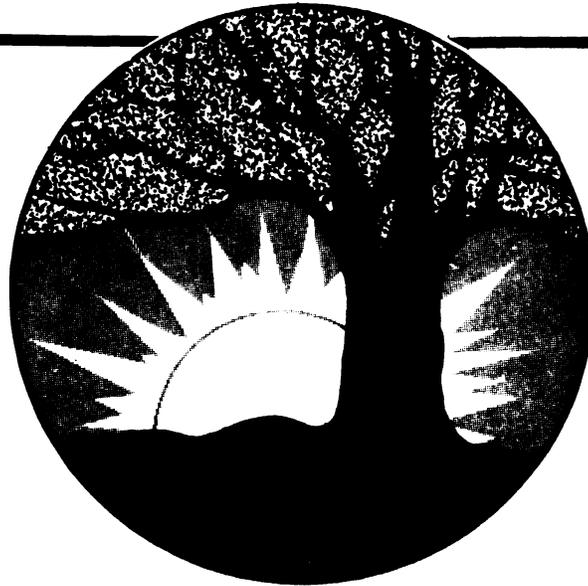


# PERFORMANCE AUDIT

Department of General Services

April 2006



John G. Morgan  
Comptroller of the Treasury



State of Tennessee  
Comptroller of the Treasury  
Department of Audit  
Division of State Audit

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Deborah V. Loveless, CPA, CGFM***  
Assistant Director

***Diana L. Jones, CGFM***  
Audit Manager

***Lisa L. Williams, CGFM, CFE***  
In-Charge Auditor

***Bryan S. Chriske***  
***Amy C. Abbott, CFE***  
Staff Auditors

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 401-7897

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

April 19, 2006

The Honorable John S. Wilder  
Speaker of the Senate  
The Honorable Jimmy Naifeh  
Speaker of the House of Representatives  
The Honorable Thelma M. Harper, Chair  
Senate Committee on Government Operations  
The Honorable Mike Kernell, Chair  
House Committee on Government Operations  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Department of General Services. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the department should be continued, restructured, or terminated.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/dlj  
05-059

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit  
Department of General Services  
April 2006

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## AUDIT OBJECTIVES

The objectives of the audit were to determine the existence and adequacy of oversight of General Services' contracts; to identify any weaknesses in the tracking and disbursement processes for state surplus property as administered by General Services' Property Utilization Division; to determine the adequacy of current security guard services for state offices provided by General Services' contracts; to determine the self-sufficiency of Motor Vehicle Management's DUI Seizures Program; and to determine whether General Services' employees are submitting annual conflict-of-interest statements, as is considered a best practice by the Governor's Office and the Division of State Audit.

## FINDINGS

### **Contract Monitoring, Which Is Decentralized and Lacks Direction, Does Not Adequately Ensure That the State Receives What It Paid for in Quality and Quantity**

The department does not adequately monitor vendors or document monitoring for contract compliance during the term of the contract. The department also provides inadequate direction to its divisions and other agencies regarding necessary contract oversight procedures, particularly in regard to how services are to be assessed. Delegating oversight to agencies using statewide contracts, which are let for the use of multiple agencies, results in no one being responsible for monitoring problems encountered individually by agencies to make sure those problems are not widespread (page 8).

### **Oversight of the Tennessee Comprehensive Food Service Program (Cook-Chill) Contract Has Been Inadequate and Does Not Ensure That Operations Are Efficient, Costs Are Controlled and Appropriate, and That the Vendor Is Held Accountable**

The department is unable to provide documentation confirming the existence of adequate oversight policies, procedures, and practices. A limited review of vehicle expenses, miscellaneous supplies, travel, and vehicle depreciation and expense from reimbursement request packets submitted by the vendor and paid by the department between August 2000 and June 2005 showed questionable expenses of at least \$82,843; this is in addition to the \$86,684 the department's internal auditors found the department had overpaid the vendor between December 2002 and March 2005 for shared

maintenance, utility, and equipment rental costs (page 11).

**The DUI Seizures Program Had Serious Weaknesses Related to Administration and Oversight, Database Controls, and Data Reliability, Resulting in Inadequate Management Control of the Program and a Lack of Reliable Information With Which to Hold the Vendor Accountable; in Addition, Program Costs Significantly Exceeded Revenues**

The department did not adequately oversee its contract with the vendor for storing and disposing of seized vehicles confiscated under the state's DUI seizure laws. The department inadequately trained staff performing management and oversight activities, and had inefficient methods for capturing and documenting program data. Forty-seven percent of vehicle files had questionable, missing, and/or inaccurate data. The lack of data entry and access controls compromises the reliability of the data in the DUI Seizures Program database, with which the department accounts for all vehicles, the condition and operability of vehicles, billing accuracy, and vendor contract compliance. Revenues from the program only covered approximately 27% of total expenses. Between July 2000 and June 2005, the Department paid the vendor just over \$2 million. Costs of the program are dictated by the actions of the Departments of Safety and General Services, as well as DUI courts. The Department of Safety took an average of 11 days to notify General Services that a vehicle had been seized, during which time, the state had to pay a private tow company for towing and storage. The Department of General Services contract with the vendor requires seized vehicles to be picked up from private tow companies within so many days of notification. Had General Services monitored the vendor for contract compliance, payments for 2,845 days in private storage could have been saved. Also, based on contract terms, information in the database, and the potential impact of judicial orders, the state may have been overcharged

\$161,000 in long-term storage costs with the contract vendor (page 16).

**The Department Is Not Properly Overseeing the Shredding of Sensitive State Records, Thereby Risking the Theft or Unauthorized Use of Employees' and Citizens' Protected Health Information and Other Personal Information**

The department does not have any checks in place to ensure that the documents delivered to or picked up by the vendor remain confidential. No one from the department witnesses the shredding of state records (page 24).

**The Execution and Oversight of Contracted Security Guard Services Need Significant Improvement to Mitigate the Potential Dangers to State Employees and Assets**

Department requirements, oversight, and enforcement of security guard service contracts—particularly regarding the control of persons coming and going from state office buildings—need significant improvement to safeguard state employees and assets (page 25).

**The Property Utilization Division Does Not Have Comprehensive Policies and Procedures for the Receipt, Disbursement, and Monitoring of the State's Surplus Property, Thereby Making It Possible That Valuable Assets Will Be Wasted or Lost**

The lack of comprehensive policies, procedures, and practices has resulted in inconsistent and incomplete data regarding surplus items, product deterioration, irregular monitoring of how long an item has been stored, and a lack of publication to eligible recipients that an item is available for redistribution (page 30).

**The Property Utilization Division Lacks an Efficient State Surplus Inventory Program With Sufficient Internal and Security Controls to Ensure That the State's Surplus Property Is Not Lost, Stolen, or Allowed to Sit Idle and Deteriorate**

The division relies on ten different databases that operate independently of one another and

require at least three different identifying numbers to be assigned to each individual surplus item. There are no controls on data entry for these databases to ensure accuracy and consistency. The 2004 inventory observations of the department's Office of Internal Audit reported 422 exceptions; 188 items could not be accounted for even after additional research (page 32).

**The Department Is Not Sufficiently Monitoring Its Own Activities and Federal Surplus Property Donees for Compliance With Title VI, Which Could Result in the Department Being Out of Compliance With Federal Regulations and the Subsequent Loss of Federal Funds**

Although the department receives no direct federal funds, the department receives federal surplus property and federal criminal justice and homeland security grants passed through the Department of Finance and Administration and the Tennessee Emergency Management Agency. According to Chapter VII of the *Title VI Legal Manual* (2001), Civil Rights Division, U.S. Department of Justice, receipt of these federal funds makes the entire department subject to the provisions of Title VI. However, the department's annual Title VI Implementation Plan/Update only addresses Title VI compliance in regard to surplus property and not the department as a whole (page 34).

**Conflict-of-Interest Forms Need Revision, and Statements Need to Be Completed by Employees on an Annual Basis to Ensure That Employees Are Not Using Their Position for Private Gain, Giving Preferential Treatment to Others, or Impeding Government Efficiency and Effectiveness**

Fourteen of 22 Purchasing Division employees and 55 of 89 Property Services Management employees sampled had not signed a conflict-of-

interest form since calendar year 2000. None of these employees had declared any conflicts of interest. The conflict-of-interest forms used do not provide a place to declare conflicts and do not require employees to affirm that they have no conflicts (page 36).

**The Office of Internal Audit Is Not Conducting Contract Audits as Frequently as Intended by Policy to Ensure That Vendors Are Complying With Their Contract and Using State Funds Appropriately and in a Lawful Manner**

Because of a shortage of personnel and growing involvement in personnel issues, the Office of Internal Audit has been unable to comply with internal policy regarding auditing of cost reimbursement contracts over \$500,000 (page 38).

**The Department Still Does Not Have a Climate-Controlled State Warehouse Facility for the Storage of Electronic Media, and Other Existing Warehouse Facilities Are in Serious Need of Repair or Replacement to Mitigate the Danger to Employees and the Danger of Damage, Destruction, or Theft of State Records and Assets**

The 2001 performance audit of the Department of General Services found that state agencies were paying three times more money to store electronic media with private companies than it would cost the state to construct and operate a climate-controlled vault. Although the department concurred with the finding, management stated that budget problems were delaying such a project. There is still no such facility, and there are no plans to build one. A "Warehousing Needs Analysis" conducted at the request of the Department of Finance and Administration revealed several departmental facilities also in serious need of upgrade, repair, or replacement (page 41).

## ISSUES FOR LEGISLATIVE CONSIDERATION

The General Assembly may wish to consider legislation that amends Sections 4-3-1105 and 4-3-1107 through 1111, *Tennessee Code Annotated*, to remove references to an energy management program within General Services; and amends Section 68-211-865, *Tennessee Code Annotated*, to remove Sections 1 through 4 from statute delineating the duties of the Department of General Services in regard to the state office recycling program.

# Performance Audit

## Department of General Services

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# Performance Audit

## Department of General Services

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### INTRODUCTION

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#### PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Department of General Services was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-227, the department is scheduled to terminate June 30, 2006. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the department and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the department should be continued, restructured, or terminated.

#### OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to determine the existence and adequacy of oversight of General Services' contracts;
2. to identify any weaknesses in the tracking and disbursement processes for state surplus property as administered by General Services' Property Utilization Division;
3. to determine the adequacy of current security guard services for state offices provided by General Services' contracts;
4. to determine the self-sufficiency of Motor Vehicle Management's DUI Seizures Program;
5. to determine whether General Services employees are submitting annual conflict-of interest statements, as is considered a best practice by the Governor's Office and the Division of State Audit;
6. to determine whether statutory provisions assigning energy management program responsibilities to General Services should have been transferred to the Department of Finance and Administration when General Services' Office of Energy Management was moved to Finance and Administration in 1999;
7. to determine whether statutory provisions assigning recycling program responsibilities to General Services should have been transferred to the Department of Environment and Conservation when certain other duties were moved there in 1991; and

8. to summarize and assess information documenting the department's compliance with Title VI requirements.

One additional objective initially identified—to compare costs of current Motor Vehicle Management fleet management practices to costs of private car-rental companies—was not completed because of time constraints (several of the other objectives required more time than originally anticipated). This objective will be reconsidered for the next audit of the department.

## **SCOPE AND METHODOLOGY OF THE AUDIT**

The activities of the Department of General Services were reviewed for the period July 2000 to June 2005. The audit was conducted in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and included

1. review of applicable legislation, rules and regulations, and policies and procedures;
2. examination of the entity's annual reports and information summaries;
3. examination of personnel files;
4. review of various contractors' invoice reimbursement packets;
5. personal observation and review of various database software and data;
6. personal observation and testing of building security;
7. examination of State of Tennessee Accounting and Reporting System data; and
8. interviews with department staff and staff of other state agencies that interact with the department.

## **HISTORY, STATUTORY RESPONSIBILITIES, AND ORGANIZATION**

The Department of General Services was created by the General Assembly in 1972 by Section 4-3-1101, *Tennessee Code Annotated*. The department is responsible for coordinating and administering "the state's purchases, personal properties, printing, and motor vehicle facilities, surplus property, postal services, and general public works services, and will provide for state agencies all additional support services which are not assigned by law to specific departments."

The department is headed by the commissioner, who supervises a deputy commissioner, two assistant commissioners, General Counsel, Internal Audit, and the Governor's Office of Diversity Business Enterprise. (See the organization chart on page 4.) Personnel staff (who report to an Assistant Commissioner) and Administrative Services staff (who report to the Deputy Commissioner) also provide support services to the department. The department's

divisions, which provide support services to state agencies, are described below (as is the Governor's Office of Diversity Business Enterprise).

### Central Stores

Central Stores provides state agencies and other governmental entities a central source for obtaining a variety of office and janitorial supplies, generic forms, telephones and accessories, computer accessories, and food service products.

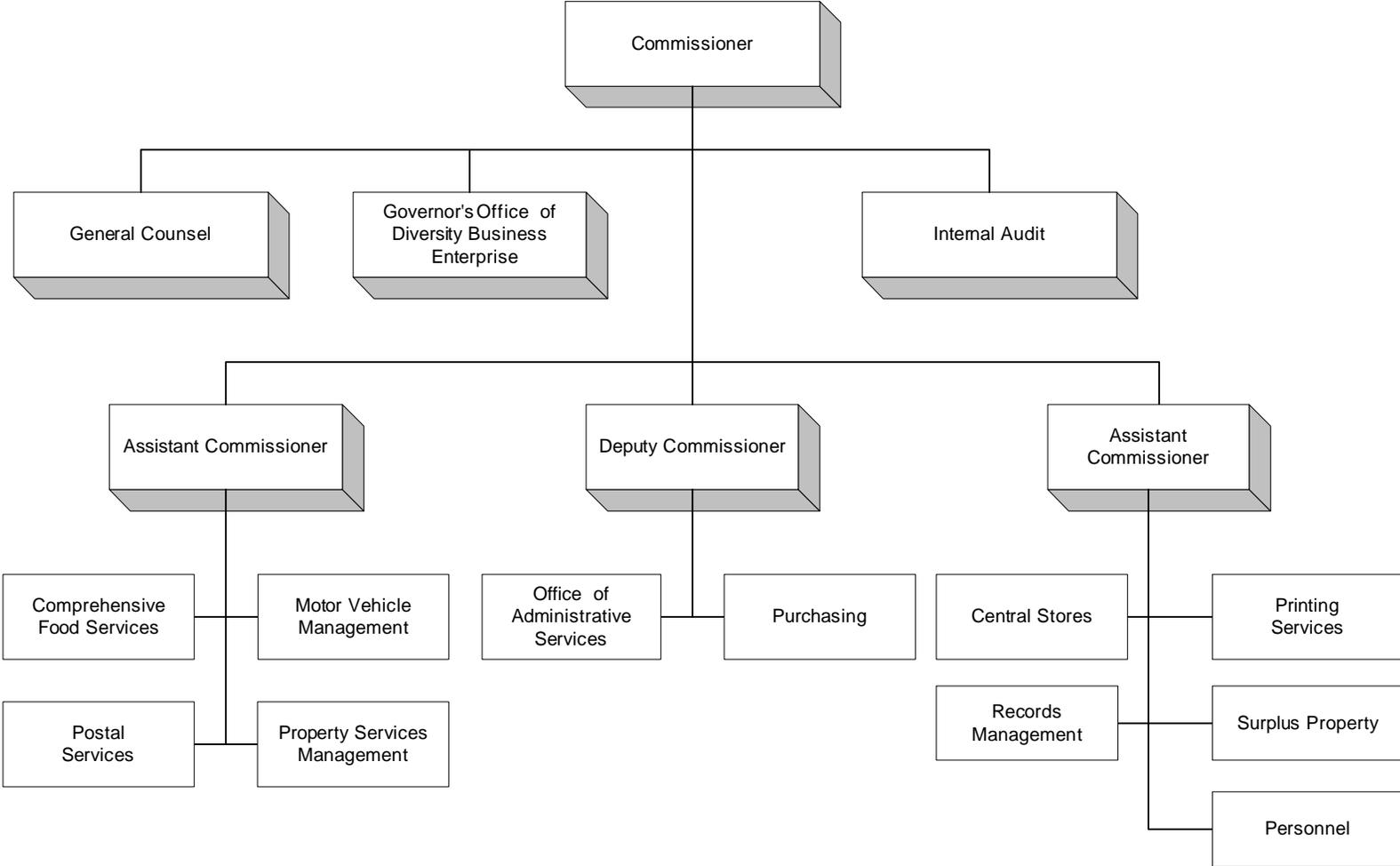
### Cook-Chill

Cook-Chill Comprehensive Food Services, established in 1995, is responsible for the proper procurement, preparation, storage, and transport of prepared foods and pass-through items to user agencies—the Departments of Correction, Mental Health and Developmental Disabilities, Education, and Children's Services. This service is contracted out and is overseen by three General Services employees.

### Governor's Office of Diversity Business Enterprise

The Governor's Office of Diversity Business Enterprise was created by Executive Order No. 14 on December 8, 2003, and codified in Title 12, Chapter 3, Part 8, *Tennessee Code Annotated*, in 2004. The office is the central point of contact to attract, direct, and support minority-owned, woman-owned, and small businesses. The office focuses on ensuring that these businesses are afforded a fair and equal opportunity to participate in state procurement activities and contract awards. Businesses that meet the criteria and are interested in participating in the program must register with the office. Office staff interview representatives from the businesses and assess each business for a determination of procurement interests and qualifications such as licensing, bonding, and certification. If the office's assessment indicates that the business is not "ready, willing, and able," a referral will be made to the Department of Economic and Community Development's Office of Minority Business Enterprise for technical assistance. Businesses that have been operating for two years or less, are re-defining their product line, or have recently relocated to the state may be included in these referrals. The Department of Economic and Community Development facilitates technical and business training workshops and seminars and also assists in questions regarding grants and loans. The Department of Finance and Administration, the Department of Transportation, and the State Building Commission have also partnered with the Governor's Office of Diversity Business Enterprise to help achieve the office's goals. As of August 2, 2005, there were 595 registered companies (264 minority-owned, 211 woman-owned, and 120 small businesses). Of these, 210 have been certified as diversity businesses.

**Department Of General Services  
Organization Chart  
November 1, 2005**



### Motor Vehicle Management

This division, established in 1972, oversees all state-owned vehicles to varying degrees (directly overseeing the operations of the dispatch fleet), is responsible for studying the utilization of state-owned vehicles and equipment, and establishes rules and regulations for vehicle usage.

### Printing Services

Printing Services provides a full range of graphic design, photography, printing, copying, and binding services to state agencies, other government agencies, non-profit agencies, and charities. This division does not receive appropriated funds but exists entirely on the sale of products and services.

### Postal Services

This division, created by statute in 1972, provides centralized mail services for state agencies in Davidson County. It is the recognized liaison between state government and the United States Postal Service.

### Property Services Management

This division manages building services for state agencies housed in 17 complexes made up of approximately 132 state-owned and 325 leased facilities.

### Property Utilization

This division, commonly referred to as “Surplus Property,” is composed of state and federal surplus property sections. Its objective is to redistribute state and federal surplus property to state agencies, local government entities, and other eligible non-profit organizations.

### Purchasing

The Division of Purchasing is charged with the centralized procurement of goods and non-professional services for use by state departments and agencies.

### Records Management

This division was created by statute to serve as the primary records management agency for state government. This division provides all state agencies with analytical and managerial support using systematic controls encompassing the maintenance, use, and final disposition of records, regardless of media, to achieve adequate and proper documentation of state policies and transactions. In addition, the division provides support to the Public Records Commission and the Publications Committee.

## REVENUES AND EXPENDITURES

### Revenues by Source For Fiscal Year Ending June 30, 2004

<i>Source</i>	<i>Amount</i>	<i>Percent of Total</i>
State Appropriations	\$ 6,675,800	8%
Other*	76,994,800	92%
<b>Total Revenue</b>	<b>\$83,670,600</b>	<b>100%</b>

\*Includes billings to other state agencies and federal funds received through the Department of Finance and Administration and the Tennessee Emergency Management Agency.

### Expenditures by Account For Fiscal Year Ending June 30, 2004

<i>Account</i>	<i>Amount</i>	<i>Percent of Total</i>
Administration	\$ 3,474,000	4%
Systems Management	1,958,500	2%
Property Utilization	1,956,900	2%
Motor Vehicle Management	28,081,800	34%
Property Management	11,739,400	14%
Postal Services	15,558,100	19%
Printing	3,764,300	4%
Purchasing	3,776,600	5%
Records Management	1,220,200	1%
Central Stores	7,965,700	10%
Food Services Program	4,175,100	5%
<b>Total Expenditures</b>	<b>\$83,670,600</b>	<b>100%</b>

### Estimated Budget Revenue Sources For Fiscal Year Ending June 30, 2005

<i>Source</i>	<i>Amount</i>	<i>Percent of Total</i>
State Appropriations	\$ 2,173,400	2%
Other*	96,328,100	98%
<b>Total Revenue</b>	<b>\$98,501,500</b>	<b>100%</b>

\*Includes billings to other state agencies and federal funds received through the Department of Finance and Administration and the Tennessee Emergency Management Agency.

**Estimated Budget Expenditures by Account  
For the Fiscal Year Ending June 30, 2005**

<i>Account</i>	<i>Amount</i>	<i>Percent of Total</i>
Administration	\$ 4,715,300	5%
Systems Management	2,427,100	2%
Property Utilization	1,799,000	2%
Motor Vehicle Management	33,950,200	34%
Property Management	15,747,000	16%
Postal Services	17,030,300	17%
Printing	4,626,800	5%
Purchasing	4,281,200	4%
Records Management	1,337,900	1%
Central Stores	7,739,300	8%
Food Services Program	4,847,400	5%
<b>Total Expenditures</b>	<b>\$98,501,500</b>	<b>100%</b>

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**RESULTS OF OTHER AUDIT WORK**

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**STATUTES NEED UPDATING**

Energy Management

Until 1999, the Department of General Services was required by statute to have an office of energy management for state buildings and state-owned facilities. Chapter 457 of the Public Acts of 1999 (codified as Section 4-3-1012, *Tennessee Code Annotated*) transferred this office to the Department of Finance and Administration. Despite this transfer, the statutes for General Services (Sections 4-3-1105 and 4-3-1107 through 1111) still retain all references to this program. Based on conversations with General Services' director of Property Services Management, and Finance and Administration's director of the Energy Management Program, as well as an internal Finance and Administration draft memorandum, it was intended that the energy management program reside within Finance and Administration, and the program has operated there since 1999. Therefore, Sections 4-3-1105 and 4-3-1107 through 1111, *Tennessee Code Annotated*, should be amended to remove references to an energy management program within General Services.

State Office Recycling Program

In 1991, legislation (Chapter 451, Public Acts of 1991) codified as Section 68-211-821(b)(2), *Tennessee Code Annotated* was passed transferring responsibility and funding for the state office recycling program from the Department of General Services to the Department of Environment and Conservation. Despite this transfer, the statute for General Services

(*Tennessee Code Annotated*, Section 68-211-865) still retains all references to this program. Based on conversations with the director of Environment and Conservation's State Employee Recycling Program (SERP), Environment and Conservation has assumed and performed these duties since 1991. Therefore, Section 68-211-865, *Tennessee Code Annotated*, should be amended to remove sections 1 through 4 from statute delineating the duties of the Department of General Services.

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## FINDINGS AND RECOMMENDATIONS

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### **1. Contract monitoring, which is decentralized and lacks direction, does not adequately ensure that the state receives what it paid for in quality and quantity**

#### **Finding**

The department does not adequately monitor vendors for contract compliance during the term of the contract. The department also provides inadequate direction to its divisions and other agencies regarding necessary contract oversight procedures.

In Tennessee, the responsibility for a procurement system for goods and services is split between the Department of Finance and Administration and the Department of General Services. Section 12-4-109, *Tennessee Code Annotated*, charges the Department of Finance and Administration with the responsibility for establishing regulations for the procurement of personal, professional, and consultant services. These contracts are awarded to the vendor deemed best fit to deliver the service, based on quality and cost. Section 12-3-107, *Tennessee Code Annotated*, charges the Department of General Services with the responsibility for procurement policies and procedures for the purchase, storage, delivery, and distribution of supplies, materials, and equipment. General Services' contracts are required to be awarded to the lowest "responsible and responsive" bidder. However, some of General Services' contracts involve the provision of services (i.e., non-professional services such as maintenance and repair, janitorial, and alarm monitoring services). Purchasing policies and procedures established by the Department of General Services and approved by the Board of Standards address how contracts are to be bid and awarded and how agencies are to ensure they receive the quantity and quality of commodity requested. However, the policies and procedures are silent on how services are to be assessed.

Complicating contract oversight is the department's letting of statewide and agency contracts and its decision to delegate oversight of agency contracts to the agency specifically for which the contract was let, to delegate oversight of statewide contracts to the agencies which use the contracts, and to delegate oversight to its own individual divisions (some of which then delegate to multiple units within the division) for the contracts they use. Delegation of contract oversight to the agency for which the contract was let or to the agencies that use statewide contracts is not reflected in General Services' purchasing policies and procedures (as it is in

Finance and Administration rules). This delegation results in no one being responsible for monitoring statewide contracts, since there is no one agency for which the contract was let. Also, since General Services' purchasing policies are also silent on oversight of services in service contracts or commodity contracts in which there is a service component, the extent of contract oversight for all contract types has primarily been the contract users' review of billing and invoices and the filing of formal complaints following unsuccessful and rarely documented attempts by contract users to informally resolve a problem. Verification of Title VI compliance (which consists only of requiring the contractor to sign an assurance of nondiscrimination statement) and, until recently, proof of insurance and bonds, was only conducted when the contract was let and not again during the contract's term. These practices are reactive rather than proactive, may result in inconsistent monitoring, and do not regularly include an assessment of a vendor's compliance with a contract's qualitative and quantitative requirements.

Based on interviews with multiple levels of General Services' management and reviews of documentation related to monitoring practices by the department, we determined that there is inadequate documentation of contract monitoring. Furthermore, only three of nine General Services divisions had formal written policies governing contract monitoring, and these were limited to review of commodities and billing. In some cases, those staff charged with contract oversight within General Services did not have on-hand copies of the contracts that they were supposed to be monitoring. In September 2004, the department also dissolved the Purchasing Division's contract inspection section that was charged with inspecting the department's and various agencies' warehouses for the proper receipt, storage, and issuance of goods and supplies. According to the deputy commissioner, the contract inspection section was not functioning as originally intended, and questions were raised as to whether such a section needed to be in the Purchasing Division. This section's staff also reviewed sites for pest control adequacy, proper facility maintenance, and safety and security issues during their inspections. The policies and procedures manual, however, does not reflect the dissolution of this section or the transfer of these duties to other staff. The Board of Standards has also not approved a change in policy regarding this section.

Contract oversight for the department and other state agencies is crucial for determining whether the state is receiving the goods and services it is paying for. If oversight of agency contracts is delegated to agencies, the department must provide comprehensive guidance for both commodity and service procurement and subsequent monitoring. Statewide contracts for use by all agencies should have a central oversight authority charged with monitoring problems encountered by agencies to make sure the individual problems are not widespread. As custodians of public funds, the department must develop for itself and other state agencies a contract monitoring system with policies and procedures that document that the state is getting from vendors what it paid for in quality and quantity.

## **Recommendation**

The department should develop written policies and procedures clarifying specific oversight and monitoring responsibility for its statewide and agency contracts, including standards for adequate and appropriate contract monitoring. These policies should contain language to ensure that each General Services division, as well as external agencies, has adequate controls, standards, and procedures in place to ensure effective contract monitoring. The department should centralize the oversight function or continue to leave oversight decentralized with clear direction of the contract monitoring function.

The commissioner should assign specific responsibility for a review of current oversight practices in place within each of its divisions and within other agencies to ascertain best practices in the area of contract oversight. This review should be well documented. The commissioner should consider the results of the review and ensure that appropriate corrective actions are taken on a timely basis. The system implemented to provide adequate oversight of contracts should be adequately documented and include mechanisms for regular monitoring of controls to ensure they are operating effectively and as designed. The system should facilitate prompt detection of serious problems either with contracts or their oversight. Further, the department may wish to consider the allocation of workforce to the oversight function.

The division should update and gain subsequent approval from the Board of Standards of its *Purchasing Procedures Manual* to reflect any changes that have been implemented since its prior approval by the board on June 11, 2003.

## **Management's Comment**

We concur in part. The current *Purchasing Procedures Manual* does not specify how agency and statewide contracts are to be administered. We have a revision to the manual scheduled to be completed by July 1, 2006, to address the increase to local purchase thresholds. In addition, instructions for contract administration of all types of contracts will be included in this revision. This manual will be presented to the Board of Standards for approval once the revisions have been completed.

State agencies do have instructions on how to administer contracts they procure from. Basic instructions that cover what action needs to take place when the specifications are not met are included in several contracts for services. Examples of the types of contracts that meet these criteria are janitorial services, linen services, and uniform services. Instructions to the agency outline what steps the onsite contract administrator shall take when services do not meet specifications as outlined in the contract.

The Purchasing Division has expanded its Audit & Compliance Section, which will work with all procurement and receiving personnel to ensure that proper purchase and receipt procedures are being followed. This section will also work with the agency to help ensure that items and service contract purchases are in accordance with the instructions outlined in the

*Agency Purchasing Procedures Manual*. This section will periodically request an agency to send samples of items being received from term contract release orders. Other times, a representative from the Audit & Compliance Section will make onsite visits.

The Purchasing Division is developing a procurement training program for all agency procurement personnel. On February 23 and February 24, 2006, a training seminar was held that included the following topics: (1) procurement ethics, (2) new vendor registration procedures, (3) changes in threshold amounts for the local purchase authority, (4) new sole source contract procedures, (5) overview of the Governor's Office of Diversity Business Enterprise, (6) proper vs. improper purchasing procedures, and (7) the responsibilities of the Purchasing Division vs. the responsibilities of state agencies.

We are also developing training seminars for agency procurement personnel based upon their user functions. Topics covered in these training sessions will include, but not be limited to (1) approval of payment and document approval, (2) invoice processing, (3) receipt process, (4) procurement process, (5) specification writing, (6) ethics, and (7) contract administration.

Agency procurement personnel will be tested during these seminars to ensure they understood the information. Individuals not receiving a passing grade will be required to complete the seminars again and retest until a passing grade is obtained. Attendees to this training will also receive a copy of the *Agency Purchasing Procedures Manual* and *TOPS User Manual*. These two items are also available on our intranet site.

A means of "certifying" a user who has successfully completed each training session is also being developed that will allow the user to obtain the proper security to the automated system to perform the duties for which they have been trained. This certification will be valid for one year from the date of certification and must be renewed on an annual basis.

The Purchasing Division will also host an annual seminar for all procurement agencies to include the following topics: (1) policy and procedure updates, (2) new initiatives, (3) specification writing, and (4) compliance and ethics refresher.

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**2. Oversight of the Tennessee Comprehensive Food Service Program (Cook-Chill) contract has been inadequate and does not ensure that operations are efficient, costs are controlled and appropriate, and that the vendor is held accountable**

**Finding**

The department's oversight staff of Cook-Chill are not only unable to provide verifying documentation confirming the existence of adequate contract oversight policies, procedures, and practices, but a limited review of reimbursement packets submitted by Sodexo and paid by the department showed many questionable expenses.

The Tennessee Comprehensive Food Service Program, also known as Tennessee Cook-Chill, was established in July 1995 under a third-party management fee contract whereby a vendor manages the program from a state facility and is responsible for procuring, preparing, packaging, storing, and delivering prepared and pass-through food items to state user-agencies (Correction, Children's Services, Mental Health/Developmental Disabilities, Special Education Facilities) in exchange for a set management fee and reimbursement of variable overhead and equipment maintenance expenses. Since the program's inception, a single vendor, Sodexo Management, Inc., (also known as Sodexo Marriott) has successfully bid on and retained the Cook-Chill contract. The contract requires the vendor to provide the food in question during normal business hours (i.e., a single eight-hour shift) and divides cost into three broad categories (food, overhead, and management fee). While the contract is specific regarding the reimbursement of costs associated with food acquisition and preparation and payment of the management fee, the contract does not specify what an allowable and unallowable overhead expense is. During fiscal year 2005, payments from the state to the vendor were over \$16 million. Since 2002, this vendor has also maintained a separate state-approved second-shift revenue contract with the U.S. Marine Corps and reimburses the state for the use of the excess capacity of the facility.

Based upon interviews with current General Services staff charged with monitoring Sodexo and the Cook-Chill program, a limited review of monthly overhead expense reimbursement packets from August 2000 through June 2005, and a review of other on-site documentation, it was determined that the department's staff responsible for overseeing Sodexo's management of Cook-Chill do not adequately oversee the vendor for contractual fulfillment, screen expenses for appropriateness, or adequately document its oversight activities. A January 2006 internal audit by the department of Sodexo's second shift contract with the U.S. Marines found a similar lack of oversight that resulted in the state overpaying Sodexo approximately \$86,684 in shared maintenance, utility, and equipment rental costs over a two-year period. There is no supporting evidence or documentation to suggest that the department's oversight staff

- monitor receptor site billing to ensure that the contractor invoices receptor sites "at cost" with no mark-up;
- proactively verify the accuracy and appropriateness of overhead or maintenance costs charged to the state for the first and second shifts;
- require adequate documentation of reimbursement requests;
- proactively verify that Sodexo credits the state for any rebates obtained;
- proactively request copies of USDA or other inspecting agency findings;
- proactively monitor and document small and miscellaneous equipment purchases and equipment inventory; or
- monitor the vendor for Title VI compliance.

Furthermore, the department has no written policies and procedures for comprehensive monitoring of the Cook-Chill contract.

A limited review of Sodexho's overhead expense reimbursement requests from August 2000 through June 2005 disclosed \$27,989 in questionable charges authorized by departmental oversight staff that are above stated allowable reimbursement rates; lack adequate documentation to determine appropriateness; or are not appropriate for the state to reimburse. We conducted a preliminary review of Sodexho's monthly reimbursement expense requests. Based upon the preliminary review, we conducted further analysis of the operating statement line items with the greatest risk of inappropriate reimbursement, including, but not limited to, expenses not customarily reimbursed by the state. This analysis was limited to the following operating statement line items: vehicle expenses, miscellaneous supplies, travel, and vehicle depreciation and expense. The questionable expenses identified include at least \$13,314 in reimbursed vehicle lease payments, insurance, fuel, maintenance, and tag costs for the Sodexho manager's vehicle (reimbursed January 2003 through June 2005); \$1,280 in questionable mileage reimbursements; \$3,433 in questionable travel claims; \$1,155 in employee incentives; \$4,275 in questionable food and miscellaneous purchases; \$1,095 for reimbursement of weekend meal costs; \$1,134 for inmate meals; \$245 for commissioner meetings and/or lunches; and \$2,058 in costs associated with the commissioner's 2003 Christmas party.

In addition to overhead expense charges, we reviewed State of Tennessee Accounting and Reporting System (STARS) data for the same time period for other payments to Sodexho through the Cook-Chill contract. Through this review, a total of \$29,077 was identified as being paid to the contracting vendor from other state agencies (i.e., allotment codes outside of Cook-Chill and its designated receptor sites—the Departments of Correction, Education, Mental Health and Developmental Disabilities, and Children's Services) whose missions do not include food service. Additionally, we identified \$25,777 in questionable payments made by the department to the contracting vendor through the Cook-Chill allotment code which involved entities outside of state government: \$10,492 was identified as being for food sold to Second Harvest Food Bank; \$1,770 was invoiced to DreamWorks for food props during the filming of "The Castle"; and \$13,515 represented payments for unknown reasons. The Cook-Chill contract specifically states that state agencies are not classified as approved buyers as it relates to the excess capacity of the facility, and "any use of the facility by [the] Contractor to produce food for third parties using extended first shift or additional shifts shall require additional agreements in writing by the State." As no such written agreements exist outside of the second-shift contract with the U.S. Marines, use of the product, capacity, and staff of Sodexho's first-shift Cook-Chill operation by other state agencies and outside entities is an abuse of the contract and outside its stated scope.

Departmental management states that accountability, management control, and efficiency are central to the Tennessee Comprehensive Food Service Program's mission statement to reduce and control costs associated with food service operations, promote operational efficiencies through uniform procedures and practices in areas such as purchasing and food production, enhance management control and accountability, and yield uniform high quality products. The Cook-Chill contract is one of the largest single contracts entered into by the Department of General Services and grants the vendor widespread responsibility. Without proper oversight of

the program, departmental oversight, staff cannot verify that the program is adequately fulfilling its mission. Specifically, without oversight, there is no assurance of cost reduction and operational efficiency, uniform procedures or practices in purchasing and food production, and accountability.

Several oversight practices have recently been implemented since hiring a contract compliance officer in August 2004 (e.g., oversight of production yields and food cost efficiencies, oversight of internal and external facility maintenance and repair costs, checks for smoking area compliance, and monitoring for delivery exceptions). It is imperative that the department's oversight staff continue with, and expand upon, the newly implemented oversight efforts. This staff should ensure that their actions minimize opportunities for incorrect and inappropriate cost reimbursement, eliminate inappropriate operations with state and non-state entities outside of the contract, provide a consistent method for evaluating the contractor from administration to administration, and enhance the overall efficiency and accountability of the program.

### **Recommendation**

The commissioner and departmental oversight staff of the Tennessee Comprehensive Food Service Program should develop a system, including written policies and procedures, for comprehensive oversight of the Cook-Chill contract and documentation of oversight activities. At a minimum, the department's oversight staff should continue to enhance their current monitoring practices by working with receptor sites to verify that invoices are billed at actual food cost, verify that all maintenance and overhead expense reimbursement requests submitted by the vendor are actual and appropriate and sufficiently documented, verify rebate information with all participating vendors, proactively review all findings and recommendations by inspecting agencies, inventory all equipment and supply purchases, and monitor the vendor for Title VI compliance.

Additionally, the department's Office of Financial Management should make sure that no payments are made to the contractor outside of the scope of the contract and that appropriate documentation is maintained when the department approves Sodexo's use of the Cook-Chill facility to provide goods and services outside the original scope of the contract with General Services.

### **Management's Comment**

We concur in part. The Cook-Chill Program currently provides in excess of 20 million meals annually to various state institutions that provide care for wards of the state. The Cook-Chill Division is responsible for the proper procurement, preparation, storage, and transport of prepared foods and pass-through items to these institutions through the use of a Contractor. Yearly payments from the state to the Cook-Chill Contractor are an estimated \$3.2 to \$3.8 million annually.

Policies and procedures are in place for monitoring of all overhead cost, but these policies and procedures are currently under review. Improvements to our procedures will include but will not be limited to (1) more detailed documentation of travel and meal reimbursement required from the vendor, (2) verification of inventories on a monthly basis by Cook-Chill management, (3) a clear definition of cost categories that are reimbursable under the contract as well as documentation required for reimbursement, (4) Cook-Chill management verification of rebate information, (5) verification that food costs billed to the receptor sites are accurate, and (6) procedures for reviewing and implementing recommendations and findings from other inspecting agencies.

Questions were raised concerning vehicle expense for the Contractor's general manager of \$13,314 for the period January 2003 through June 2005. Effective July 1, 2005, this expense was no longer reimbursed by the State of Tennessee.

More oversight will be exercised over the contract and questionable items that are submitted by the Contractor will be removed from the Monthly Operating Package and returned for further explanation. In addition, an Accounting Manager from the Office of Administrative Services has been working with the Cook-Chill Contractor to design a monthly financial reporting format that will enable the department's Cook-Chill employees to effectively gauge whether the Contractor is complying with the requirements contained in the contract's scope of services. Once an appropriate financial reporting format has been developed, the Accounting Manager is going to train the department's Cook-Chill employees on how they can review Contractor-furnished documentation to ensure ongoing contract compliance is maintained.

During the audit a concern was mentioned about whether state agencies whose mission does not include food service and that were not listed as "Receptor Sites," were considered "Approved Buyers" eligible to purchase from [the] Cook-Chill facility under the excess capacity or as a third party requiring the use of extended first shift or additional shifts.

We agree that the contract specifically states that state agencies are not classified as "Approved Buyers" as it relates to the excess capacity of the facility, since, as is also specifically stated in the contract, production of food for the State of Tennessee is already included elsewhere in the contract.

It is our position that it was always the intent of the state that all state agencies, whether or not their mission included food service, were eligible to receive services from the Cook-Chill contract vendor under the first shift scope of services, not just the state agencies listed as "Receptor Sites."

To correct any confusion regarding which State of Tennessee agencies are eligible to receive services from the Cook-Chill Contractor off the first shift, with the assistance of the Office of General Counsel, we will amend our contract to ensure that all State of Tennessee agencies are clearly defined as "Receptor Sites" eligible to receive service from the Cook-Chill Contractor under the first shift scope of services.

Cook-Chill Management will work with the Office of General Counsel and the Commissioner's Office to ensure that any agreements to sell to parties outside the State of Tennessee (Second Harvest Food Bank, Dreamworks, etc.) are in writing as required by contract.

Title VI is a much-litigated federal law insofar as the extent of its applicability to state agency programs which do not receive direct federal funds, but whose agency has other programs which do receive those funds. The Department is of the position that its Cook-Chill Division, which does not receive any direct federal funds, is not under the jurisdiction of Title VI. As a consequence, the Department is also of the position that its Cook-Chill Division is not required to monitor its Contractor to ensure compliance with Title VI.

Even if it were later determined that the entire Department falls under the jurisdiction of Title VI because any one of its divisions receives federal funds, the Department is of the position that Cook-Chill's Contractor is not a "sub-recipient" as such is defined under Title VI, and thus, would not trigger any monitoring requirement under Title VI.

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**3. The DUI Seizures Program had serious weaknesses related to administration and oversight, database controls, and data reliability, resulting in inadequate management control of the program and a lack of reliable information with which to hold the vendor accountable; in addition, program costs significantly exceeded revenues**

**Finding**

Legislation passed in 1996 and codified in Section 55-10-403(k), *Tennessee Code Annotated*, requires that a vehicle used in a person's second or subsequent DUI offense be seized by the Department of Safety and forfeited to the state following appropriate judicial review. Since the program's inception, the Department of Safety and the Department of General Services' Motor Vehicle Management Division (MVM) have collaborated on the management and administration of the program. The program is technically a Department of Safety program, but General Services has managed all administrative matters related to the storage and disposal of seized vehicles.

Because the anticipated number of DUI vehicle seizures under this program was expected to exceed General Services' space capacity, MVM contracted with a third-party storage and auction company (Manheim Auctions Government Services) to store and dispose of all vehicles seized under the program. (As of September 30, 2005, the contract between MVM and Manheim ended and was not renewed. MVM was in the process of relocating all DUI seized vehicles from third-party storage and auction lots to state property locations, and was in discussions with Department of Safety staff regarding MVM's specific participation in the administration of the program.)

Our review of the program identified weaknesses in MVM's oversight of the contract and administration of the program and in the program's database and associated controls, as well as concerns regarding the money the state appears to be losing on the program. [Concerns about the reliability of program data make it difficult to determine program expenditures and revenues with certainty; however, available data (i.e., the same data used by staff and the state to make decisions regarding the program) indicate that the program, which was expected to make money or at least break even, was costing the state a significant amount of money.] Our three major areas of concern regarding the DUI Seizures Program are detailed below.

### Program Oversight and Administration Was Deficient

The Motor Vehicle Management Division did not adequately oversee its contract with Manheim Auctions Government Services, Inc. (Manheim), the third-party storage and auction company responsible for the disposition of seized vehicles confiscated under the state's DUI seizure laws. In addition, the division inadequately trained staff performing program management and oversight responsibilities, and had inefficient methods for capturing and documenting program data.

Based on interviews with program management; a review of files for vehicles seized between July 1, 2000, and August 17, 2005; and a review of other on-site documentation; we determined that the division

- lacked written policies and procedures for effective contract monitoring;
- inappropriately authorized payment of private tow company storage charges in excess of contract terms by allowing Manheim five days to pick up a seized vehicle from a private tow company rather than the contractually authorized three-business-day limit;
- did not monitor or adequately account for the reimbursement of towing and storage charges by owners, co-owners, and lien holders (including total payment and retention of redemption fees by the vendor) when the courts ordered that these charges be reimbursed to the state;
- did not monitor personal property left in vehicles by drivers/owners to determine if, when, and to whom the personal property was released (If personal property was unclaimed, contrary to contract requirements that the property be turned over to the state, management stated the property remained inside the vehicle and was sold with the vehicle at auction.);
- lacked documentation, specifically law enforcement agency reports, pertaining to theft/vandalism of vehicles in the contractors' custody;
- violated the contract by allowing for a \$200 maximum vendor liability for missing vehicle radios, frequently stolen while in the vendors' custody;
- lacked documentation verifying adequate monitoring of the condition of vehicles from the point of seizure through to sale, or to the release of the vehicle by the Court to the co-owner/lien holder;

- maintained no documentation regarding the valuation of vehicles ready for sale;
- seldom established a minimum vehicle auction sales price;
- seldom and inconsistently documented credits received from Manheim (e.g., for overcharges, vandalism/theft reimbursement, or redemption fees) in the DUI seizures database;
- did not always enter vehicle seizure information into the database or notify Manheim of a seizure the same day that notice was submitted to the division by the Department of Safety, thereby increasing private storage costs; and
- did not adequately monitor or verify invoices submitted by Manheim to ensure billing accuracy.

Additionally, we found that the MVM DUI Seizures Program contact person had limited knowledge of contract details and was insufficiently trained in the operation of the database (the primary information systems management tool used by the division to capture data and run billing verification applications). There was no copy of the contract available on-site for reference when needed, and according to information systems personnel, there was no users' manual to assist with the operation of the DUI Seizures Program database.

Oversight of the DUI Seizures Program contract was imperative for the division to control costs, enhance accountability, and ensure billing accuracy. Without adequate oversight of the seizures contract and effective coordination between Safety and MVM, the division assumed the risks of inadequately accounting for seized vehicles and personal property entrusted to its care, inadequately managing program costs, and paying charges outside the scope of the contract. In addition, without adequately trained employees with a comprehensive understanding of contract terms and a thorough knowledge of the information system used to manage and administer the program, effective program administration and oversight were unattainable.

#### The FleetTracker DUI Seizures Program Database Lacks Adequate Access and Data Entry Controls

The DUI Seizures Program database has been the primary information system management tool used by MVM to account for all seized vehicles in the state's possession, document the condition and operability of seized vehicles, document court action, document charges by private tow vendors and Manheim, and perform checks against charges billed by Manheim. In order for management to use this data effectively to manage both the program and billing, it is imperative that the information be accurate and reliable. Without effective access and data entry controls, there is no assurance that the department can rely on the accuracy of extracted data, and consequently, no assurance that the department can accurately account for all vehicles, the condition and operability of the vehicles, or the personal property left behind by drivers/owners. The department also had no assurance that it was being billed accurately and according to contract terms for all charges associated with the cost of the program.

To assist with the billing and the management of vehicle data, in the late 1990s MVM officials developed an independent database within FleetTracker to store program-related data (e.g., vehicle information, owner name and address, Tennessee Highway Patrol district information, private tow vendor information and charges, judicial case information, and contractor charges) and to verify billing accuracy of invoices submitted by Manheim. According to one of the two program developers, the program was created quickly to meet the immediate needs of the program and as a mutually exclusive database within FleetTracker to minimize system costs. It was not intended to be a permanent program.

The MVM DUI Seizures Program database is driven by manual data entry and subject to error. During a review of data extracted from the database for all vehicles seized from July 1, 2000, through August 17, 2005, we found that 47% (1,143 of 2,442) of the database files of authorized vehicle seizures contained questionable, missing, and/or inaccurate data entries. Exceptions noted included

- date sequencing errors,
- incorrect and incomplete vehicle identification numbers (VINs),
- incorrect and missing Tennessee Highway Patrol District locations,
- inaccurate and invalid state abbreviations,
- invalid zip codes,
- undocumented private vendor towing and storage charges,
- tow charges exceeding maximum allowable charge, and
- missing and inaccurate data entries in fields requiring specific entries (e.g., Y or N fields contained other entries).

We conducted test work to determine the system's ability to accept incomplete and erroneous data, both at the point of entry and at the point of edit, and found very few controls preventing an authorized user from entering inaccurate data. In addition, we reviewed authorized system users and their respective access rights, and found that 2 of the 11 users authorized to access the seizures database are no longer employed by the department. In addition, all 11 authorized users have been granted the highest level of access privilege, allowing them to inquire, insert, modify, and delete data. Of the 11 authorized users with edit privileges, we identified 6 who should legitimately have edit authority either because their job responsibilities are directly related to the DUI Seizures Program or because they assist with information system support.

#### Program Expenditures Exceeded Revenues/Overall the State Lost Money on Each Seized Vehicle

According to former division management, the revenues generated from the sale of confiscated DUI vehicles were anticipated to meet or exceed program costs. To assess the overall program cost, we reviewed payments made through the State of Tennessee Accounting

and Reporting System to the vendor for fiscal years 2001 through 2005 and compared the data to vehicle seizures over the same period. The net payments made to Manheim over this five-year period totaled \$2,087,257, with revenues totaling approximately 27% of total expenses. Based on total payments made to the contract vendor for vehicles seized during the same period, we estimated that the total net cost to the state (excluding personnel and overhead expense in the Departments of General Services and Safety) for each seized vehicle was approximately \$861.

Under the contract, the state was responsible for payment of the following: towing and storage charges incurred through the initial pick-up and storage of a seized vehicle by a private tow company called to the scene by the local law enforcement officer; transportation fees associated with relocating a DUI vehicle seizure from a private tow company location to one of five vendor storage/auction sites across the state (Chattanooga, Fall Branch, Knoxville, Memphis, and Nashville); storage fees (\$6 per day); and a sale fee. According to the second contract (awarded to the same vendor for October 1, 2002, through September 30, 2005), Manheim was authorized to retain a \$30 redemption fee from payments made by owners, co-owners, or lien holders.

Major concerns regarding program expenditures and revenues and factors contributing to the program's excess of expenditures over revenues are discussed below.

Costs Related to Initial Towing and Storage. Actions by the Department of Safety increased work for MVM and costs for the program. According to MVM program managers, when the Department of Safety eliminated its separate wrecker call list and instituted a rotational method of private tow vendor selection, bid pricing was also eliminated. MVM program managers had to contact the private tow company directly to obtain total towing and storage charges, and provide Manheim with the total authorized charges payable to the private tow company with the pick-up notice. In addition to potentially higher non-contract charges, MVM personnel had to spend more time authorizing charges and incurred additional long-distance phone expense. According to MVM program managers, it was not uncommon to log four to five pages of long-distance calls to private tow companies each month. Also, Safety took an average of 11 days to notify MVM that a vehicle had been seized, thereby contributing to the time a seized vehicle sat at a private tow company and incurred higher storage charges.

A lack of contract oversight also contributed to program costs. As an example, the contract specifically required that Manheim pick up seized vehicles as soon as possible, but no later than three business days from notification of a seizure. Based on a review of seizure data extracted from the DUI Seizures Program database for all vehicles seized between July 1, 2000, and June 30, 2005, however, we estimated that the contract vendor failed to pick up seized vehicles within the contractually required three business days 39% of the time (918 times of the 2,363 total seizures in the database, excluding entries with questionable notification and pick-up dates), amounting to 2,845 days in unallowable storage charges. The result was not only a violation of contract terms, but also a higher cost to the state as a result of the higher non-contract storage charges by private tow vendors. Based on interviews with MVM program managers, the division had always allowed five calendar days for pick-up. Additionally, during the file review,

we found no documented evidence detailing reasons for pick-up delays, or evidence that these additional costs were recouped from Manheim.

Long-term Storage Costs. The most significant program costs were Manheim storage costs. According to MVM management, the Department of Safety seizes 700 to 800 vehicles annually, with approximately 300 stored at any given time. At the contract rate of \$6 per day (the first 60 days' storage with Manheim are at no charge per the contract), the total storage cost averaged approximately \$1,800 per day. Storage costs during judicial review and between judicial release and sale/pick-up of the vehicle were the most significant. We reviewed all vehicles seized between July 1, 2000, and August 17, 2005, and calculated the average total number of days a vehicle was stored with Manheim prior to judicial release, as well as the average number of days between judicial release and the sale of the vehicle at auction or release to the owner/lien holder. (This data was obtained using data extracted from the MVM DUI Seizures Program database, which we found to be questionable because of a lack of adequate controls.)

Vehicle Status	Average Number of Days in Storage Prior to Judicial Release*	Average Number of Days in Storage Following Judicial Release, Until Sale at Auction, Pick-up by Owner, or Pick-Up by Lien Holder**
Released to State (Sold)	204	62
Released to State (Ready For Sale)	269	N/A
Released to Owner	138	5
Released to Lien Holder	92	11

\*Includes the first 60 days of storage at Manheim that the state receives free.

\*\* MVM's initial contract (from October 1, 1997, through September 30, 2002) with the vendor placed no limits on the maximum number of days MVM would pay storage charges. The second contract (from October 1, 2002, through September 30, 2005, awarded to the same vendor) limited the maximum days storage charges accumulated following release by the court to sale/pick-up by co-owner/lien holder to ten days.

Based upon our reading of the contract terms, charges recorded in the database, and the potential impact of judicial orders, it is possible that the state may have been overcharged for storage by approximately \$161,000 (vehicles seized between July 1, 2000, and August 17, 2005 which were sold at auction, ready for sale, or which had been released to an owner/lien holder).

Effect of Judicial Decisions on Program Costs. When the court awards the forfeited vehicle to a co-owner or lien holder, contract provisions required that all expenses incurred as part of the seizure be paid by the co-owner or lien holder prior to release of the vehicle, pending an alternative ruling by the court. The courts often ruled otherwise, thus requiring that most of the financial burden rest with the state. According to management, and confirmed by our file review of vehicle seizures, the court has broad authority over the payment of costs and often requires the state to pay administrative costs and assume the costs of storage through five days after the effective date of the order. Further, although we found that some court orders did require that the owner or lien holder pay towing and storage charges, the total was often minimal (the largest amount identified during our review was \$200) and did not cover all expenses.

Vehicle Sales. Also affecting the cost to the state was the low vehicle auction sales price. According to our calculations, the average sale price of all vehicles seized July 1, 2000, through August 17, 2005, and then sold was \$472. We determined that of the 1,447 vehicles sold during this period, 565 vehicles (39%) sold for \$150 or less. Sixteen percent (228 vehicles) sold for \$50 or less, and 5 vehicles sold for \$1. Below is breakdown of all vehicles sold for \$150 or less:

Auction Sales Price	Total Vehicles Sold	% of Total Sold
\$5.00 or less	19	1.3 %
\$5.01-\$50.00	209	14.4 %
\$50.01-\$100.00	194	13.4%
\$100.01-\$150.00	143	9.9 %
<b>Total Under \$150</b>	<b>565</b>	<b>39.0%</b>

An MVM program official was responsible for representing the state at auction. According to this official, the division never sold a vehicle for scrap or to a licensed dismantler as authorized by the contract. Research conducted on the value of vehicles sold for scrap suggests that the standard mid-sized vehicle has a scrap value between \$100 and \$150, and vehicles sold to a licensed dismantler typically are worth from \$25 to \$250. In addition, and as noted earlier, the establishment of the value of vehicles and the establishment of a minimum sales price were inconsistent and undocumented.

### **Recommendation**

In the event that a new contract is initiated for private storage and auction services, management should develop written policies and procedures addressing comprehensive monitoring of the contract. At a minimum, these policies and procedures should address monitoring of vehicle condition, including documentation of theft and vandalism; monitoring and documentation of the status of personal property seized; coordination procedures for seizure notification; storage fee responsibilities following judicial release; and documentation of vehicle valuation.

The commissioner should assign responsibility to ensure that adequate training is provided to all personnel with program management and oversight responsibilities. Training should include adequate information systems training and training on contractual terms and obligations.

The commissioner should assign responsibility for working with information systems staff to develop a reliable computer information management system with adequate controls over data and data entry to limit data entry errors and improve the reliability of data extracted from the DUI seizures database.

Controls should be implemented to ensure that user access is revoked immediately after employment ends or when a user no longer requires access. Further, authorized user access

should be reviewed regularly to determine whether the level of access is still appropriate, given the employee's current job responsibilities, with edit privileges restricted only to those with direct program responsibility and to those who serve as information systems support.

The commissioner should assign responsibility for a review of the current practices for coordination and administration of the program to identify and improve in those areas that lead to additional program costs, such as delays in notification, delays in data entry, payment variation in storage charges by non-contract tow vendors, methods for obtaining private tow company charges, etc. The department should also consider alternative disposal options for vehicles with low valuation, which might include selling a vehicle for scrap and/or selling to a licensed dismantler.

The commissioner should consider storing vehicles on state-owned property to eliminate the costs associated with storage pending judicial review, and consider the feasibility of coordinating disposal through the Property Utilization Division (State Surplus Property).

### **Management's Comment**

We concur. The Motor Vehicle Management Division assumed the responsibility of administering the DUI Seizures Program in 1996 with no additional resources or personnel provided. The Division utilized a third party contractor for the towing, storing, and disposal of seized vehicles adjudicated through the courts.

The Department of General Services cancelled the contract with Manheim Motors effective October 1, 2005, because the contract was not in the best interest of the State of Tennessee. Since October 1, 2005, all of the vehicles that were stored at the Manheim storage facilities are now stored on five secured state locations throughout the state. The state is saving between an estimated \$40,000 - \$50,000.00 a month in storage fees.

Disposition of the seized vehicles is now handled through the Division of Surplus Property using their Internet auction website.

Because of questions raised in early 2005, by the Department of General Services Management, regarding who had the actual responsibility for administering the program as defined by *Tennessee Code Annotated*, the Departments of Safety and General Services have entered into a memorandum of understanding that will transfer the administrative operation of the DUI Seizures Program to the Department of Safety on March 1, 2006.

**4. The department is not properly overseeing the shredding of sensitive state records, thereby risking the theft or unauthorized use of employees' and citizens' protected health information and other personal information**

**Finding**

The Records Management Division of the Department of General Services is the primary records management agency for state government and as such directs the disposition of all records. However, the division does not visually confirm the shredding of state records by a private contractor.

Currently, Records Management has a revenue contract with Secure Shred of Lebanon, Tennessee, for off-site shredding of state records, some of which probably contain protected health information and sensitive personal information such as social security numbers. When archived documents reach the end of their scheduled retention period and are ready for disposal, they are bundled into numbered pallets and taken to or picked up by Secure Shred for shredding. Secure Shred pays \$0.05 per pound for this recycled paper. According to the contract, Secure Shred is to ensure the security and confidentiality of the documents, to limit its own employees' access to the documents, to shred the documents on the day of delivery, and to provide certification of document destruction. The contract also stipulates that a state representative may witness the destruction at the state's discretion.

According to division personnel, when pallets of documents are delivered to Secure Shred for destruction by a division employee, a transfer receipt is to be obtained by the driver showing which pallets were transferred to the vendor and their individual weights. However, division personnel state that the driver does not always wait to receive the transfer receipt. The division does not have any checks in place to ensure that the documents delivered to or picked up by Secure Shred remain confidential. Neither do they make sure to witness the actual shredding. The division is content with the certificate of destruction that comes with the monthly invoices. The certificate details the pallets received that month and their weight, and attests that such pallets were destroyed the day they were delivered.

Identity theft is one of the fastest growing crimes in America. When a dishonest person gains access to another person's personal data, especially the social security number, that person can use it to get other personal information, can apply for or access credit lines, or can assume another person's identity. Also, access to personal health information has been used by individuals or companies to discriminate against individuals or to target certain individuals for things like sales calls or advertising.

**Recommendation**

The department should ensure that the Records Management Division has policies, procedures, and practices in place that ensure the security and confidentiality of state records

delivered to outside vendors for destruction. These measures should include the witnessing of record destruction by a state representative.

### **Management's Comment**

We concur. The Records Management Division takes every step feasible to ensure the security of state records. Due to limited division staffing and the extensive travel time to the shredding vendor, the Records Management Division has entrusted the shredding of state records to the bonded, insured, secure shredding vendor.

In order to ensure sensitive records are properly disposed of, in February 2006 we implemented the following procedures: (1) Shredding of records accessible to the public will be monitored via a live feed from a secure Internet site the vendor will provide and (2) Records classified as confidential will be monitored at the Secure Shred facility by a member of the Records Management staff where shredding will occur when scheduled with the vendor.

The Records Management Division will identify confidential records as defined in *Tennessee Code Annotated*, Section 10-7-504. Items classified as confidential can be identified by the RDA number on the box. In addition, a supervisor from the Records Management Division will perform a sample test of records that do not contain the RDA sequence classified as confidential to ensure they do not include any confidential information.

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## **5. The execution and oversight of contracted security guard services need significant improvement to mitigate the potential dangers to state employees and assets**

### **Finding**

Departmental requirements, oversight, and enforcement of security guard service contracts—particularly regarding the control of persons coming and going from state office buildings—need significant improvement to safeguard state employees and assets. Current guard service does not comply with contract requirements or state Homeland Security expectations.

The Department of General Services has 8 vendors with 20 contracts for security guard services for many, but not all, state-owned and leased buildings scattered across the state. The largest contract (multi-year) is with Murray Guard for approximately \$14 million over five years and covers almost all of the state offices in downtown Nashville. There is no standard contract, contract language, or minimum requirements and training for security companies and security guards providing service to state-owned and leased buildings. Despite these weaknesses, current security guard contracts could be sufficient, as they are worded in ways that would allow the state to require actions that result in acceptable guard service. However, the department is not enforcing compliance with the contracts.

The state's security guard contracts only generally describe the basic level of security required. At its most detailed, the description of security is that

security shall include, but not be limited to, surveillance and control of ingress and egress to the specified buildings, grounds and parking areas, e.g., visually checking employee badges upon entry and directing non-badged individuals to sign in; verifying visitor signature and identity; investigation of criminal acts, incidents and accidents committed or occurring on state property; communication and cooperation with and assistance to law enforcement and investigating authorities having Federal, State and local jurisdiction, e.g., local fire department, police department, Sheriff's Department, Capitol Police, Tennessee Bureau of Investigation, and Federal Bureau of Investigation; monitoring of building fire and life safety features including orderly control of evacuations, drills and other exercises that instruct tenants and visitors about building safety; identification and reporting to the appropriate Facility Administrator all existing or potential hazards, etc.

Also, only a few contracts require the business to have at least one year in security operations and business and a minimum of three current contracts with satisfactory and/or exceptional performance and service. Only two contracts require that all security guards will have a minimum of eight hours structured training on crowd psychology, management and control techniques, public relations, limited force ejection techniques, use of fire extinguishers, locations of emergency equipment and personnel, emergency evacuations, and visual inspection and search techniques.

State Homeland Security officials characterized state building security as "poor at best," and as a level of security that reflects minimum-wage jobs by persons with low skills and no initiative. These same officials state that there should be "positive access control" that requires much closer inspection of identification badges (IDs); increased basic hiring requirements; expanded, continuous training; and contracts specifying training and skills needed before and after guards are assigned. The state does require that personnel providing security guard service to the state hold a valid state license as an unarmed security guard. However, the licensure process only requires an initial four hours of training (one hour each in orientation, legal powers and limitations of a security guard, emergency procedures, and general duties) followed by examination on those subjects, with no further training ever required.

Between May 8 and June 7, 2005, we conducted tests and observations of security control of persons entering and leaving a number of downtown Nashville state office buildings. For testing purposes, we made multiple fake identification badges (some using correct photos and/or information, others with photos of other persons/animals and obviously false information). Only once were security guards routinely inspecting employee IDs closely to compare photographs with the wearer. In one other instance, when flashing an obviously fake ID, the security guard noticed something and asked to more closely inspect the ID. However, when we congratulated her for noticing and showed the real ID, the guard allowed entrance into the building without confiscating the fake ID or requesting her supervisor's assistance. In all other instances, guards

allowed access to state office buildings to people they noticed having something blue hanging from a lanyard around their neck or clipped to their belt, whether the ID was facing information/picture out or the blank backside was showing. At most, it was observed, the guards only glanced at the people who were passing three to five feet away from them. Some times the guard never looked at all. No attempts were made to view IDs closely enough to verify ownership and legitimacy. Guards were also observed almost never checking visitor signatures on logs against the ID presented to the guard (from which they filled out the visitor name badge) to make sure the signatures matched. The worst instance observed was the abandoned guard post that controlled H level elevator access to the 18-floor Polk Tower from the Tennessee Performing Arts Center (TPAC) on a weekend during which there was a show in Jackson Hall (which has a maximum seating of 2,400 people) and potentially another 1,750 people if shows had been running in the Polk and Johnson theatres. The department's own Office of Internal Audit conducted similar building security reviews in 2000, 2001, and 2003, with similar results reported to the commissioner.

State Homeland Security officials also provided another example of security guard non-compliance with contract requirements. In April 2005, construction work on the roof of Tennessee Tower in Nashville resulted in a small fire that forced the evacuation of the building. According to Homeland Security officials, the security guards abandoned their posts and were the first ones out of the building despite their contractual responsibility for orderly control of evacuations. Another example, provided by a security assessment memo prepared by General Services' Homeland Security Operations Officer in May 2005, detailed how, following a fire drill, visitors reentering the 5<sup>th</sup> Avenue entrance of the state's Central Services building at the Vital Records Office in Nashville were not required to sign in. When asked if this was normal procedure, the operations officer was informed that only those going beyond Vital Records were required to actually sign in. There are no security personnel placed in a position to prevent someone from going from Vital Records into any part of the inner building.

General Services' Homeland Security Operations Officer, appointed in spring 2005, stated that it is obvious that security guard service is lacking. He stated that he was reviewing contracts and was also in the process of creating a pilot training program for guards in Tennessee Tower as well as requiring security companies to provide additional training to their employees. He also stated that one of his staff was out in the field at a state property checking to make sure security services were properly staffed and staff had required licenses, etc. However, he stated that no documentation of this oversight was being prepared.

Adequate monitoring and control of employee and visitor access to state offices is necessary to help ensure the safety of state employees and state assets, thereby assisting the state in appropriately serving its citizens. Generally speaking, while the guard service contracts are acceptable in that they are worded in ways that would allow the state to require actions that would result in acceptable guard service, the execution and oversight of security guard service by the department needs significant improvement, since current security guard practices do not satisfy contract requirements or Homeland Security expectations.

## **Recommendation**

The department should standardize contracts regarding specific duties and expectations for security guard service in state-owned and leased buildings. Additional and continuous training should be required of the security guards assigned to state offices. Guards should monitor both employees' and visitors' badges for approved access to their specific building. The department should establish a system that ensures regular oversight of security guard practices (expectations versus actual practice) and documents compliance as well as non-compliance by security companies and their guards with security expectations and contract requirements.

The department should also seek ways to improve the security of employee identification badges that would make it more difficult to create a counterfeit badge and gain entrance to state offices.

## **Management's Comment**

We concur in part. The Property Services Management Division has always taken every reasonable means within our limited resources to ensure the safety of state employees. The execution and oversight of the security guard services contracts is a very complex and serious issue; therefore, a Security Administrator was hired in March 2005. The Security Administrator's objective was to completely overhaul all security practices and procedures and implement state-of-the-art techniques within the constraints of available funds and the public we serve.

Since March 2005, the department has taken a more active role in the oversight of security guard contract enforcement. Additionally, guards have received remedial training in post orders, responsibilities, and employee/visitor sign-in procedures. This is an ongoing process.

We are currently in a test phase of an Electronic Visitor Management System (EVMS) LobbyGuard at the Tennessee Tower and Davy Crockett buildings. Dependent on the procurement process, our projected date of beginning implementation for systems statewide is March 2006. Additionally, there are also plans to institute an Electronic Employee Management System (EEMS), which would include Proxy/Smart Cards and card reading systems. Implementation of this system will follow the EVMS. This system along with the EVMS will provide a state-of-the-art management system, which will enhance the state's security posture within its facilities.

Although the security contracts were written as defined in the audit report, all contracts are now being revised as they come up for renewal. The initial contract verbiage, in general, allows for appropriate security measures to be implemented. Under the new contracts, we have strengthened the specifications of the contracts as follows:

1. Security contract services are required to have been actively engaged in the business of providing contract security guard services for a minimum of two (2) years immediately preceding the effective date of the award of the security contract.
2. Security guard services are required to provide three (3) current references within the past two years where service has been provided. Additionally, references must be for provided services similar in size and type as that required by the State of Tennessee.
3. All renewed contracts state the maximum amount of hours a security guard may man a post, and specifically states required off duty rest hours.
4. All renewed contracts state that all security guards and supervisory personnel will receive orientation training from the Facility Administrator as soon as possible upon the commencement of security services to ensure that guards are familiar with the day-to-day operations of the facility and are familiar with emergency procedures as they pertain to the facility. This orientation training is in addition to the eight (8) hours of initial training provided by the security guard service.
5. Additional training will be provided by the Security Administrator's office in management and control techniques, public relations, visual inspection, and search techniques. As these subjects have been covered with guard service personnel, the Security Administrator will ensure that the training is documented in the future, and that the documentation is on file. These procedures will go into effect February 2006.

Until all security contracts are updated with the additional five specifications listed above, a directive will be issued by the Director of Property Services Management requiring these services to be performed.

Effective February 2006, a policy was implemented where all employees entering state facilities will be required to physically hand their access badges to security personnel for close visual inspection. This policy will also be implemented at parking garages located under state facilities. This procedure, integrated with the EVMS, will enhance the security posture of state facilities. Additionally, the guards have on numerous occasions since the audit period confiscated fake employee ID badges and reported the individuals to the Security Administrator's office.

It has been noted by the auditors that, during the evacuation that occurred during April 2005, Security Guards abandoned their posts instead of helping with the evacuation, as was their contractual responsibility. While one security post (7<sup>th</sup> Avenue) was abandoned and one guard abandoned her post on the 4<sup>th</sup> floor level, the other guard was at her assigned post on the 4<sup>th</sup> floor level facilitating the evacuation of the building. All other posts were operating within the contract requirements. Since the aforementioned incident, security guards have reviewed their post orders to ensure that they are aware of their responsibilities during building evacuations. Additionally, during subsequent fire drills the guards have performed their duties within the contract requirements.

A concern was raised during the audit related to security procedures at the Vital Records Office. It was a long standing security procedure that due to the amount of visitors to the Vital

Records Office on a daily basis that those patrons did not have to sign in. It is also agreed that persons were able to leave Vital Records and enter the interior of the building without having to pass through security. To resolve the security issue, the security desk was moved to a location within the hallway beyond the Vital Records Office. The new location allows for the security guard to monitor all persons entering the interior of the building. Additionally, all personnel wishing to obtain entrance into the building at this point will be processed at the security desk.

Security post inspections are conducted on a daily basis by department security staff. These inspections are documented on a daily inspection log, which addresses the facility inspected, guards on duty, any deficiencies noted, and corrective actions for noted deficiencies. These inspections are also used as a tool to ensure that the security guards are in contract compliance and are performing within the responsibilities of their post orders.

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**6. The Property Utilization Division does not have comprehensive policies and procedures for the receipt, disbursement, and monitoring of the state’s surplus property, thereby making it possible that valuable assets will be wasted or lost**

**Finding**

The Property Utilization Division of the Department of General Services, more popularly known as “Surplus Property,” is responsible for receiving, warehousing, and redistributing personal surplus property according to the state’s needs. Surplus property is first made available to state and local governmental entities, non-profit organizations, and other agencies that meet eligibility requirements as established by statute. Property not redistributed to eligible organizations is made available for sale to the general public through Internet auctions.

However, the division lacks established and written policies and procedures for

- the receipt and disbursement of state surplus property,
- what information must be registered in the database for each item received,
- the manner and frequency with which state and other eligible agencies are notified of available surplus inventory, and
- how long inventory will be stored before it is offered to the public or scrapped.

This lack of policies and procedures results in inconsistent and incomplete data regarding surplus items, product deterioration (due to age or exposure to rain, extreme temperatures, dust, etc.), irregular monitoring of how long an item has been stored, and a lack of publication to eligible recipients that an item is available for redistribution. Despite departmental rules requiring that a monthly list of available surplus inventory be distributed to state agencies and a mailing list be created of eligible organizations, it is only after listing property for public Internet auction that the Property Utilization Division notifies state agencies, other government entities, or eligible donees about property that is available. Because the division is not notifying

governmental agencies and donees about available surplus property before listing it for public Internet auction, despite the fact that the division specifically holds such property for a time at the warehouse in case these agencies are interested in it, property is remaining at the surplus warehouse for long periods of time, often beyond its useful life. From July 1, 2002, through August 24, 2005, 6,253 (30%) of the 21,007 items surplus during this time had not been redistributed. Of this number, 92% were in the warehouse over 4 months. Of the 14,754 (70%) items that were surplus and sold during this interval, 10% sat in the warehouse for over 4 months.

Without established procedures for handling the redistribution and disposal of state agencies' surplus property, valuable assets are being lost. In the current fiscal climate, the department must make every effort to take full advantage of revenue-producing opportunities and to assist other local municipalities and eligible agencies in reducing costs through the acquisition of the state's surplus equipment.

### **Recommendation**

The Property Utilization Division needs to develop a comprehensive set of written policies and procedures. These policies and procedures should address what information is required when a surplus item is entered into the database as well as formal systems training for all new employees. Procedures should also be established that ensure the proper notification of eligible agencies about available surplus property. Policies and procedures should also include reporting measures that detail the procedure for regularly reviewing the aging of items held in the warehouse. These measures should address the time period allowed between offering surplus items to state agencies and releasing those items to the public for sale. For items not transferred to a state agency or sold to the public after a predetermined amount of time, reporting measures should also address what action should be taken and when a decision should be made regarding these items.

### **Management's Comment**

We concur. The Property Utilization Division is currently drafting comprehensive policies and procedures for the receipt, disbursement, and monitoring of state surplus properties. These policies will be incorporated into a training manual which will be distributed to all Property Utilization Division employees. We expect to have the comprehensive policies and procedures manual distributed to all Property Utilization Division employees by the fall of 2006.

In order to ensure that all state agencies are properly notified of eligible state property, once a month, the Property Utilization Division will e-mail all Property Officers to remind them to visit the warehouse to view the surplus property we received or to view specialty items on the Internet auction website. In addition, we are currently in the test phases of a new inventory system. We will inquire to see if this new system will allow us the capability for automatic

notifications to Property Officers concerning eligible property or allow Property Officers the capability to view surplus property in the warehouse online.

A concern was raised during the audit about the length of time surplus items remained in the warehouse. Currently, state property that has been in our warehouse over 30 days is assessed to determine if it should be placed on our Internet auction website. Some items may not be placed on our Internet auction website after 30 days depending on the potential usage for donees. Items received that are damaged, obsolete, or overstocked will be immediately placed on our Internet auction website for sale. Any items not sold on our Internet auction website within a 60-day period will be reviewed and reassessed to determine if the property should be disposed of or remain on our Internet auction website for another 60 days.

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**7. The Property Utilization Division lacks an efficient state surplus inventory program with sufficient internal and security controls to ensure that the state's surplus property is not lost, stolen, or allowed to sit idle and deteriorate**

**Finding**

The Property Utilization Division, also referred to as "Surplus Property," is responsible for maintaining an accurate inventory record of available state surplus property so that the property can either be redistributed to another agency or sold to the general public. Departmental rules require that state agencies and other eligible organizations be made aware of surplus property that is available on a regular basis.

However, the current state surplus property tracking and disbursement system does not have the ability to accurately maintain inventory records, because of a lack of

- efficient procedures,
- reliable software,
- internal controls that ensure data reliability,
- limitations on data fields for data consistency,
- security controls restricting access to authorized users only, and
- interfaces between other databases.

The Property Utilization Division relies on ten different FoxPro databases that all operate independently of one another. The surplus inventory process is driven by manual entry and relies on the user for data accuracy and consistency. From July 1, 2002, through August 24, 2005, 9% of the inventory records entered were found by the auditors to have exceptions including missing invoice dates, incorrect invoice numbers, incorrect and incomplete donee information, and conflicting inventory descriptions. The 2004 inventory observations of state surplus property

released by General Services' Office of Internal Audit on December 29, 2004, reported 422 exceptions, 188 of which could still not be accounted for even after additional research.

The Property Utilization Division is unable to maintain accurate inventory records due to current procedural inefficiencies and software deficiencies. Surplus items acquire a unique identification number for each phase that they pass through or each database they are recorded in, making it very difficult, if not impossible, to track an item once it has been entered into the database. An item arrives at the division with a POST (Property of the State of Tennessee) inventory number. However, the inventory database was not designed to use the POST number, so the item must be given a unique Property Utilization Division inventory number. The item is also assigned another different number from the folder database for the folder in which any paperwork will be kept. Since the inventory database does not link to the folder database, donee database, etc., it is impossible to cross-reference an item for further information regarding the item from receipt to disposal. There are no limitations on data fields in the databases that force a user to enter accurate information based on preset parameters and no required fields that a user must complete before proceeding with a task. According to division employees and observed by auditors, the inventory database routinely crashes during data entry processes and takes several minutes to complete a task as simple as generating an invoice. Also, most items are being stored in the warehouse with a printed index card taped to them as the only identifying link to the inventory record.

According to Information Systems personnel, the current state surplus inventory tracking and disbursement system was developed some 15 years ago and is past its useful life. The inventory program was developed as a "quick and dirty" solution with the idea that it would be replaced with a more comprehensive system in the short term. Information Systems personnel have conveyed their concerns about the system's ability to continue functioning on more than one occasion. Plans to update the inventory system have lacked the resources needed for complete implementation. Information Systems personnel state that they do not want to "continue to patch a system that is inadequate for today's needs." The current Assistant Commissioner with responsibility for the Property Utilization Division recognizes the need for an updated system, stating that it "is badly needed and a serious goal" of the Department of General Services.

A comprehensive and reliable inventory tracking and disbursement system is crucial to maintaining accurate inventory records as well as to redistributing surplus property in a timely manner. In order to be fiscally responsible, the Property Utilization Division must take full advantage of the opportunities available to not only aid other state agencies with a particular need but also to sell property to the general public quickly and with a higher margin of revenue than if the property is left to deteriorate in condition and value. The division is responsible for protecting state assets and should approach this responsibility with consistency and efficiency.

## Recommendation

The Property Utilization Division should implement an efficient and comprehensive system that would eliminate the need for the ten different databases and multiple identification numbers that are currently being used. This system should have field limitations as well as required fields to ensure the consistency and reliability of the data entered. This system should also have adequate security controls that restrict access to the system for a user without the proper identification and password.

## Management's Comment

We concur. We are currently working with Finance and Administration's Shared Services Information Systems Division to develop an inventory control system. The prototype of this system is scheduled to be demonstrated to the Division in February 2006. Testing of the different modules by the Property Utilization Division is expected to begin in February 2006. If this system is determined to meet the needs of the Surplus Property Division, we expect to have it fully implemented by July 1, 2006.

The Property Utilization Division is very aware of the need to have a more efficient and less manual-intensive inventory system and is currently taking every precaution possible to ensure state assets are properly secured. In our last inventory review conducted in September 2005, 18 items (3%) out of a total of 606 items on our active inventory list could not be located.

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### **8. The department is not sufficiently monitoring its own activities and federal surplus property donees for compliance with Title VI, which could result in the department being out of compliance with federal regulations and the subsequent loss of federal funds**

#### Finding

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. Although the Department of General Services receives no direct federal funds, the department receives federal surplus property (which is then distributed to other eligible agencies) and federal criminal justice and homeland security grants passed through the Department of Finance and Administration and the Tennessee Emergency Management Agency. (See the Appendix for additional information regarding the department's federal financial assistance and Title VI activities.) According to Chapter VII of the *Title VI Legal Manual* (2001), Civil Rights Division, U.S. Department of Justice, receipt of these federal funds makes the entire department subject to the provisions of Title VI. Our review of the department's processes for overseeing Title VI compliance of the entire department and organizations receiving surplus property reveals little substantive monitoring and a need for improvement.

As required by state law, the department files an annual Title VI Implementation Plan/Update with the Office of the Comptroller of the Treasury. However, the plan and the procedures for handling complaints only address Title VI compliance in regard to the Property Utilization Division (also known as Surplus). The plan does not address the issue of Title VI compliance oversight of the department's activities as a whole.

The department's Title VI monitoring of entities receiving surplus property appears limited. Every donee organization must submit an application for eligibility in order to be considered for receipt of state and federal surplus property. This application includes a non-discrimination assurance form (or letter of assurance) that must be signed by the top official of the organization. The application must be completed every time there is a change in leadership of the organization, which could mean the form is resubmitted every year or only after many years, depending on the turnover in the organization's leadership. In addition to attesting in the application that the organization will comply with Title VI, the invoice signed by organization staff when they take delivery of federal surplus property states that the organization acknowledges that the transaction is subject to Title VI. According to the Property Utilization Division's Title VI coordinator, other than making sure organizations sign the letter of assurance, nothing is done to confirm that recipient organizations are complying with Title VI.

According to the department's Title VI coordinator, she annually visits the division and reviews its operations and talks with the staff, but she does not audit the division for Title VI compliance. She also stated she had not received copies of the division's federally required reports in the last three years.

### **Recommendation**

The department should develop and improve policies and procedures for monitoring its own activities and recipients of surplus property for compliance with Title VI.

### **Management's Comment**

We concur in part. Currently, we have an established outreach Title VI Coordinator for our donees to contact with questions or concerns regarding Title VI. In addition, this Title VI Coordinator reviews all eligibility applications to ensure they are accompanied by the Nondiscrimination Assurance Statement.

In order to strengthen our monitoring, we are currently distributing posters and brochures regarding Title VI to all donees for them to display for their employees. We hope to have these distributed by July 1, 2006, to all of our donees.

We will also improve our monitoring process of donees by conducting periodic site reviews. We will select a sample of 5% of our nonprofit organizations and perform a compliance check. This process will begin July 1, 2006, and will be performed on a quarterly basis. Our

Federal Property section will be assisting our Title VI Coordinator with these compliance checks when they visit their Law Enforcement Support Office (LESO), Law Enforcement Agencies (LEAs), and eligible Federal Property recipients.

In addition, the Surplus Property Division will work with the Department's Title VI Compliance Officer to draft procedures for the site reviews to ensure all reviews are done in compliance with the Office of Civil Rights' guidelines.

It should be noted that the Office of Civil Rights conducted a Title VI compliance audit in August 2000 and we were found in compliance with Title VI. The Federal General Services Administration will be responsible for checking our compliance with Title VI when they conduct our next audit in 2007.

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**9. Conflict-of-interest forms need revision, and statements need to be completed by employees on an annual basis to ensure that employees are not using their position for private gain, giving preferential treatment to others, or impeding government efficiency and effectiveness**

**Finding**

Employees are not completing annual conflict-of-interest forms. Instead, at the time of hire, employees sign forms simply acknowledging receipt of a copy of the departmental ethics and conflict-of-interest policy or the Governor's executive order regarding ethics and signifying agreement to abide by the policy. Employees are to immediately notify the commissioner in writing of any conflict of interest that subsequently develops.

A file review of 22 employees in Purchasing and 89 employees in Property Services Management (PSM) indicated the following:

- Fourteen of the 22 Purchasing employees had not signed a conflict-of-interest form since calendar year 2000. Of the 8 that had signed a form since 2000, 7 were hired after calendar year 2000.
- Fifty-five of the 89 PSM employees had not signed a conflict-of-interest form since calendar year 2000. Two of those 55 had no form at all in their files. Thirty-four of the 89 employees had signed a conflict-of-interest form since 2000; 24 of those were hired after calendar year 2000.

No employees in the sample declared any conflicts of interest. However, the forms have no place for such declarations and do not require employees to affirm that they have no conflicts. According to the benefits/training manager in the department's personnel office, there is no separate document for declaring conflicts and no one has ever declared a conflict. If someone had stated they had a conflict or potential conflict, the employee would have been sent to the personnel director's office.

Conflict-of-interest disclosures are designed to ensure that the public's interest is protected, and the current Governor's administration has made this a priority. Persons should avoid any action, whether or not specifically prohibited by statute or regulation, which might result in or create the appearance of using public office for private gain, giving preferential treatment to any person, impeding government efficiency or economy, losing complete independence or impartiality, making a government decision outside of official channels, or adversely affecting the confidence of the public in the integrity of the government.

### **Recommendation**

The commissioner should assign specific responsibility to ensure that policies and procedures are implemented to require that conflict-of-interest forms addressing financial interests, prior employment, employment of family members, and other matters are completed annually by all employees as a way to constantly remind employees to be aware of actual, potential, and perceived conflicts of interest. Department management should revise the conflict-of-interest policy to include direction to staff regarding the types of conflicts that should be disclosed, how often a conflict-of-interest form should be completed, and what action staff should take if a potential conflict arises in the interim.

### **Management's Comment**

We concur. The Department has always taken the position that all employees will conduct themselves in a professional and ethical manner. During the General Services' Executive Staff Retreat and on a continuing basis during monthly staff meetings, the Department has communicated to its employees the importance of ethical behavior.

The Department has developed a comprehensive Conflict-of-Interest Policy containing ten Articles that set forth conduct expected by all employees. The Conflict-of-Interest Policy contains a Declaration of Receipt and a Conflict-of-Interest Employee Disclosure Form. The Conflict-of-Interest Policy and accompanying forms were sent to all Department employees in early February 2006 for their review and to obtain signatures.

Signed copies will be placed in every employee's personnel file. New employees will be given copies of the Conflict-of-Interest Policy and asked to complete disclosure forms during new employee orientation.

In addition, the Department's Conflict-of-Interest Policy states that every career service and every executive level employee will complete the Conflict-of-Interest Employee Disclosure Form "on or before April of each calendar year."

The Conflict-of-Interest Employee Disclosure Forms will be reviewed by the Director of Personnel upon their return to the Personnel Division. Any conflicts of interest disclosed will be discussed between the Director of Personnel and General Counsel to determine the appropriate follow-up action needed. After the annual review of the Conflict-of-Interest Employee Disclosure Forms is completed, a report will be sent to the Commissioner discussing the results of the review.

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**10. The Office of Internal Audit is not conducting contract audits as frequently as intended by policy to ensure that vendors are complying with their contract and using state funds appropriately and in a lawful manner**

**Finding**

The Office of Internal Audit is the independent appraisal function established within the Department of General Services to examine and evaluate departmental activities as a service to management. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. In addition to periodic audits of each division in the department, the office is responsible for

- contract audits;
- following up on lost, stolen, or damaged equipment, vehicles, and credit cards;
- reviewing and reconciling contract Post Office Accountability Reports;
- reviewing and overseeing divisional year-end inventory counts;
- reviewing divisional long-distance exception reports;
- following up on employee and contractor overpayments;
- investigating employee complaints;
- reviewing Financial Integrity Act reports;
- following up on State Audit findings and reporting all the above to State Audit; and
- special requests of the commissioner or division directors.

However, the office is not complying with contract auditing procedures because of a shortage of personnel and a growing involvement in personnel issues.

Department policy states that “to the extent resources are available for such purposes, the Office of Internal Audit will audit all cost reimbursement type contracts with annual costs of or greater than \$500,000 at least once during each two-year period.” This threshold was originally \$150,000 but was changed to \$500,000 following a finding in an October 1997 audit by the Comptroller’s Office in which it was noted that contracts over \$150,000 were not being audited.

Current policy goes on to state that “depending on the priority of the matter and the availability of resources, the Office of Internal Audit will also audit a sample of other contracts.”

In accordance with this policy, at least the contracts with Sodexo (Cook-Chill), Manheim (DUI Vehicle Seizures), and Murray Guard (security guard service) should be audited every two years. However, a review of work performed and released by Internal Audit shows that the Manheim contract has not been audited in at least the last five years. Internal audits of the Sodexo contract were released in January 2000 and September 2002; the Murray Guard contract, in June 2000 and December 2003. The only other routine contract review conducted in the last five years was the March 2004 audit of Meridian Management Corp., which was at the time managing the TBI facility.

In addition to the above three General Services contracts, which were let through the Department of Finance and Administration’s service contract process, many other contracts let through General Services’ Purchasing Division for more than \$500,000 a year may be subject to this policy depending on one’s definition of “cost reimbursement type contracts” and whether the policy was meant to refer to only the contracts used by General Services or includes all agency and statewide contracts let by the department through its Purchasing Division. Also, instead of one large contract, many vendors have multiple smaller contracts with the state for the same service that combined would exceed the threshold requiring an audit. Examples include janitorial services provided by Cross Gate Services and A-1 Janitorial Services, and elevator maintenance provided by Kone.

According to the Director of Internal Audit, staffing levels make it hard to complete the expected amount of work. Between July 2000 and September 2005, the office has consisted of an average of 2.8 auditors in addition to the director and an administrative assistant.

This level of staffing cannot fully meet the audit needs of a department as large and diverse as the Department of General Services. As custodians of public funds, it is the department’s responsibility to ensure that those funds awarded to contractors are used in an appropriate and lawful manner.

### **Recommendation**

The commissioner should assess the Office of Internal Audit’s workload and determine the best method to enable the office to meet its responsibilities, which could include adding new internal auditor positions. The commissioner, in consultation with the Director of Internal Audit, should consider delegating routine follow-up work such as verifying complete documentation of lost, stolen, or damaged equipment; telephone bill analysis; and Post Office Accountability Report reconciliation to a clerk or someone else within the department who can report exceptions to Internal Audit.

The commissioner should also revise policies to specifically require all multi-year contracts that meet the threshold amount (or contractors with multiple contracts for the same service that cumulatively add up to the threshold amount) be audited during the term of the

contract or at least every two years. These policies should also ensure that contracts are not let for goods and services in such a way that avoids the audit requirement.

The Director of Internal Audit should ensure compliance with the department's internal audit policies by planning audit work that ensures that all appropriate contracts at or above the stated audit threshold annually are audited at least once during the term of the contract or every two years.

### **Management's Comment**

We concur in part. The Office of Internal Audit strives to ensure that all state funds and assets are used in an appropriate and lawful manner. Since January 2004 the Office of Internal Audit's contract reviews have resulted in the Department recouping \$49,222.82 and a recommendation to request an additional \$78,012.34 from various contractors.

The current Office of Internal Audit policy states that "To the extent resources are available for such purposes, the Office of Internal Audit will audit all cost reimbursement type contracts with annual costs of/or greater than \$500,000 at least once during each two-year period." Because of added responsibilities particularly in the area of workplace harassment investigations and a limited number of audit positions, the Office of Internal Audit did not have the resources to perform a review of the cost reimbursement type contracts.

To help redistribute the Office of Internal Audit's workload, in November 2005, the Department hired an Affirmative Action Officer who will have the primary responsibility of performing workplace harassment investigations. The Office of Internal Audit has also added an additional Auditor 3 and Auditor 2 position to increase the number of auditors to five. These new additions will be used to audit cost reimbursement type contracts. The Department will also continue to assess on a regular basis the Office of Internal Audit's workload to determine if any other duties need to be reassigned to other divisions.

In addition, the policy regarding the review of all cost reimbursement type contracts will be restated to convey Management's intent that the Office of Internal Audit review only the Department of General Services' cost reimbursement type contracts with annual cost of/or greater than \$500,000. Contracts that are awarded by the Department of General Services' Purchasing Division over \$500,000 should be audited by the Internal Audit divisions of the state agencies who administer the contracts.

**11. The department still does not have a climate-controlled state warehouse facility for the storage of electronic media, and other existing warehouse facilities are in serious need of repair or replacement to mitigate the danger to employees and the danger of damage, destruction, or theft of state records and assets**

**Finding**

The 2001 performance audit of the Department of General Services found that state agencies were paying three times more money to store electronic media with private companies than it would cost the state to construct and operate a climate-controlled vault. Although the department concurred with the finding, management stated that budget problems were delaying such a project. There is still no climate-controlled state facility for the storage of state agencies' electronic media and, according to the General Services' assistant commissioner over Records Management, as of August 2005, there are no plans to build one.

In addition to a lack of appropriate storage for electronic media, the leased property at which the state's paper records are archived is inadequate, dangerous, and reaching maximum capacity. A December 2004 "Warehousing Needs Analysis" commissioned by the Department of Finance and Administration's Capital Projects and Real Property Management Divisions, included three General Services facilities in the Nashville area: 843 Cowan Street (Records Management Division), 2200 Charlotte Avenue (a facility shared by the departments of Safety and General Services), and 6500 Centennial Boulevard (Central Stores and the Property Utilization Division). The purpose of this study was to review and update a 1997 needs analysis study and to analyze central region storage, distribution, and archiving activities from a physical facility perspective by identifying the critical facility inadequacies, addressing functional and physical constraints, and developing and prioritizing solution options. The need for new facilities to house Records Management and Central Stores/Surplus Property ranked second and third on the priority list among the state facilities studied.

Regarding the Records Management warehouse on Cowan Street, the study found that this leased facility is not only situated in a 100-year flood plain, but there is also serious concern that potentially hazardous gases may seep into the facility through structural cracks in the concrete slab floor, given that it is constructed atop a landfill. In addition to continuous roof leaks, the facility also needs a climate-control system to safeguard sensitive microfilm, computer tapes, and paper documents. The study noted that external safeguards such as the installation of fences and an electronic access system could address immediate security concerns. In addition to these external structure concerns, the internal organizational structure is also failing. The facility was projected to be at capacity in fiscal year 2005. (In fact, in August 2005 some records were being stored at the Property Utilization Division warehouse on a temporary basis.) Despite the reinforcement efforts made, the shelving system uprights have buckled, and shelving has collapsed in various areas under the weight of document files. File boxes are stored two-deep on shelving, making access difficult. In between shelving, the lighting is inadequate, and the aisles are narrow and allow little or no working room. The facility manager indicated that approximately 12,000 document retrievals occur annually, involving approximately 3,400 hours

of labor. In light of this heavy retrieval rate, the study recommended that a logistics consultant be retained to determine methods to increase the management efficiency of the paper documents. This may include suggesting the initiation of improved coding systems and automated storage, filing, and retrieval systems. The 2004 study also noted that it could be more cost effective if Records Management had a vault for the specialized storage of computer tapes and other valuable records that are currently being stored with commercial vendors.

Regarding the facility on Centennial Boulevard shared by Central Stores and the Property Utilization Division, the study found a great disparity in space function and utilization, and expressed concern over the lack of a climate-control system. An additional concern was that there is inadequate interior space to protect surplus inventory, leaving many items under open-sided extensions or completely out in the open. At Central Stores, the study recommended that adequate staging areas and docks would improve materials-handling efficiency.

Also according to the 2004 needs analysis, the facility shared by the departments of Safety and General Services at 2200 Charlotte Avenue has been slated for demolition since before 1997, and conditions continue to deteriorate as there has been minimal facility upkeep. The concern is that there are hazardous materials being stored at this location without adequate ventilation, fire suppression, and life-safety systems in place.

### **Recommendation**

The commissioner needs to continue to work with the Department of Finance and Administration to pursue funding for addressing problems with Records Management and Central Stores/Property Utilization Division facilities. If funding for new facilities continues to be unavailable, management should explore other options to safeguard state employees, records, and property.

### **Management's Comment**

We concur in part. The Department of General Services will continue to work with the Department of Finance and Administration and the State Building Commission in an attempt to secure and renovate an appropriate existing facility for the Records Management Division and any other facilities deemed dangerous for employees and State of Tennessee assets. However, it should be noted that funding for these projects is not in the scope of the Department of General Services' authority.

The Records Management facility should include room for expansion of physical records and include a climate-control vault for the storage of electronic records and microfilm. A state-owned Records Center facility with an appropriate HVAC and security system would ensure the proper storage environment for all records stored at the facility.

A concern was raised during the audit related to a 2004 study entitled “Warehousing Needs Analysis” regarding the adequacy of warehouse space at Surplus Property and items being stored on the Surplus Property lot instead of inside the warehouse. Because of a conscientious effort by the Property Utilization Division to reduce the length of time property is allowed to remain in the warehouse, property that needs to be stored internally to protect its value is now able to be stored in the warehouse.

The adequacy of the dock/staging area for the Central Stores Division was also mentioned in the 2004 study. Due to a change of operations related to the implementation of the Corporate Express contract, the amount of space needed for a dock/staging area has been reduced.

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## RECOMMENDATIONS

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### LEGISLATIVE

This performance audit identified areas in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Department of General Services' operations.

The General Assembly may wish to consider legislation that

1. amends Sections 4-3-1105 and 4-3-1107 through 1111, *Tennessee Code Annotated*, to remove references to an energy management program within General Services; and
2. amends Section 68-211-865, *Tennessee Code Annotated*, to remove sections 1 through 4 from statute delineating the duties of the Department of General Services in regard to the state office recycling program.

### ADMINISTRATIVE

The Department of General Services should address the following areas to improve the efficiency and effectiveness of its operations.

1. The department should develop written policies and procedures clarifying specific oversight and monitoring responsibility for its statewide and agency contracts, including standards for adequate and appropriate contract monitoring. These policies should contain language to ensure that General Services divisions, as well as external agencies, have adequate controls, standards, and procedures in place to ensure effective contract monitoring. The department should centralize the oversight function, or continue to leave oversight decentralized with clear direction of the contract monitoring function.
2. The commissioner should assign specific responsibility for a review of current oversight practices in place within each of its divisions and within other agencies to ascertain best practices in the area of contract oversight. This review should be well documented. The commissioner should consider the results of the review and ensure that appropriate corrective actions are taken on a timely basis. The system implemented to provide adequate oversight of contracts should be adequately documented and include mechanisms for regular monitoring of the controls themselves to ensure they are operating effectively and as designed. The system should facilitate prompt detection of serious problems either with contracts or their

oversight. Further, the department may wish to consider the allocation of workforce to the oversight function.

3. The division should update and gain subsequent approval from the Board of Standards of its *Purchasing Procedures Manual* to reflect any changes that have been implemented since its prior approval by the Board on June 11, 2003.
4. The commissioner and departmental oversight staff of the Tennessee Comprehensive Food Service Program should develop a system, including written policies and procedures, for comprehensive oversight and documentation of oversight activities of the Cook-Chill contract. At a minimum, the department's oversight staff should continue to enhance their current monitoring practices by working with receptor sites to verify that invoices are billed at actual food cost, verify that all maintenance and overhead expense reimbursement requests submitted by the vendor are actual and appropriate and sufficiently documented, verify rebate information with all participating vendors, proactively review all findings and recommendations by inspecting agencies, inventory all equipment and supply purchases, and monitor the vendor for Title VI compliance.
5. Additionally, the department's Office of Financial Management should make sure that no payments are made to the contractor outside of the scope of their contract and that appropriate written agreements and documentation are maintained when the department approves Sodexo's use of the Cook-Chill facility to provide goods and services outside the original contractual scope of the contract with General Services.
6. In the event that a new contract is initiated for private storage and auction services, management should develop written policies and procedures addressing comprehensive monitoring of the contract. At a minimum, these policies and procedures should address monitoring of vehicle condition, including documentation of theft and vandalism; monitoring and documentation of the status of personal property seized; coordination procedures for seizure notification; storage fee responsibilities following judicial release; and documentation of vehicle valuation.
7. The commissioner should assign responsibility to ensure that adequate training is provided to all personnel with program management and oversight responsibilities. Training should include adequate information systems training and training on contractual terms and obligations.
8. The commissioner should assign responsibility for working with information systems staff to develop a reliable computer information management system with adequate controls over data and data entry to limit data entry errors and improve the reliability of data extracted from the DUI Seizures Program database.
9. Controls should be implemented to ensure that user access is revoked immediately after employment ends or when a user no longer requires access. Further, authorized

user access should be reviewed regularly to determine whether the level of access is still appropriate, given the employee's current job responsibilities, with edit privileges restricted only to those with direct program responsibility and to those who serve as information systems support.

10. The commissioner should assign responsibility for a review of the current practices for coordination and administration of the program to identify and improve in those areas that lead to additional program costs, such as delays in notification, delays in data entry, payment variation in storage charges by non-contract tow vendors, methods for obtaining private tow company charges, etc. The department should also consider alternative disposal options for vehicles with low valuation, which might include selling a vehicle for scrap and/or selling to a licensed dismantler.
11. The commissioner should consider storing vehicles on state-owned property to eliminate the costs associated with storage pending judicial review, and consider the feasibility of coordinating disposal through the Property Utilization Division (State Surplus Property).
12. The department should ensure that the Records Management Division has policies, procedures, and practices in place that ensure the security and confidentiality of state records delivered to outside vendors for destruction. These measures should include the witnessing of actual record destruction by a state representative.
13. The department should standardize contracts regarding specific duties and expectations for security guard service in state-owned and leased buildings. Additional and continuous training should be required of the security guards assigned to state offices. Guards should monitor both employees' and visitors' badges for approved access to their specific building. The department should establish a system that ensures regular oversight of security guard practices (expectations versus actual practice) and documents compliance as well as non-compliance by security companies and their guards with security expectations and contract requirements.
14. The department should also seek ways to improve the security of employee identification badges that would make it more difficult to create a counterfeit badge and gain entrance to state offices.
15. The Property Utilization Division needs to develop a comprehensive set of written policies and procedures. These policies and procedures should address what information is required when a surplus item is entered into the database as well as formal systems training for all new employees. Procedures should also be established that ensure the proper notification of eligible agencies about available surplus property. Policies and procedures should also include reporting measures that detail the procedure for regularly reviewing the aging of items held in the warehouse. These measures should address the time period allowed between offering surplus items to state agencies and releasing those items to the public for sale. For items not

transferred to a state agency or sold to the public after a predetermined amount of time, reporting measures should also address what action should be taken and at what time interval a decision should be made regarding these items.

16. The Property Utilization Division should implement an efficient and comprehensive system that would eliminate the need for the ten different databases and multiple identification numbers that are currently being used. This system should have field limitations as well as required fields to ensure the consistency and reliability of the data entered. This system should also have adequate security controls that restrict access to the system for a user without the proper identification and password.
17. The department should develop and improve policies and procedures for monitoring its own activities and recipients of surplus property for compliance with Title VI.
18. The commissioner should assign specific responsibility to ensure that policies and procedures are implemented to require that conflict-of-interest forms addressing financial interests, prior employment, employment of family members, and other matters are completed annually by all employees to remind employees to be aware of actual, potential, and perceived conflicts-of-interest. Department management should revise the conflict-of-interest policy to include direction to staff regarding the types of conflicts that should be disclosed, how often a conflict-of-interest form should be completed, and what action staff should take if a potential conflict arises in the interim.
19. The commissioner should assess the Office of Internal Audit's workload and determine the best method to enable the office to meet its responsibilities, which could include adding new internal auditor positions. The Commissioner, in consultation with the Director of Internal Audit, should consider delegating routine follow-up work such as verifying complete documentation of lost, stolen, or damaged equipment; telephone bill analysis; and Post Office Accountability Report reconciliation to a clerk or someone else within the department who can report exceptions to Internal Audit.
20. The commissioner should also revise policies to specifically require that all multi-year contracts that meet the threshold amount (or contractors with multiple contracts for the same service that cumulatively add up to the threshold amount) be audited during the term of the contract or at least every two years. These policies should also ensure that contracts are not let for goods and services in such a way that avoids the audit requirement.
21. The Director of Internal Audit should ensure compliance with the department's internal audit policies by planning audit work that ensures that all appropriate contracts at or above the stated audit threshold annually are audited at least once during the term of the contract or every two years.

22. The commissioner needs to continue to work with the Department of Finance and Administration to pursue funding for addressing problems with Records Management and Central Stores/Property Utilization Division facilities. If funding for new facilities continues to be unavailable, management should explore other options to safeguard state employees, records, and property.

## APPENDIX

### Title VI Information

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. The Department of General Services receives no direct federal funds. Indirectly, however, the department receives a Byrne Grant from the U.S. Office of Criminal Justice Programs (passed through the Department of Finance and Administration) for up to \$200,000 between July 1, 2003, and June 30, 2007 (\$50,000/year for 4 years); and four homeland security grants from the U.S. Office of Domestic Preparedness, Division of Homeland Security, through the Tennessee Emergency Management Agency amounting to \$1,815,000 that expire at various times during 2005. In addition, the department receives federal surplus property that is then distributed by the department's Division of Property Utilization.

The department's Title VI coordinator is a diversity business liaison in the Governor's Office for Diversity Business Enterprise. Her duties are to make sure management is aware of Title VI requirements, to provide outreach and training to staff, to review all reports and files relating to Title VI compliance, and to maintain all compliance records. She also participates in executive staff meetings to ensure management is aware of policy, updates policy annually, and provides a letter on Title VI for new employee information packets.

According to the Title VI coordinator, the department did not receive any Title VI complaints during the past two years. If complaints are filed, they are filed with the Title VI coordinator, and in conjunction with the department's legal division, she investigates and resolves the complaints.

The department is charged with the centralized procurement of goods and services for use by state departments and agencies. In early 2005, the department had approximately 2,827 contracts (2,805 let through General Services' Invitation-To-Bid process and 22 let through Finance and Administration's Request-For-Proposal process) with 1,455 different vendors. The breakdown of the contracts by ethnicity/type is as follows:

- 1,479, of the contracts are held by Caucasian companies,
- 101, by African-American companies,
- 43, by Asian-American companies,
- 7, by Native-American companies,
- 5, by Hispanic-American companies,
- 173, by companies classified as Other,
- 2, by governmental entities/universities, and
- 1,017, by companies classified as unknown.

See Finding 8 regarding the department's failure to sufficiently monitor its own activities or federal surplus property donees for compliance with Title VI.

For a breakdown of Department of General Services staff by job title, gender, and ethnicity, see below.

**Personnel by Title, Gender, and Ethnicity**

**Allotment Code 321**

**April 11, 2005**

<b>Title</b>	<b>Gender</b>		<b>Ethnicity</b>					
	<b>Male</b>	<b>Female</b>	<b>Asian</b>	<b>Black</b>	<b>Hispanic</b>	<b>Indian</b>	<b>White</b>	<b>Other</b>
Account Clerk	1	3	0	1	0	0	3	0
Accounting Manager	1	0	0	0	0	0	1	0
Accounting Technician 1	1	8	0	2	0	0	6	1
Accounting Technician 2	2	4	0	0	0	0	6	0
Accountant 2	0	1	0	0	0	0	1	0
Accountant 3	0	1	0	0	0	0	1	0
Administrative Assistant 1	0	19	0	4	0	0	15	0
Administrative Assistant 2	0	1	0	0	0	0	1	0
Administrative Services Assistant 2	1	9	0	1	0	0	9	0
Administrative Services Assistant 3	10	7	0	4	0	0	13	0
Administrative Services Assistant 4	1	4	0	1	0	0	4	0
Administrative Services Assistant 5	1	6	0	4	0	0	3	0
Administrative Secretary	0	7	0	1	0	0	6	0
Attorney 3	0	1	0	0	0	0	1	0
Audit Director 1	0	1	0	0	0	0	1	0
Auditor 2	1	0	0	0	0	0	1	0
Auditor 3	1	0	0	0	0	0	0	1
Auditor 4	1	0	0	0	0	0	0	1
Automotive Master Mechanic Supervisor	1	0	0	0	0	0	1	0
Bindery Supervisor 1	0	1	0	0	0	0	1	0
Bindery Worker 2	3	3	0	2	0	0	4	0
Building Maintenance Worker 2	41	0	1	8	0	0	32	0
Building Maintenance Worker 3	14	0	0	6	0	0	8	0
Central Stores Director	0	1	0	0	0	0	1	0
Chef Manager	0	1	0	0	0	0	1	0
Clerk 2	1	4	0	1	0	0	4	0
Clerk 3	4	8	0	6	0	0	6	0
Computer Operators Manager	0	1	0	0	0	0	1	0
Comprehensive Food Service Program Director	1	0	0	1	0	0	0	0

**Personnel by Title, Gender, and Ethnicity**

**Allotment Code 321**

**April 11, 2005**

<b>Title</b>	<b>Gender</b>		<b>Ethnicity</b>					
	<b>Male</b>	<b>Female</b>	<b>Asian</b>	<b>Black</b>	<b>Hispanic</b>	<b>Indian</b>	<b>White</b>	<b>Other</b>
Commissioner 1	0	1	0	1	0	0	0	0
Custodial Worker 1	1	7	0	7	0	0	1	0
Custodial Worker 2	1	1	0	2	0	0	0	0
Custodial Worker Supervisor	1	0	0	1	0	0	0	0
Delta Room Operator	4	0	0	1	0	0	3	0
Delta Room Supervisor	1	0	0	0	0	0	1	0
Deputy Commissioner 1	1	0	0	0	0	0	1	0
Equipment Mechanic 1	2	0	0	0	0	0	2	0
Equipment Service Worker	4	0	0	2	0	0	2	0
Executive Administrative Assistant 1	2	1	0	1	0	0	2	0
Executive Administrative Assistant 2	0	1	0	0	0	0	1	0
Facilities Administration Director	1	0	0	1	0	0	0	0
Facilities Administration Manager	1	0	0	0	0	0	1	0
Facilities Administrator 1	6	0	0	2	0	0	4	0
Facilities Administrator 2	10	1	0	2	0	0	9	0
Facilities Administrator 3	3	1	0	0	0	0	4	0
Facilities Construction Specialist 2	1	0	0	0	0	0	1	0
Facilities Manager 2	1	0	0	0	0	0	1	0
Facilities Supervisor	15	0	0	2	0	0	13	0
Food Services Assistant	0	1	0	1	0	0	0	0
Food Services Consultant	0	1	0	0	0	0	1	0
Food Services Supervisor 2	0	1	0	1	0	0	0	0
Fiscal Director 1	0	1	0	0	0	0	1	0
Fiscal Director 2	1	0	0	0	0	0	1	0
Fiscal Director 3	1	0	0	0	0	0	1	0
Fleet Maintenance Assistant 1	4	2	0	2	0	0	4	0
Fleet Maintenance Assistant 2	4	0	0	0	0	0	4	0
Fleet Supervisor 1	1	1	0	0	0	0	2	0
Fleet Supervisor 2	2	0	0	0	0	0	2	0
General Counsel 2	1	0	0	0	0	0	1	0
Grants Program Manager	0	1	0	1	0	0	0	0
Graphics Designer 1	1	0	0	0	0	0	1	0
Graphics Designer 2	1	0	0	0	0	0	1	0
Graphics Design Manager	0	1	0	0	0	0	1	0
Graphic Artist	1	0	0	0	0	0	1	0

**Personnel by Title, Gender, and Ethnicity**

**Allotment Code 321**

**April 11, 2005**

<b>Title</b>	<b>Gender</b>		<b>Ethnicity</b>					
	<b>Male</b>	<b>Female</b>	<b>Asian</b>	<b>Black</b>	<b>Hispanic</b>	<b>Indian</b>	<b>White</b>	<b>Other</b>
Grounds Worker 1	2	0	0	1	0	0	1	0
Grounds Worker 2	10	1	0	1	0	0	10	0
Grounds Worker 3	2	1	0	0	0	0	3	0
Heating and Refrigeration Mechanic 1	7	1	0	1	0	0	7	0
Heating and Refrigeration Mechanic 2	7	0	1	2	0	0	4	0
Heating and Refrigeration Mechanic 3	1	0	0	0	0	0	1	0
Homeland Security Administrator 2	1	0	0	0	0	0	1	0
Homeland Security Officer	1	1	0	0	0	0	2	0
Horticultural Manager	1	0	0	0	0	0	1	0
Horticulturist	1	0	0	0	0	0	1	0
Information Resource Support Specialist 3	3	0	0	0	0	0	3	0
Information Resource Support Specialist 4	0	2	0	1	0	0	1	0
Information Resource Support Specialist 5	0	1	0	1	0	0	0	0
Information Systems Analyst 3	1	0	0	0	0	0	1	0
Information Systems Analyst 4	3	2	0	1	0	0	4	0
Information Systems Analyst Supervisor	0	1	0	1	0	0	0	0
Information Systems Director	1	0	0	0	0	0	1	0
Information Systems Manager 1	1	1	0	0	0	0	2	0
Lithographic Stripper	0	1	0	0	0	0	1	0
Long Distance Hauler	1	0	0	0	0	0	1	0
Mail Clerk	21	16	0	30	0	0	7	0
Mail Services Director	1	0	0	0	0	0	1	0
Mail Services Manager	1	1	0	0	0	0	2	0
Mail Services Supervisor	2	0	0	2	0	0	0	0
Mail Technician 1	8	2	0	6	0	0	4	0
Mail Technician 2	3	3	0	6	0	0	0	0
Maintenance Carpenter 2	1	0	0	1	0	0	0	0
Maintenance Electrician 1	7	0	1	0	0	0	5	1
Maintenance Electrician 2	4	0	0	0	0	0	4	0
Maintenance Plumber 2	1	0	0	1	0	0	0	0
Motor Vehicle Management Assistant Director	1	0	0	0	0	0	1	0
Office Automation Specialist	0	2	0	0	0	0	2	0

**Personnel by Title, Gender, and Ethnicity**

**Allotment Code 321**

**April 11, 2005**

<b>Title</b>	<b>Gender</b>		<b>Ethnicity</b>					
	<b>Male</b>	<b>Female</b>	<b>Asian</b>	<b>Black</b>	<b>Hispanic</b>	<b>Indian</b>	<b>White</b>	<b>Other</b>
Offset Press Operator 1	6	1	0	2	0	0	5	0
Offset Press Operator 2	4	0	0	0	0	0	4	0
Office Supervisor 1	0	1	0	1	0	0	0	0
Personnel Analyst 2	1	0	0	0	0	0	1	0
Personnel Director 3	1	0	0	0	0	0	1	0
Personnel Manager 1	0	1	0	0	0	0	1	0
Phototypesetter	0	1	0	1	0	0	0	0
Printing Services Administrative Manager	0	1	0	0	0	0	1	0
Printing Estimator	1	1	0	0	0	0	2	0
Printing Order Clerk	0	1	0	1	0	0	0	0
Printing Services Production Manager	1	0	0	0	0	0	1	0
Printing Pre-Press Supervisor 2	1	0	0	0	0	0	1	0
Printing Services Director	1	0	0	0	0	0	1	0
Printing Services Supervisor 1	2	0	0	0	0	1	1	0
Printing Scheduler	1	0	0	0	0	0	1	0
Procurement Officer 1	3	1	0	1	0	0	3	0
Procurement Officer 2	0	1	0	0	0	0	1	0
Property Officer 1	1	0	1	0	0	0	0	0
Property Representative 3	4	1	0	2	0	0	3	0
Property Utilization Director	1	0	0	0	0	0	1	0
Property Utilization Manager 2	3	1	0	0	0	0	4	0
Purchasing Assistant Director	1	0	0	0	0	0	1	0
Purchasing Administrator	2	1	0	0	0	0	3	0
Purchasing Agent 2	4	4	0	2	0	0	6	0
Purchasing Agent 3	10	2	1	3	0	0	8	0
Purchasing Agent Supervisor	1	4	0	0	0	0	5	0
Purchasing Consultant-Computer Technology	0	1	0	0	0	0	1	0
Purchasing Director	1	0	0	0	0	0	1	0
Records Analyst 3	1	2	0	2	0	0	1	0
Records Manager	1	1	0	2	0	0	0	0
Records Management Director	0	1	0	0	0	0	1	0
Secretary	0	1	0	1	0	0	0	0
State Chief Photographer	1	0	0	0	0	0	1	0
State Photographer 2	1	0	0	0	0	0	1	0

**Personnel by Title, Gender, and Ethnicity**  
**Allotment Code 321**  
**April 11, 2005**

<b>Title</b>	<b>Gender</b>		<b>Ethnicity</b>					
	<b>Male</b>	<b>Female</b>	<b>Asian</b>	<b>Black</b>	<b>Hispanic</b>	<b>Indian</b>	<b>White</b>	<b>Other</b>
Storekeeper 1	8	1	0	3	0	0	6	0
Storekeeper 2	8	1	0	2	0	0	7	0
Stores Clerk	1	0	0	1	0	0	0	0
Stores Manager	1	0	0	0	0	0	1	0
Vehicle Operator	7	0	0	2	0	0	5	0
Warehouse Worker	1	0	0	0	0	0	1	0
Website Developer 2	1	0	0	0	0	0	1	0
Word Processing Operator 1	1	3	0	2	1	0	1	0
<b>TOTALS</b>	<b>333</b>	<b>182</b>	<b>5</b>	<b>152</b>	<b>1</b>	<b>1</b>	<b>352</b>	<b>4</b>