price of \$1 million until the Department can demonstrate it has strengthened its financial resources.

Level of Compliance: Requires Legislative Action

The Legislature has not responded to this recommendation. Nevertheless, the Legislative Auditor stresses the need for legislative action on this recommendation. This update finds that the GSD continues to lack adequate financial balances for proper management of its properties, and the agency will need several years to achieve an

This update finds that the GSD continues to lack adequate financial balances for proper management of its properties, and the agency will need several years to achieve an appropriate financial position to acquire new property above the \$1 million threshold.

appropriate financial position to acquire new property above the \$1 million threshold. Although the Legislative Auditor acknowledges that the DOA has shown concern for its financial situation and has shown restraint in purchasing or constructing facilities above the \$1 million threshold, the Legislative Auditor's concern is that future administrations may not have the same regard for the current administration's moratorium.

Recommendation 3 (2015)

If the Legislature chooses not to place a moratorium on the Department of Administration from purchasing real property, the Department should avoid significant additions to its stock of real property until it has substantially improved its financial resources.

Level of Compliance: In Compliance

The DOA used \$1.3 million of GSD funds to assist in the construction of a new Surplus Property facility in 2015.¹ The total amount of the building was a little more than \$4.1 million, with the balance paid by Surplus Property. The DOA arranged for Surplus Property to repay the GSD \$1 million. The new Surplus Property buildings are on the same land of the old buildings located in Dunbar, West Virginia (see photographs below). The construction is a significant improvement compared to the previous Surplus Property facilities which were built in 1954. The \$1.3 million from GSD came out of Fund 2257, and a repayment schedule was established in which Surplus Property repaid \$1 million through quarterly payments of \$50,000 from surplus property sales. There were instances in which Surplus Property could not make quarterly payments; however, those payments were made up. The \$1 million has been paid in full as of September 2021. The additional \$305,519 was paid from Fund 2257 as well but with no agreement to be repaid by Surplus Property. Although the DOA used GSD funds in excess of \$1 million towards the construction of new Surplus Property buildings, the Legislative Auditor determines that the DOA continues to be in compliance with recommendation 3 in that the amount was slightly above \$1 million and the repayment agreement shows the DOA's diligence in making necessary capital improvements in a fiscally prudent manner.

The DOA used \$1.3 million of GSD funds to assist in the construction of a new Surplus Property facility in 2015. The total amount of the building was a little more than \$4.1 million, with the balance paid by Surplus Property.

The construction is a significant improvement compared to the previous Surplus Property facilities which were built in 1954.

¹The September 2015 report included data through FY 2014. In September 2014 (FY 2015), the GSD purchased land on California Avenue in Charleston, WV for \$193,198.

Photographs

Newly Constructed Surplus Property Facilities



Recommendation 4 (2015)

The Legislative Auditor recommends that the Legislature clarify its intent of the Capitol Dome and Capitol Improvements Fund (Fund 2257), established in W. Va. Code (§5A-4-2(c)), for its use in capital improvements and repairs of state-owned buildings. Also, a specific definition for capital improvements should be provided in the statute as it relates to Fund 2257.

Level of Compliance: Requires Legislative Action

In the original September 2015 report and the October 2017 update report, PERD found that the DOA was using fund 2257 to pay custodial and utility bills, purchase office furniture, make leasehold improvements and make debt service payments. This is shown in Table 1, which duplicates a table in the 2015 report but adds data for FY 2018-2021. Table 1 indicates that while the amount spent has decreased, the GSD continues to spend a considerable amount from fund 2257 for operating expenses since the original 2015 report. In the last four fiscal years, the GSD has paid over \$3 million in operating expenses from fund 2257. This is a significant decline compared to the more than \$6 million dollars paid from the fund in fiscal years 2015-2017.

While the amount spent has decreased, the GSD continues to spend a considerable amount from fund 2257 for operating expenses since the original 2015 report.

Table 1
Operating Expenses Paid From Fund 2257 Instead of Fund 2241
FY 2007 through FY 2021

Fiscal Year	Utilities*	Custodial Services	Security Personnel	BRIM Insurance	Furniture Expenditures	Total
2007	\$4,465	--	\$4,949	--	\$10,459	\$19,873
2008	--	--	--	--	53,470	53,470
2009	3,949	\$1,406,835	--	--	207,672	1,618,456
2010	254,127	767,192	142,417	--	2,386,126	3,549,862
2011	667,630	1,640,778	151,145	--	106,741	2,566,294
2012	126,158	2,526,745	127,198	23,421	14,942	2,818,464
2013	730,686	1,935,082	4,349	22,045	--	2,692,162
2014	22,856**	2,320,540	10,465	--	73,162	2,427,023
2015	75,823**	1,804,389**	--**	--	--	1,880,211
2016	11,529	2,405,586	2,170	--	--	2,419,284
2017	3,576	1,962,799	303	--	132,696	2,099,374
2018	\$5,204	\$915,574			\$77,856	\$920,778
2019	3,318	\$675,417				\$678,735
2020	\$5,022	\$768,169				\$773,191
2021	\$4,101	\$585,850			\$344	\$589,951
Total	\$1,918,443	\$19,714,956	\$442,996	\$45,466	\$2,985,612	\$25,107,129

Source: PERD compilations using data from the State Auditor's wvOASIS report "WV-FIN-GL-065"

*Utilities include gas, electric, water/sewage, fire service, and sanitation/disposal.

**In FY 2014, the DOA transferred \$687,796 in utility expenses from Fund 2257 to Fund 2241.

In FY 2015, the DOA transferred \$27,590 in utility expenses and \$126,449 in energy expense from Fund 2257 to Fund 2462.

In FY 2015, the DOA transferred \$12,469 in utility expenses from Fund 2241 to Fund 0230.

In FY 2015, the DOA transferred \$2,088,358 in custodial expenses from Fund 2257 to Fund 2462.

In FY 2015, the DOA transferred \$9,731 in security personnel expenses from Fund 2257 to Fund 2462.

The Legislative Auditor took exception to the use of Fund 2257 for operating expenses because the fund was created statutorily for ". . . maintenance and repairs of the capitol dome and other capital improvements and repairs to state-owned buildings" (W. Va. §5A-4-2(c)). All operating expenses should have been expended from Fund 2241, but it does not have sufficient funds. The DOA acknowledged this in response to the original report, and also in the 2017 PERD update by stating:

As described in the agency's response to the September 2015 PERD report, the Department has used Fund 2257 to absorb some of the expenses that would be paid from Fund 2241, such as operations costs associated with

the state buildings, due to inadequate funding in Fund 2241. As noted below, and in the September report, the Department's increase in rental payments, which are paid into Fund 2241, has addressed some of the issues with inadequate funds in Fund 2241.

As Table 2 shows, fund 2257 has been depleted to a precarious level. This level of funding is inadequate to properly maintain and improve GSD buildings.

Table 2
End-of-Year Fund Balance
Capitol Dome and Capitol Improvements Fund (2257)
FY 2000 through FY 2021

Fiscal Year	Total Expenditures	Total Revenues	End-of-Year Balance
2000	\$387,546	\$1,060,639	\$721,454
2001	\$269,623	\$1,811,221	\$2,263,053
2002	\$652,800	\$2,531,758	\$4,142,012
2003	\$640,886	\$2,981,220	\$6,482,347
2004	\$1,669,864	\$4,226,068	\$9,038,551
2005	\$2,985,632	\$6,195,095	\$12,248,014
2006	\$3,776,900	\$6,576,769	\$15,047,884
2007	\$5,616,001	\$6,799,727	\$16,198,996
2008	\$6,860,303	\$57,665,705	\$67,004,398
2009	\$14,569,030	\$23,958,701	\$76,394,069
2010	\$24,654,839	\$4,883,446	\$56,622,675
2011	\$16,272,706	\$7,371,903*	\$47,721,873
2012	\$21,371,939	\$13,193,495*	\$39,543,429
2013	\$15,875,300	\$4,069,279	\$27,737,408
2014	\$15,459,351	\$3,511,228	\$15,789,284
2015	\$4,435,267	\$2,596,796	\$13,950,813
2016	\$4,278,751	\$2,200,641	\$11,874,911
2017	\$6,301,598	\$2,155,201	\$7,725,789
2018	\$3,785,881	\$2,355,201	\$6,295,110
2019	\$2,774,795	\$2,296,256	\$5,816,571
2020	\$4,217,613	\$1,520,670	\$3,119,629
2021	\$2,040,919	\$1,846,256	\$2,924,966

All operating expenses should have been expended from Fund 2241, but it does not have sufficient funds.

Source: PERD compilations using data from the State Auditor's *wvOASIS* report "WV-FIN-GL-064"

*Includes grant funding of \$2.5 million in FY 2011, and a reimbursement fund transfer of \$8.1 million in FY 2012.

House Bill 4516, introduced during the 2016 regular legislative session, sought to clarify the intent of the Legislature for proper use of fund 2257. However, the bill did not leave the committee of first reference. The bill would have addressed all the concerns expressed in the audit. Specifically, the bill would have prohibited using fund 2257 for operating expenses, purchasing or constructing stand-alone buildings, repairing leased properties or making debt service payments.

Table 3 shows that over \$2.2 million in various operating expenses were expended from Fund 2462 in fiscal years 2015 through 2017, but it has not expended money from this fund for operating expenses in fiscal years 2018 through 2021.

Table 3 Operating Expenses Paid from Fund 2462 Instead of Fund 2241 FY 2015 through FY 2021						
Fiscal Year	Utilities*	Debt Service**	Custodial Services	Security Personnel	Building Rent	Total
2015	\$154,028	**	\$2,088,358	\$11,019	\$4,935	\$2,258,340
2016	6,391	--	--	--	250	6,641
2017	398	**	--	599	--	997
2018	--	--	--	--	--	--
2019	--	--	--	--	--	--
2020	--	--	--	--	--	--
2021	--	--	--	--	--	--
Total	\$160,817	**	\$2,088,358	\$11,618	\$5,185	\$2,265,978
Source: PERD compilations using data from the State Auditor's <i>wvOASIS</i> report "WV-FIN-GL-065". * <i>Utilities include gas, electric, water/sewage, fire service, sanitation/disposal, and energy expense utilities</i> ** <i>In FY 2015, the DOA transferred \$498,497 in bond payments from Fund 2462 to Fund 2241.</i> ** <i>In FY 2017, the DOA transferred \$86,653 in bond payments from Fund 2462 to Fund 2241.</i>						

Table 4 shows that Funds 2241, 2257 and 2462, which are the primary funds for operating, maintenance, and improvement of GSD properties, are at relatively low levels as of the end of FY 2021, particularly funds 2241 and 2257.

Table 4
End-of-Year Fund Balances
Funds 2241, 2257, 2462
FY 2004 through FY 2021

Fiscal Year	Fund 2241	Fund 2257	Fund 2462
2004	\$425,429	\$9,038,551	\$5,000,000
2005	\$772,488	\$12,248,014	\$6,922,242
2006	\$632,778	\$15,047,884	\$8,723,995
2007	\$898,471	\$16,198,996	\$13,274,195
2008	\$784,697	\$67,004,398	\$9,049,107
2009	\$1,350,906	\$76,394,069	\$4,425,920
2010	\$904,145	\$56,622,675	\$4,248,055
2011	\$1,045,006	\$47,721,873	\$5,862,542
2012	\$977,050	\$39,543,429	\$10,358,244
2013	\$2,219,396	\$27,737,408	\$14,422,937
2014	\$3,354,239	\$15,789,284	\$14,744,592
2015	\$3,774,445	\$13,950,813	\$9,912,964
2016	\$3,452,068	\$11,874,911	\$10,283,147
2017	\$2,778,675	\$7,725,789	\$8,062,968
2018	\$3,550,574	\$6,295,110	\$7,638,637
2019	\$3,393,345	\$5,816,571	\$7,983,782
2020	\$2,040,714	\$3,119,629	\$9,235,049
2021	\$2,699,264	\$2,924,966	\$10,516,360

Source: PERD compilations using data from the State Auditor's *wvOASIS* report "WV-FIN-GL-BC-064".

Recommendation 5 (2015)

The Department of Administration should take steps to improve its process of monitoring rent revenues and expenditures with the intention of raising rent appropriately to cover rising costs.

Level of Compliance: Planned Compliance

During the 2017 update, the DOA informed PERD that it has adjusted rents on new leases over the past two fiscal years to allow rent revenue to cover operating costs related to building maintenance and debt service. While there is evidence of some rent increases from 2015 to 2017 for half a dozen state agency tenants in four buildings, cost overruns continue in many buildings. During the 2017 update audit, the DOA further indicated that it plans to continue to adjust new lease rates to a level that will cover operating costs associated with the leased space. As it stands, the DOA plans to increase rent for FY 2023 and 2024 for 11 state office buildings. However, the DOA stated that due to state agency budget constraints, it has tried to avoid creating rental expense shocks throughout state government agencies by sharp increases in rent.

As it stands, the DOA plans to increase rent for FY 2023 and 2024 for 11 state office buildings. However, the DOA stated that due to state agency budget constraints, it has tried to avoid creating rental expense shocks throughout state government agencies by sharp increases in rent.

The DOA has increased rent for certain buildings as it mentioned during the 2017 update, and expenditures are declining for some buildings. The result is that some buildings are showing revenue exceeding expenditures since the 2017 update (see Table 5). The total amount of revenue exceeding expenditures is positive \$703,082 compared to -\$2,766,450 in 2017. However, there are a few buildings in which the costs to maintain them exceed revenue.

Table 5
Buildings Recently Purchased or with Debt Service
Total Revenue Less Total Expenditures for the Years Specified

Building	Time Period	Revenue less Expenditures (2015 Report)	Revenue less Expenditures (2017 Update)	Revenue less Expenditures (2021 Update)
Bonds Issued:				
Huntington – Building 32	2009-2021	-\$1,282,511	-\$1,816,530	-\$2,250,949
Weirton – Building 34	2009-2021	-51,093	-198,363	-\$389,053
One Davis Sq. – Building 36	2009-2021	-763,057	-608,091	\$83,502
DEP Kanawha City – Building 37	2009-2021	153,832	981,232	\$2,512,446
Greenbrooke – Building 86	2010-2021	-530,612	-1,707,216	-\$1,483,862
Williamson – Building 97	2009-2021	-312,367	-382,210	-\$124,199
Cash Purchases:				
DNR – Building 74	2010-2021	370,255	1,037,479	\$1,784,823
Corrections – Building 84	2010-2021	-451,533	-162,786	\$277,560
7 Players Club – Building 88	2012-2021	-26,995	90,035	\$292,805
Totals		-\$2,894,081	-\$2,766,450	\$703,072

Source: PERD compilation based on data from the State Auditor's *wvOASIS* report "WV-FIN-BC-027".

In addition to the buildings seen in Table 5, it should be noted that during the 2015 audit, the GSD was constructing the new Clarksburg and Fairmont buildings to replace the old building in those cities, and renovations to Building 3 were started shortly before the 2015 audit was issued. These buildings have since been occupied. Table 6 shows that the additional buildings have large differentials between revenue and expenditures due to expenses far exceeding revenue. These additional buildings and renovation costs will add more stress to the agency's financial condition.

Table 6
Most Recent Buildings with Debt Service
Total Revenue Less Total Expenditures for the Years Specified

Building	Time Period	Revenue less Expenditures (2017 Update)	Revenue less Expenditures (2021 Update)
Bonds Issued:			
Charleston – Building 3	2009-2021	-\$14,075,045	-\$12,801,792
Clarksburg – Building 53	2010-2021	-\$5,370,551	-\$5,396,671
Fairmont – Building 54	2011-2021	-\$16,066,606	-\$16,511,547
Totals		-\$35,512,202	-\$34,710,010
Source: PERD compilation based on data from the State Auditor’s wvOASIS report “WV-FIN-BC-027”.			

Recommendation 6 (2015)

The Department of Administration should pay all appropriate operating costs of DOA facilities from Fund 2241.

Level of Compliance: Non-Compliance

The DOA is not in a financial position to comply with this recommendation and under current conditions it will be several years before it can do so. Table 7 shows fund 2241 as reported in the original September 2015 report, the October 2017 update, and the current report with data for FY 2018-2021 as highlighted. While the end-of-year balances have averaged around \$2.9 million for the last four fiscal years, this has been accomplished primarily because fund 2462 has absorbed more than 2 million in expenses that should have been paid from fund 2241. Furthermore, Table 7 shows that debt service payments are taking a larger portion of fund 2241. This is attributed to three new bond issues by the DOA in 2015 to pay for construction of the new buildings in Fairmont (\$13.9 million) and Clarksburg (\$16.3 million), and renovations of Building 3 (\$28.5 million) on the State Capitol Complex. These three bond issues total over \$92 million with interest through the year 2040.

The DOA is not in a financial position to comply with this recommendation and under current conditions it will be several years before it can do so.

Table 7
State Building Commission Fund (2241)
FY 2000 through FY 2021

Fiscal Year	Total Expenditures	Total Revenues	End-of-Year Fund Balance	Debt Service	Debt Service as a Pct. of Expenditures
2000	\$8,439,681	\$7,927,462	\$659,240	\$1,379,462	16.3%
2001	\$8,877,775	\$8,673,409	\$454,874	\$1,332,799	15.0%
2002	\$8,642,812	\$8,687,786	\$499,848	\$1,427,452	16.5%
2003	\$8,652,993	\$8,779,179	\$626,035	\$1,415,648	16.4%
2004	\$10,015,085	\$9,814,479	\$425,429	\$1,947,551	19.4%
2005	\$10,403,788	\$10,750,806	\$772,488	\$1,699,943	16.3%
2006	\$11,423,017	\$11,283,307	\$632,778	\$1,668,120	14.6%
2007	\$10,673,372	\$10,939,065	\$898,471	\$1,754,185	16.4%
2008	\$11,214,531	\$11,101,026	\$784,967	\$2,033,416	18.1%
2009	\$12,993,371	\$13,559,310	\$1,350,906	\$3,491,760	26.9%
2010	\$14,060,536	\$13,613,774	\$904,145	\$5,035,225	35.8%
2011	\$14,696,548	\$14,837,408	\$1,045,006	\$5,245,315	35.7%
2012	\$13,629,292	\$13,561,335	\$977,050	\$5,102,144	37.4%
2013	\$13,420,769	\$14,663,116	\$2,219,396	\$5,400,493	40.2%
2014	\$14,828,456	\$15,963,258	\$3,354,239	\$5,040,890	34.0%
2015	\$15,370,923	\$15,803,136	\$3,774,445	\$5,161,854	33.6%
2016	\$17,076,506	\$16,742,422	\$3,452,068	\$7,431,993	43.5%
2017	\$18,242,887	\$17,584,323	\$2,778,675	\$8,002,006	43.9%
2018	\$20,177,030	\$20,942,451	\$3,550,574	\$8,770,495	43.5%
2019	\$20,584,771	\$20,427,857	\$3,393,345	\$9,217,976	44.8%
2020	\$20,779,297	\$19,426,347	\$2,040,714	\$9,240,114	44.5%
2021	\$20,713,368	\$21,371,917	\$2,699,264	\$9,262,504	44.7%

Source: PERD compilations using data from the State Auditor's *wvOASIS* report "WV-FIN-GL-064" and the debt service payment schedule.

While the financial situation has had small improvements, the Legislative Auditor anticipates the GSD will be under financial stress for several years, unless there are significant increases in lottery revenues, state appropriated funds or bond refinancing. The DOA indicated that no bonds have been refinanced since the original 2015 report was issued. Table 8 shows the total debt service payments pursuant to the bond schedules through FY 2030. The amount that will be paid in debt service through 2030 is scheduled to decline by a few million dollars. The debt service as a percentage of total expenditures from fund 2241 is estimated to decline to 24 percent by the year 2030. This will free funds in fund 2241 to pay more operating costs of GSD properties, which in turn will allow fund 2257 to assume less operating expenses and take on more maintenance and improvements of buildings.

Table 8 Debt Service Payments* FY 2022 through FY 2030		
Fiscal Year	Scheduled Debt Service Payments	Estimated Debt Service as Percentage of Expenditures
2022	\$9,292,731	44%
2023	\$8,124,993	40%
2024	\$8,134,325	39%
2025	\$7,887,869	37%
2026	\$7,889,007	37%
2027	\$7,097,751	33%
2028	\$7,067,951	33%
2029	\$7,071,184	32%
2030	\$5,021,263	24%
Source: PERD analysis of bond indentures and schedules. <i>*State-issued bond principal and interest. Does not include locally-issued bonds.</i>		

The amount that will be paid in debt service through 2030 is scheduled to decline by a few million dollars.

Recommendation 7 (2015)

The Department of Administration should comply with statute to pay all appropriate bond payments solely from Fund 2241 pursuant to W. Va. 5-6-8(a).

Level of Compliance: Non-Compliance

State-issued bonds for GSD buildings are required by law (W. Va. §5-6-8(a)) to be paid solely from Fund 2241. In the original 2015 PERD report, it was found that GSD spent \$498,000 in bond payments had to be paid out of fund 2257. The amount was eventually paid back out of fund 2241 several months later. Nevertheless, having to make bond payments from a fund other than fund 2241 indicated a precarious financial condition. However, in FY 2017, \$86,653 in debt service payments were made from fund 2462, and in FY 2018, \$6,223 was paid for debt service from fund 2257. These amounts are considerably lower than previous years. These bond payments were eventually paid back from fund 2241. **The DOA needs to continue the progress of making bond payments solely from fund 2241 as required by law.**

Nevertheless, having to make bond payments from a fund other than fund 2241 indicated a precarious financial condition.

Recommendation 8 (2015)

The Legislature should consider requiring the Department of Administration to have a structural engineering inspection performed on buildings prior to the purchase that evaluates the structural integrity of the building, the roof, the basement, HVAC systems, plumbing,

electrical wiring, and other major areas of the building. The results of the inspection should be factors to consider in the cost-benefit analysis specified in recommendation 1.

Level of Compliance: Requires Legislative Action

The Legislature has not acted on this recommendation. However, House Bill 3013 was introduced during the 2017 and 2018 regular legislative session and sought to require an inspection or inspections of any building prior to purchase or major renovation by the State. This bill did not leave committee of second reference. The DOA has previously indicated it would agree to a requirement that an engineering analysis performed by a professional engineer prior to the purchase of a building. If during the course of the analysis the engineering report identifies concerns over the building structure and recommends a structural engineering report, the DOA agrees it should be acquired and the report considered in any decision to purchase a particular piece of property. The Legislative Auditor concurs with this adjustment to its initial recommendation.

General Services Buildings that Still Need Improvements or Have Gone Through Recent Repairs

The audit team toured three GSD buildings that needed major improvements to understand the condition of these properties. Specifically, the audit team toured Building 4 located on the State Capitol Complex, Building 86 (Greenbrooke) located on Smith Street in Charleston, and Building 27 (Surplus Property) located in Dunbar which is detailed in the third recommendation of this report. The conditions of Buildings 4 and 86 varied and are detailed below.

The DOA has previously indicated it would agree to a requirement that an engineering analysis performed by a professional engineer prior to the purchase of a building.

Building 4 – Formerly Workforce West Virginia

Building 4 needs substantial improvements (see photos 1-3). This building is located on California Avenue in Charleston and was built in 1952. This property has several needs in order to be compliant with fire code and be tenantable to state agencies. Parts of the ceiling in Building 4 are water-damaged and need repaired as well. Additionally, one of the building's two elevators is non-functional and requires repair. This is of concern given the amount it would cost to repair this building and the GSD's financial state.

Photo 1 - Building 4



Photo 2 - Building 4



Photo 3 - Building 4



Building 86 - Greenbrooke

Building 86 is in good condition. The GSD updated its roof in recent years and has a substantial amount of empty office space available for rent.

Photo 4 - Building 86 - Greenbrooke*Photo 5 - Building 86 - Greenbrooke*

Capitol Dome Project

In addition to touring these three buildings, the audit team also inquired about the Capitol Dome project that began in April 2015 when the request for Expression of Interest was issued. According to General Services Division, this project cost in total \$19.7 million and portions of the project was paid for through funds appropriated by the Legislature. According to the State Auditor's Office website, Funds 2241 and 2462 were also used to pay for this project.

According to General Services Division, the Capitol Dome project cost in total \$19.7 million and portions of the project was paid for through funds appropriated by the Legislature.

Conclusion

The DOA has planned compliance with one recommendation and non-compliant with two of the applicable recommendations of the September 2015 report. The remaining four recommendations require legislative action and legislation was introduced for two of the recommendations. The DOA has established a formal, written building-purchase checklist which includes a cost-benefit analysis it intends to use

prior to the purchase of real property. However, this is the decision of the current administration. There is no requirement that future administrations will consider financial analyses and any sufficiency or insufficiency of funds the analysis may reveal. The Legislative Auditor has previously found that the absence of formal, written policies and procedures concerning purchasing real property has contributed to the current state of the DOA having an overextended stock of property. Therefore, the Legislative Auditor considers it important for the Legislature to codify a moratorium on the DOA from purchasing real property above the price of \$1 million until the DOA can demonstrate it has strengthened its financial resources.

Appendix A

Transmittal Letter

WEST VIRGINIA LEGISLATIVE

Performance Evaluation and Research Division

1900 Kanawha Blvd., E.
Building 1, Room W-314
Charleston, WV 25305-0610
(304) 347-4890



John Sylvia
Director

September 22, 2021

Allan L. McVey, Cabinet Secretary
Department of Administration
Building 1, Room E119
1900 Kanawha Boulevard, East
Charleston, WV 25305

Dear Secretary McVey:

This is to transmit a draft copy of the General Services Division 2021 Update Report. This report is tentatively scheduled to be presented during the October 10th through the 12th, 2021 interim meetings of the Joint Committee on Government Operations, and the Joint Committee on Government Organization. We will inform you of the time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions committee members may have during or after the meeting.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to have the meeting on Monday, September 27, 2021. Please notify us to schedule a time. In addition, we need your written response by noon Thursday, September 30, 2021 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 304-340-3192 by Thursday, October 7, 2021 to make arrangements.

We request that your personnel not disclose the report to anyone unaffiliated with your agency. However, the Legislative Auditor advises that you inform any non-state government entity of the content of this report if that entity is unfavorably described, and request that it not disclose the content of the report to anyone unaffiliated with its organization. Thank you for your cooperation.

Sincerely,

Handwritten signature of John Sylvia in blue ink.
John Sylvia

Enclosure

Appendix B

Objectives, Scope and Methodology

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this follow-up review of its September 2015 report on the General Services Division (GSD) within the Department of Administration (DOA) as authorized by West Virginia Code §4-10-8. The September 2015 report was subsequently updated in 2017. The General Services Division is responsible for the care, custody and operation of buildings owned by the DOA.

Objectives

The objectives of this update are to determine to what extent the DOA responded to the eight recommendations made in the September 2015 PERD report on the GSD, and to assess the agency's overall financial condition as of fiscal year 2021.

Scope

The scope of this audit is limited to the agency's activities necessary to respond to the recommendations made in the 2015 PERD report of the DOA's General Services Division. The time period covers the four fiscal years since the PERD 2017 update report, which is 2018-2021.

Methodology

Auditors requested that the DOA provide a written response on how it responded to the eight recommendations made in the September 2015 PERD audit on the General Services Division. PERD reviewed the DOA's written response and interviewed staff to clarify the information provided by the agency. All interviews were confirmed in writing. PERD also acquired financial data from the Office of the State Auditor's Our Advanced Solution with Integrated Systems (OASIS) on funds 0230, 2241, 2257 and 2462 to confirm some of the agency's responses and to determine the financial condition of the GSD during the scope of the audit.

In addition, PERD toured Buildings 4, 86, and 27 to assess the condition of these properties. These are major facilities, one of which is mostly unoccupied and in need of major improvements (Building 4), Building 86 has been recently improved but has significant vacancies, and Building 27 has been completely reconstructed at a cost of \$4.1 million. Financial data from OASIS were reviewed to confirm that the DOA has not purchased buildings above \$1 million and if all operating costs and state bond payments were paid from Fund 2241 (Recommendations 3, 5, 6 and 7). A review of legislation for the 2015 through 2021 legislative sessions was conducted using the Bill Status System to determine if the Legislature responded to recommendations that required legislative action (Recommendations 1, 2, 4 and 8). Information from the Bill Status System was determined to be sufficient and appropriate given no evidence that West Virginia Code was amended to reflect the legislative recommendations of the PERD report.

The Office of the Legislative Auditor reviews the statewide single audit and the Division of Highways financial audit annually with regards to any issues related to the State's financial system known as the West Virginia Our Advanced Solution with Integrated Systems (OASIS). The Legislative Auditor's staff on a quarterly basis requests and reviews any external or internal audit of OASIS. In addition, through its numerous audits, the Office of the Legislative Auditor continuously tests the financial information contained in OASIS. Based on these actions, along with the audit tests conducted on the audited agency, it is our

professional judgment that the information in OASIS is reasonably accurate for auditing purposes under the 2018 Government Auditing Standards (Yellowbook). However, in no manner should this statement be construed as a statement that 100 percent of the information in OASIS is accurate.

In order to determine the level of compliance of the DOA to the appropriate recommendations from the September 2015 report, PERD used the following table:

Levels of Compliance	
In Compliance	The agency has corrected the problems identified in the previous audit report.
Partial Compliance	The agency has partially corrected the problems identified in the previous audit report.
Planned Compliance	The agency has not corrected the problem, but it has provided sufficient and appropriate evidence that it is in the planning stages of resolving the problem.
In Dispute	The agency does not agree does not agree with either the problem identified or the proposed solution.
Non-Compliance	The agency has not corrected the problem identified in the previous audit report.
Requires Legislative Action	The recommendation was directed to the Legislature for statutory amendment.

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

Appendix C Agency Response



STATE OF WEST VIRGINIA
DEPARTMENT OF ADMINISTRATION
GENERAL SERVICES DIVISION
State Capitol
Charleston, West Virginia 25305

Mary J. Pickens
Acting Cabinet Secretary

William D. Barry
Director

John Sylvia, Director
WV Legislative Auditor's Office
Performance Evaluation and Review Division
1900 Kanawha Boulevard East
Building One, Room W314
Charleston WV 25305

Dear Mr. Sylvia:

I am happy to provide the following response to the General Services Division 2021 Update Report. I look forward to our Department and Division staff participating in meetings with the Legislature to review your findings and our responses.

Our response is as follows for each of the recommendations from the 2021 Update Report:

Recommendation 1 (2015)

The Legislature should consider requiring the Department of Administration to perform and document a cost-benefit analysis prior to any purchase of real property in excess of a specified threshold purchase price.

Level of Compliance: Requires Legislative Action

GSD Response (2021): The Department of Administration and General Services Division reiterate their intent to continue to perform cost-benefit analyses, utilizing the "building purchase checklist," prior to the purchase of any real property in excess of \$1 million, regardless of Legislative action on the PERD recommendation.

Recommendation 2 (2015)

The Legislature should consider placing a moratorium on the Department of Administration from purchasing real property above the price of \$1 million until the Department can demonstrate it has strengthened its financial resources.

Telephone: (304) 558-2317

E.E.O./AFFIRMATIVE ACTION EMPLOYER

Fax: (304) 558-2334

Level of Compliance: Requires Legislative Action

GSD Response (2021): The Department of Administration and General Services Division intend to continue the self-imposed moratorium on the purchase of real property costing in excess of \$1 million until such time that the financial situation has improved.

Recommendation 3 (2015)

If the Legislature chooses not to place a moratorium on the Department of Administration from purchasing real property, the Department should avoid significant additions to its stock of real property until it has substantially improved its financial resources.

Level of Compliance: In Compliance

GSD Response (2021): The Department of Administration and General Services Division will continue to seek reimbursements from tenant agencies to fund improvements to existing buildings that benefit the tenant agencies. The Department of Administration and General Services Division also intend to continue the self-imposed moratorium on adding to its stock of real property until such time that the financial situation has improved.

Recommendation 4 (2015)

The Legislative Auditor recommends that the Legislature clarify its intent of the Capitol Dome and Capitol Improvements Fund (Fund 2257), established in W. Va. Code (§5A-4-2(c)), for its use in capital improvements and repairs of state-owned buildings. Also, a specific definition for capital improvements should be provided in the statute as it relates to Fund 2257.

Level of Compliance: Requires Legislative Action

GSD Response (2021): The Department of Administration and General Services Division continue to make every effort to correctly allocate appropriate transactions to Fund 2257. The General Services Division believes that some of the transactions indicated in the Update Report for Utilities were appropriately funded from Fund 2257, as they were for building improvement-related hazardous and/or waste materials disposal as part of construction projects, or for an infrastructural upgrade cost paid directly to a utility company (i.e. not a routine utility consumption expense). The remaining transactions allocated to the Utilities object code, and the single transaction for the Furniture line item, were the result of coding errors on behalf of the staff processing the transactions; these were not intentional deviations from compliance with the recommendation of the previous audits. Also, the intent is to discontinue reliance on the Fund to cover custodial services in Fiscal Year 2023, the first year in which debt service payments will terminate on Fund 2241, allowing then for the reallocation of a portion of that funding to cover the expense.

Recommendation 5 (2015)

The Department of Administration should take steps to improve its process of monitoring rent revenues and expenditures with the intention of raising rent appropriately to cover rising costs.

Level of Compliance: Planned Compliance

GSD Response (2021): The Department of Administration and General Services Division continue to

monitor rent revenues and expenditures, and intend to increase rent in Fiscal Year 2023, to the degree that tenant agency budgets can tolerate.

Recommendation 6 (2015)

The Department of Administration should pay all appropriate operating costs of DOA facilities from Fund 2241.

Level of Compliance: Non-Compliance

GSD Response (2021): The Department of Administration and General Services Division concur that Fund 2241 will remain under financial stress for the next several years, until such time that revenues from the intended rent increases are realized and certain debt services obligations reach their natural end. The General Services Division will continue to make every effort to comply with the recommendation, to the extent that funding allows.

Recommendation 7 (2015)

The Department of Administration should comply with statute to pay all appropriate bond payments solely from Fund 2241 pursuant to W. Va. 5-6-8(a).

Level of Compliance: Non-Compliance

GSD Response (2021): The Department of Administration and General Services Division concur with this recommendation and are aware of no instances in which payments for State-issued bonds for GSD buildings are encumbered to be made from any fund other than Fund 2241 (with the exception of the debt service payments made appropriately from Fund 2255 for the Piedmont Parking Garage).

Recommendation 8 (2015)

The Legislature should consider requiring the Department of Administration to have a structural engineering inspection performed on buildings prior to the purchase that evaluates the structural integrity of the building, the roof, the basement, HVAC systems, plumbing, electrical wiring, and other major areas of the building. The results of the inspection should be factors to consider in the cost-benefit analysis specified in recommendation 1.

Level of Compliance: Requires Legislative Action

GSD Response (2021): The Department of Administration and General Services Division persist in our agreement with the recommendation, understanding a structural engineering assessment would only be required if an initial, general professional engineering analysis of the building indicated the need for such. Were such a measure to be passed, the General Services Division would appreciate being provided clarity as to what funding would qualify to pay for such assessments (i.e. of properties not currently owned or operated by the Department).

Sincerely,

A handwritten signature in blue ink that reads "Mary Jane Pickens". The signature is fluid and cursive, with the first name "Mary" and last name "Pickens" clearly distinguishable.

Mary Jane Pickens, Acting Cabinet Secretary
WV Department of Administration

cc: William Barry, Director, General Services Division



WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

Building 1, Room W-314, State Capitol Complex, Charleston, West Virginia 25305

telephone: 1-304-347-4890 | www.legis.state.wv.us/Joint/PERD/perd.cfm | fax: 1-304-347-4939