Facilities Audit:
Deferred Maintance

October 2013

Steve March
Multnomah County Auditor

Audit Staff
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Date: October 15, 2013

To: Marissa Madrigal, Acting Multnomah County Chair
Commissioners Kafoury, Smith, Shiprack, and McKeel

From: Steve March, Multnomah County Auditor

Re: Facilities Management: Deferred Maintance

The Facilities and Property Management Division (FPM) manages over 125 owned and leased facilities with over 3 million square feet of space that is used by employees, the public and those in our care. For 2014 the County reported $21 million in deferred maintenance and over $200 million for seismic liabilities. This represented a reduction in deferred maintenance due to both projects carried out by FPM and the disposal of older buildings with large amounts of deferred maintenance on the books.

We recommend the County change its reporting for capital and maintenance needs for buildings to include more useful information for the Board, this will allow for better capital spending decisions as well as clarity in building operating costs. Reporting should indentify maintenance and repair costs separately from other capital projects, as well as spending needs for planning, and building disposition. Additional clarity around the deferred maintenance backlog and the monitoring and work accomplished will assist the Board in understanding deferred maintenance and capital needs. To further that end, the County should define both “capital needs” and “cost” in the policy such that it is measurable for compliance; also consideration should be given to creating a separate capital project fund. We also recommend the County continue its efforts to dispose of buildings with high amounts of deferred maintenance.

We believe FPM and the Department of County Assets is poised to assist in the development of better policies and reporting to the Board. We appreciate the assistance of FPM and the Department, as well as the Department of County Management in the conduct of this audit and this report. Judith DeVilliers, CPA, conducted the work related to this report.

C: Joanne Fuller, COO;
Sherry Swackhamer, DCA

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Executive Summary

Facilities and Property Management (FPM) manages over 3 million square feet of owned and leased space used by the public and over 4,570 employees. FPM's Operations and Maintenance staff provide day-to-day maintenance for the County owned buildings.

For 2014, the County reported deferred maintenance of $21 million and seismic liability of $205 million. The reported deferred maintenance decreased by $26 million from the $47 million reported in 2005. Some of this decrease was due to projects targeted to reduce the backlog, and some due to the County's efforts to dispose of older buildings with large amounts of deferred maintenance backlog.

The County has followed the 2004 Disposition Plan with overall disposition of 35% of the building inventory from that report. We did not have sufficient information to assess how much of the deferred maintenance backlog was due to building dispositions and how much due to capital spending for that purpose.

We recommend the County continue its efforts to dispose of buildings with high amounts of deferred maintenance. Our recommendations also include reporting changes that will provide the Board with better information for making capital spending decisions and for a better understanding of the total operating costs for buildings.

Improvements are needed that will identify maintenance and repair projects from other capital projects, and will identify other capital spending needs for planning and building disposition. Improvements are also needed in determining the amount of deferred maintenance backlog and in monitoring and reporting work done to reduce the backlog.

We recommend the County revise the policy so that both "capital needs" and "cost" are clearly defined and measurable, and so that the County can accurately evaluate whether it is in compliance with the policy. We also recommend the County consider accounting for capital projects that are not maintenance and repairs in a different capital project fund.

Background

Audit Objective, Scope and Methodology

Our objective for the audit of deferred maintenance was to evaluate the actions FPM has taken to reduce the deferred maintenance liability. The scope of our review of deferred maintenance and the County's related plans focused on activities from 2005 through 2013.

Data for our analysis was from County adopted budgets, many FPM reports, and the County's enterprise accounting system SAP. We reviewed County policy, rules and procedures. We also reviewed best practices for accounting for deferred maintenance and best practices for budgeting capital spending. Other information for the audit came from interviews with employees of FPM and budget staff from the Department of County Assets, and with the County's Chief Financial Officer and the Budget Director.

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

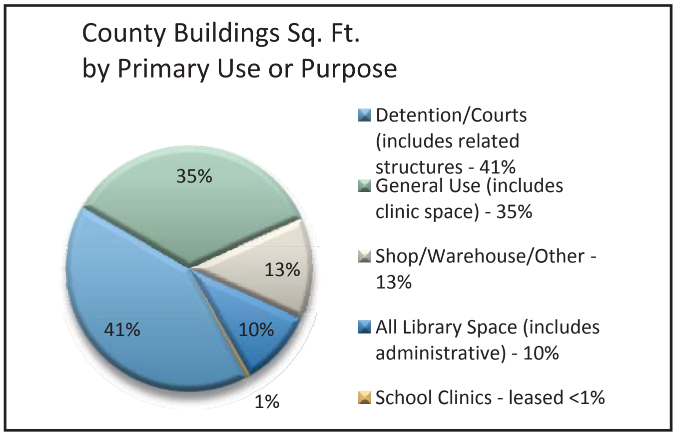
Deferred Maintenance

Deferred maintenance is an activity not done when it was scheduled, or should have been, and put off to a future period. Organizations may put off repairs and maintenance because they lack resources or the time to do the work. The County may also have accumulated deferred maintenance on buildings planned for disposition.

County Buildings

Currently the County has over 3 million square feet of space. For our report we included square footage of buildings by the primary purpose or use, understanding that many buildings may have multiple uses.

Exhibit 1



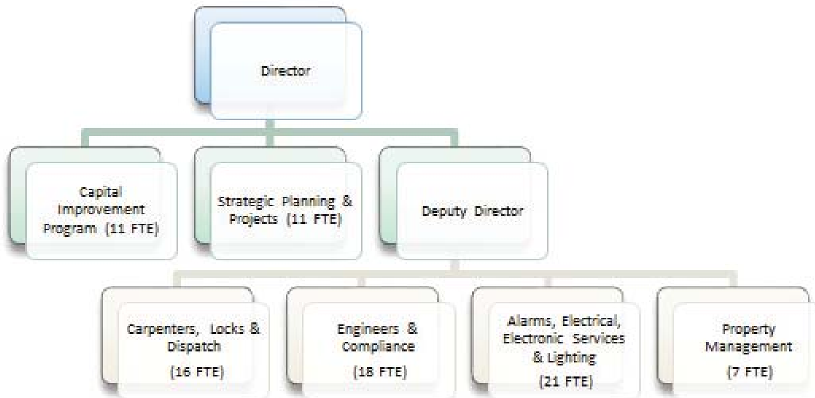
Source: Analysis of FPM reports

Facilities and Property Management

Facilities and Property Management (FPM), part of the Department of County Assets, has 88.5 FTE budgeted for 2014. FPM's Operations and Maintenance (O&M) program with 54 FTE, maintains all County owned buildings and systems, including electrical and HVAC systems, alarms and locks, lighting, and other systems. O&M sections include Carpenters, Locks & Dispatch; Engineers & Compliance; Alarms, Electrical, Electronic Services & Lighting; and Property Management. Other sections include Capital Improvement Program, and Strategic Planning and Projects sections.

Maintenance and repair work for County Buildings is primarily done by O&M, although larger maintenance projects are managed in Capital Improvement Program.

Exhibit 2



Source: FPM Organizational Chart

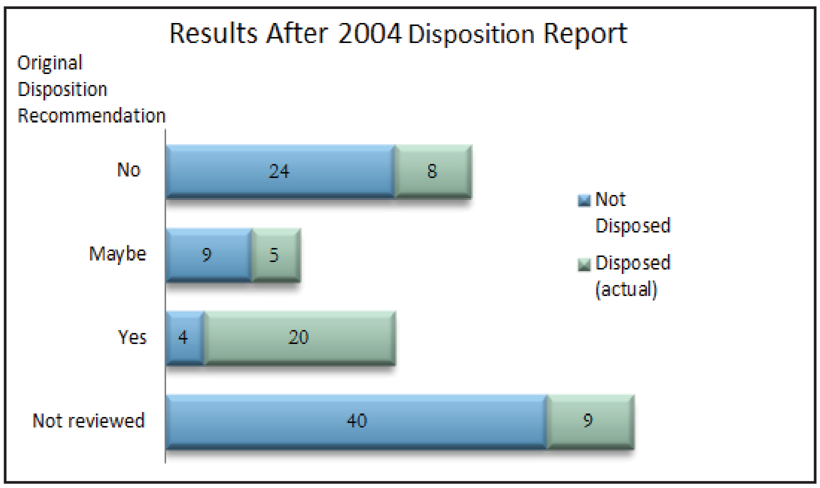
Deferred Maintenance Measurement and Reporting

FPM reported deferred maintenance in 2005 at $47 million, and in 2013 at $21 million. We could not determine how much of the decrease was due to the County's efforts of disposing of older buildings with larger amounts of deferred maintenance backlog, and how much due to projects targeted to reduce the backlog.

Building Disposition

The County followed the 2004 Disposition plan with disposition of 20 of the 24 buildings recommended for disposition, and overall disposition of 35% of building inventory from that report. Dispositions include some done during 2004, and from 2005 through 2013 to date.

Exhibit 3



Source: Analysis of FPM reports

We recommend the County continue its efforts to dispose of buildings with high amounts of deferred maintenance backlog.

Accounting for Maintenance and Repairs

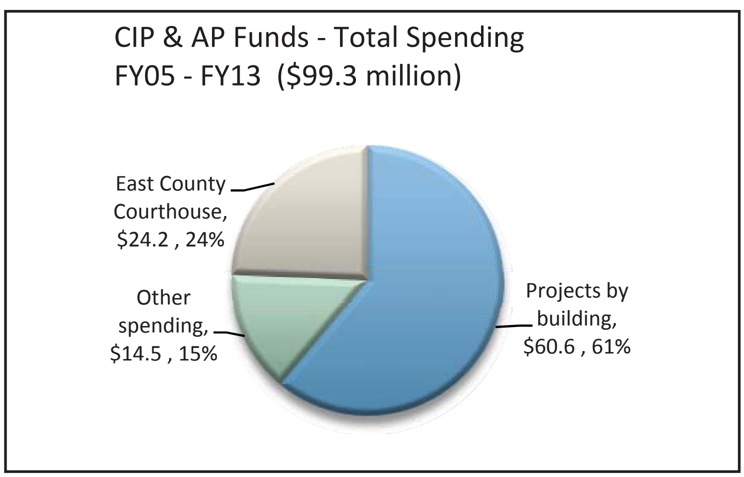
Maintenance and repairs are accounted for in Facilities Property Management Fund as part of the operations and maintenance program, and in two capital projects funds. The use of capital projects funds allows for better accounting for larger type projects that extend beyond a one-year budget cycle. However improvements are needed to distinguish maintenance and repair projects from capital improvements and other spending in the capital project type funds.

The capital project funds used are (1) the Asset Preservation (AP) fund to support Tier I buildings, intended to pay for the replacement of major building systems as they reach the end of their useful life and: (2) the Capital Improvement Project (CIP) fund to support Tier 2 and 3 buildings. Resources for these funds primarily come from fees based on square foot occupancy charged to other County programs and departments. The County defines building tiers as follows:

- Tier 1 buildings are those in best condition with major systems and repairs current.
- Tier 2 buildings are those that have deferred maintenance but can be brought to tier 1 status eventually.
- Tier 3 buildings are those for which upgrade is believed to be cost prohibitive or which are targeted for disposition.

Total spending in the CIP and AP funds from 2005 to 2013 was $99.3 million, of which $24.5 million was for the East County Courthouse. Some projects in these funds appear to be for repair or maintenance. However for many other projects it is difficult to distinguish or categorize how much of was for capital improvements, how much was for repairs and maintenance, and how much for other purposes. See Appendix B for details of spending in the CIP and AP funds by building.

Exhibit 4



Source: Analysis SAP data

County policy does not provide clear guidelines to distinguish between projects that are for maintenance and repairs versus those for other capital needs and other type spending. The lack of this distinction makes it difficult to identify the actual operating cost for repairs and maintenance of buildings.

A good definition for maintenance and repairs is from *Federal Financial Accounting Standards No.40,* which says "Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use."

Other projects (part of the 15% in Exhibit 4 above) include some spending for planning and some for disposition of facilities. These two functions, which are part of a facility life cycle, are essential parts of asset management.

Exhibit 5

Source: Investments in Federal Facilities: Asset Management Strategies for the 21st Century, National Research Council of the National Academies Press

In looking at deferred maintenance we only reviewed the "acquire" and "operate" part of asset management. Because we consider planning and disposition of buildings as essential parts of asset management, we are including a recommendation that capital budgeting and reporting should have categories that include and identify these two functions.

We believe additional information that would identify projects that are maintenance and repairs and related to operations, from capital improvements and other projects, and identify capital needs for planning and disposition of buildings would be useful (1) to the Board for capital resource allocation, and (2) to FPM to have a better understanding of the total operating costs for buildings. Additionally maintenance and repair projects from the deferred maintenance backlog should be identified separately from current maintenance and repair projects.

Reporting Deferred Maintenance

FPM uses the life-cycle cost method combined with inspection method for estimating deferred maintenance. FPM is in the process of refining this method as they update their computer system that tracks this information. FPM staff together with augmented contracts and architect and engineer design consultants provide input into the process of determining maintenance and repair needs.

What is lacking is putting that knowledge into useful categories for better reporting so that deferred maintenance can be monitored and measured.

Reporting deferred maintenance backlog needs improvement so that the information can be of use to the Board and other decision-makers. Federal agencies are required to report a dollar amount of deferred maintenance and repairs on their financial statements. We included these reporting guidelines in Appendix A as an example of the type of useful information for reporting deferred maintenance.

Other Reporting Needs

Reporting for seismic liability and deferred maintenance on buildings targeted for disposal should be reported as separate categories in the deferred maintenance and repair back log reports.

An amount for seismic liability is included in the County's budget as part of deferred maintenance. For 2014 this amount was reported as $205 million. It is our understanding that the amounts reported represent the cost for some level of seismic retrofit for buildings. We believe the concept of the term "liability" may create some confusion to decision makers and the public.

We recommend FPM provide a clear explanation for the dollar amount they report as seismic needs, and what this means to the County and the public. For example FPM's intention may be to dispose of a building if the cost of seismic retrofit is cost prohibitive, whereas the intention may be to do seismic upgrades for other buildings. This type of information should be included in reporting for seismic needs, but as a separate amount from the deferred maintenance and repair backlog.

The other area for clarification in reporting deferred maintenance should be the amounts deferred for buildings intended for disposition. The County conscientiously defers some level of maintenance on some buildings based on an evaluation and the building's tier designation.

Deferred maintenance on these buildings should be reported in a separate category, especially if the intention is not to do this work.

Improved reporting will provide better information for FPM and decision-makers relating to the condition of buildings and needs for funding for deferred maintenance and repairs needed to keep County buildings in acceptable condition.

County Policy for Capital Needs

County financial policy provides for resources for capital needs. The adopted policy for 2014 states, "It is the goal of the Board to fund the County's capital needs at approximately 2% of the cost of County Tier 1 and Tier II buildings, equivalent to depreciating the facilities over a 50-year period."

We were told by management that the policy refers to maintenance and repair needs. However the County includes in the CIP Fund projects for new construction, remodling and purposes other than maintenance and repairs.

The policy also lacks a definition of "cost" for the calculation. Using 2% of the historical cost of $445 million, the annual amount for all buildings (including Tier 3) would be $8.9 million; and would be $19.2 million using the replacement costs. Management has suggested that replacement cost is the intention of the policy.

Depreciation in accounting is based on a historical cost figure. We find it difficult to understand how depreciation based on a replacement cost can be measured since replacement cost for buildings would change from year to year.

We recommend the County revised the policy so that both "capital needs" and "cost" are clearly defined and measurable, and so that the County can accurately evaluate whether it is in compliance with the policy. We also recommend the County consider accounting for capital projects that are not maintenance and repairs in a different capital project fund.

Improved reporting of maintenance and repair activities will provide better information to the Board for capital resource allocation, and to FPM to for a better understanding of the total operating costs for buildings.

Recommendations

1. Reporting for projects in the capital projects funds needs improvement:
    a. Maintenance and repair projects in the capital projects funds should be identified separately from other capital projects and other type spending.
    b. Maintenance and repair projects from the deferred maintenance backlog should be identified separately from current maintenance and repair projects in these funds.
    c. The essential functions of planning and disposition of buildings should also be identified in the budget and reporting process.
2. Reporting the dollar amounts included as deferred maintenance backlog needs improvement:
    a. Deferred maintenance on buildings designated for disposal should be reported in a separate category, especially if the intention is not to do this work.
    b. Amounts for seismic needs should be included separately with clear explanation what this means to the County and the public. Separate amounts should be included for buildings where the cost of seismic retrofit is prohibitive, and intention is not to do this work.
    c. Additional reporting information should be included in reporting deferred maintenance. Reporting requirements for deferred maintenance and repairs by the federal government meet best practices and would provide the information needed for FPM and decision-makers. See Appendix A for details.
3. County policy should be revised so that the County can assess if it is in compliance with its capital policy for buildings and provide more useful information for the Board and other decision-makers. Revisions should include the following:
    a. Identify capital needs for new facilities and remodeling separately from needs for major system maintenance projects.
    b. Consider using a separate fund for other capital projects not for maintenance and repairs.
    c. Clearly define if the County is using historical cost or replacement cost in the policy. We recommend using historical cost as it is easier to measure and verify for compliance with the policy.

Appendix A Reporting Deferred Maintenance

Identification of each major class of asset for which maintenance and repairs have been deferred.

Method of measuring deferred maintenance and repairs for each major class.

- If the condition assessment survey method of measuring deferred maintenance and repairs is used, the following should be presented for each major class.
  - Description of requirements or standards for acceptable operating condition
  - Any changes in the condition requirements or standards, and
  - Asset condition and a range or a point estimate of the dollar amount of maintenance and repairs needed to return assets to their acceptable operating condition.
- If the total life-cycle cost method is used, the following should be presented for each major class of PP&E:
  - The original date of the maintenance and repairs forecast and an explanation for any changes to the forecast
  - Prior year balance of the cumulative deferred maintenance and repairs amount
  - The dollar amount of maintenance and repairs that was defined by the professionals who designed, built or manage the PP&E as required maintenance and repairs for the reporting period
  - The dollar amount of maintenance and repairs actually performed during the period
  - The difference between the forecast and actual maintenance and repairs
  - Any adjustments to the scheduled amounts deemed necessary by the managers of the PP&E, and [Adjustments may be necessary because the cost of maintenance and repairs foregone may not be cumulative. For example, if periodic painting is skipped twice it is not necessarily true that the cost would be double the scheduled amount.]
  - The ending cumulative balance for the reporting period for each major class of asset experiencing deferred maintenance and repairs

Optional Disclosures

- Stratification between critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition. If management elects to disclose critical and noncritical amounts, the disclosure shall include management's definition of these categories.

Source: *Statement of Federal Financial Accounting Standards 40: Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*

Appendix B 2014 Spending in CIP and AP Funds by Building, from 2005 - 2013 (9 years)

Building Name	Totals 2005-2013
All other Buildings	
Multnomah County Court House	7,825,650
Yeon Shops	3,366,011
Multnomah Building	2,604,055
Mead	2,377,884
Walnut Park	2,357,998
Elections Building	2,329,942
McCoy	2,243,958
Animal Services	1,192,567
Southeast Health	1,151,809
Gateway Children's Center Residential*	974,921
Mid-County Health	845,391
Hansen	765,357
Multnomah Building Garage	442,372
Vector Control	336,057
Multnomah County East	293,715
Women Transition	292,768
Gateway Childrens Center Service Bldg.	277,867
Skyline Road Shop	254,005
Gresham Probation	204,948
Edgefield property	164,530
Central Office	163,473
Springdale Road Shop	141,812
Bridge Shops	136,513
North Portland Health	129,550
Gateway Childrens Center MDT Bldg	122,173
River Patrol	76,571
Yeon Annex	71,630
Wikman Building	36,117
Skyline Road Shop Garage	22,492
River Patrol Willamette	18,583
Animal Services	2,812
Rockwood Neighborhood Health	1,338
All other Buildings	31,224,870

Building Name	Totals 2005-2013
Buildings Disposed Of	
State Medical Examiner	79,571
Hooper Memorial Center	2,756
Kelly Building	412,414
Martha Washington	73,322
Montavilla Bldg	2,925
Morrison Building	376,601
Ford Building	493
DEXCO	35,486
North Disability Services	2,068
Peninsula	38,408
Buildings Disposed Of	1,024,044

Building Name	Totals 2005-2013
Libraries	
Belmont Library	86,925
Capitol Hill Library	79,095
Central Library	2,164,610
Gregory Heights Library	67,197
Gresham Library	512,732
Hillsdale Library	16,745
Holgate Library	22,973
Hollywood Library	13,052
Library Administration	457,748
Midland Library	158,223
North Portland Library	56,321
Rockwood Library	400,942
St Johns Library	97,470
Title Wave	760,113
Woodstock Library	20,681
Libraries	4,914,830

Building Name	Totals 2005-2013
Corrections Facilities	
Inverness Jail	6,331,903
Inverness Jail Laundry	838,334
Inverness Jail Storage	10,226
Justice Center*	10,437,098
Juvenile Justice	3,714,461
MCCF	30,418
Corrections Facilities (24-7 operations)	21,362,441

Building Name	Totals 2005-2013
Leased Buildings	
Portland Building	43,183
Lincoln	1,826,095
Columbia Pacific (PBNO)	71,990
Blanchard	84,118
Banfield Warehouse	30,555
Leased Buildings	2,055,941

Building Name	Totals 2005-2013
Administration and Other	
Multiple Bldgs not identified	3,546,813
Administration	1,297,879
Debt Payments	2,469,627
Disposition Costs	981,677
Children's Land Trust Debt	2,773,156
Bridge Fund Loan (was repaid)	1,923,203
Sellwood Lofts	1,092,799
Regional Arts	305,305
ADA	99,893
Admin and other	14,490,672

Building Name	Totals 2005-2013
Non-routine projects	
East County Justice Center	24,199,454
County Court House - Proposed	36,375
Non-routine projects	24,235,829

* Has some shared costs with City of Portland

Source: SAP reports

Response to Audit

Department of County Assets
Facilities and Property Management Division

Multnomah County

401 N Dixon Street • Portland, Oregon 97227 • Phone (503) 988-3322

DATE: October 4, 2013

TO: Steve March, County Auditor

FROM: Michael Bowers, Facilities Director

SUBJECT: Response to Facilities Deferred Maintenance Audit

The Department of County Assets and the Facilities and Property Management Division (FPM) thank you for the time that you and your staff have invested in the review of Facilities deferred maintenance. Your findings and recommendations present opportunities to improve our ability to identify, monitor and report deferred maintenance.

We agree that County financial policies for financing and reporting on capital projects should address capital improvement and acquisition projects separately from capital maintenance projects, both planned and deferred. Additionally, our financial policies could more clearly state that using standard accounting depreciation practices based on historic building costs are appropriate for establishing cost recovery for ongoing, planned building maintenance and repairs. The Department of County Management will incorporate these recommendations into the County's FY 2015 financial policies.

We will continue to work with the Chief Financial Officer and the Budget Office to more clearly define target funding levels for capital acquisition and major capital improvement projects. Historic costs are, as a rule, well below the cost to replace or upgrade a building, and we have concerns about using this amount to guide policies for funding capital acquisitions.

Providing useful reports to decision-makers is a priority. FPM is in the midst of updating its Asset Management repository, which will replace an outdated system and will provide better information about the maintenance status of our buildings. This new system will improve our report capability—but we also anticipate that it will "re-set" our baseline figures for deferred maintenance. To accommodate that likelihood, the Facilities Asset Strategic Plan (FASP) process improvement team is currently evaluating business investment metrics on all County properties. The result of this team's work will better enable County decision-makers to make informed investment decisions based on anticipated increases in deferred maintenance and repairs.

County departments and County leadership continue to identify opportunities both for disposal of excess properties and for development agreements which greatly assist in reducing deferred maintenance issues. Improving the speed with which we dispose of surplus properties will further reduce County cost and risk.

Thank you again for the time and effort taken to compile this report and make recommendations for improving our services. We look forward to providing updates on our progress as we implement solutions.

cc: Joanne Fuller, Chief Operating Officer
Sherry Swackhamer, Director, Department of County Assets