King County Auditor's Office
Kymber Waltmunson, King County Auditor

King County

Performance Audit of the Facilities Management Division Major Maintenance Reserve Fund

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September 16, 2014

Executive Summary

The King County Council established the Major Maintenance Reserve Fund in 1993 to ensure a stable source of funding to maintain county-owned buildings. However, competition for scarce general funds and missed opportunities to enhance management practices and communication have resulted in a large backlog of deferred maintenance. To enable the county to provide more efficient and cost-effective stewardship in the future, our report includes several recommendations to improve management practices and communications.

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King County Auditor's Office
Kymber Waltmunson, King County Auditor
King County

Performance Audit of the FMD Major Maintenance Reserve Fund

Report Highlights

September 16, 2014

Purpose

King County has invested $117 million in the Major Maintenance Reserve Fund to provide for the maintenance and repair of county buildings in the past 15 years. We reviewed the financing, management, and implementation of the Facilities Management Division's major maintenance program to determine whether this investment has effectively provided for the county's major maintenance needs.

Key Audit Findings

The idea of pre-funding major maintenance to reduce spikes in maintenance spending is a good one; however, there are opportunities to more effectively implement this concept. Despite stipulation in King County Code that the fund be fully financed, it received only 34 percent of the funds needed to perform major maintenance between 2002 and 2010. The backlog of critical work required before 2016 is about $100 million, and consequences of this backlog could begin to affect county operations. For example, the electrical system in the King County Courthouse is far past its intended life span and could fail at any time, rendering the building unusable.

The Facilities Management Division should proactively approach funding limitations by taking advantage of opportunities to effectively communicate the extent of major maintenance needs. The financial model the division has been using to predict major maintenance costs contains flaws that render its predictions unreliable. In addition, because the division has not adequately tracked building condition, it is unable to measure the impact of major maintenance spending decisions.

What We Recommend

We recommend that the division improve data collection and tracking methods and strengthen communication with decision-makers to enable them to make strategic decisions about major maintenance funding. It should also ensure that its revised financial model accurately predicts the full cost of major maintenance for buildings in the Major Maintenance Reserve Fund portfolio. In addition, we recommend that the County Executive and County Council set target building condition levels for the division to use in measuring and reporting the performance of the major maintenance program.

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FMD Major Maintenance Reserve Fund

What is the purpose of the Major Maintenance Reserve Fund?

As specified in the county code, the purpose of the Major Maintenance Reserve Fund (the fund) is to provide sufficient funding for the periodic repair and replacement of major building systems and components.

The King County Council established the fund in 1993 to provide a reliable source of funds to pay for major maintenance of county-owned buildings under the control of the Facilities Management Division (the division). In doing so, County Council recognized the need for maintenance to preserve the full useful life of these buildings.

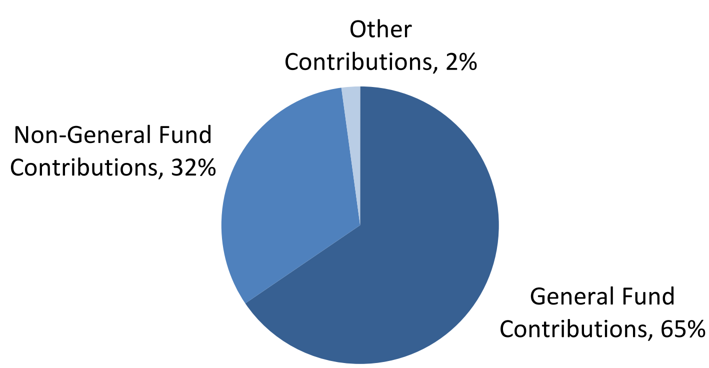
Governments at the federal, state, and local levels commonly face the challenge of devoting adequate resources to maintain public buildings. At a time when few other governments, including the state of Washington, had identified viable revenues to match major maintenance needs, King County recognized this key responsibility and created a plan.

Under the original plan, agencies were to contribute a stable and predictable amount into the fund each year so that sufficient resources would be available to pay for needed building repairs. Agency contributions were to be determined on a square footage basis for individual county buildings. The plan assumed that the fund would accumulate adequate resources so that funding from external sources, such as periodic voter approved levies, would be unnecessary.

According to the King County Code (KCC), the fund was to be fully financed with revenue from the general fund, transfers from the non-general fund agencies, reimbursement from other jurisdictions, and other revenue sources such as investment earnings (see KCC 4A.200.410.G).

Exhibit A shows the history of contributions to the fund from the general fund, non-general fund agencies, and other sources from 2007 through 2013.

Exhibit A: General Fund contributions comprise the bulk of Major Maintenance Reserve Fund revenues, 2007-2012.



Source: King County Auditor’s Office analysis of financial data from the Facilities Management Division

FMD Major Maintenance Reserve Fund

How does the division assess building conditions?

The division does not have a regular and systematic process in place to assess current building conditions. Because the division has not established a consistent and reliable mechanism to assess building conditions over time, it is not possible to know if building conditions have improved, worsened, or stayed the same since the creation of the fund in 1993. While the division has an accurate inventory of buildings and their major systems and components, it does not have a timely process in place to assess the buildings under its control or regularly and consistently update the data. Industry best practices call for a consistent and cost-effective process to assess and update building conditions on a regular basis.

The division has formally assessed building conditions only twice since the creation of the fund in 1993. In 2002, the division hired a contractor to assess building conditions and help it update its building maintenance prediction model. Ten years later, in 2012, a second contractor completed an update of the division's facility condition assessment database. In addition, division officials indicated that they updated some condition data through information gathered from building services staff and capital project managers. They stated that this process is not as systematic and quantitative as they would prefer, but it has managed to identify the most pressing major maintenance needs during a period of strained economic resources.

Although both formal assessments provided data on building conditions, due to methodological differences, the data are not quantitatively comparable and do not allow tracking of building system conditions. Consequently, it is not possible to quantitatively describe how building conditions have changed between 2002 and 2012. Division officials report they would like to hire a contractor to inspect buildings on a three-year cycle (using the same methodology as the 2012 assessment), so that in the future they will have a more up-to-date picture of building maintenance and repair needs.

An example of another way to implement condition assessments is in Washington's community college system, which employs a cost-effective model for tracking building conditions and maintenance needs. In this model, agency personnel conduct inspections and assess building conditions on a two-year cycle. A contractor is employed to spot check inspection results to ensure consistency. The division could use a similar approach for inspecting the facilities it is responsible for at a potentially lower cost than contracting for the entirety of the necessary inspection work.

FMD Major Maintenance Reserve Fund

Recommendation 1

The Facilities Management Division should implement a consistent and reliable process for assessing and updating current building condition data using a cost-effective methodology.

Has the Major Maintenance Reserve Fund been working as intended?

No, significant underfunding has left some buildings in poor condition with a large maintenance backlog. Contributions to the fund have been insufficient to pay for all needed building repairs and the replacement of aging major building systems and components. Currently, only about one third of the buildings covered by the fund are assessed in good condition, and there is a large backlog of deferred maintenance.

One commonly used indicator of building conditions is the Facility Condition Index (FCI), which is commonly defined as the ratio of deferred maintenance costs to current building replacement values. For example, a building with a current replacement value of $1 million and total deferred maintenance costs of $50,000 would have an FCI of .05, or 5 percent, and would be considered in good condition. A similarly valued building with a replacement value of $1 million but with deferred maintenance costs of $150,000 would have an FCI of .15, or 15 percent, and would be considered in poor condition.

Exhibit B provides a snapshot of building conditions in the division's portfolio, as they were assessed by the division's contractor in 2012.

Exhibit B: 2012 data suggest that over half of the buildings in the division's portfolio are in poor or failing condition.

Facility Condition Index Range	Condition Rating	Number of Buildings	Share of Portfolio
Under 5%	Good	13	36%
5% - 10%	Fair	4	11%
11% – 15%	Poor	14	39%
16% +	Failing	5	14%

Note: The ranges of scores above are considered general industry standard guidelines

Source: King County Auditor's Office analysis of division data, from "King County Facility Management Division Facility Condition Assessment – Phase II Update," Volume A, June 2013

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FMD Major Maintenance Reserve Fund

How big is the major maintenance backlog?

The division's facilities condition assessment database shows that 77 percent of predicted maintenance work for 2002-2013 has not been done and short-term critical major maintenance needs total $100 million. In 2012, the division hired a contractor to inspect all of the buildings in its portfolio and identify major maintenance needs. The contractor identified over $100 million of critical maintenance work that should be done by the end of 2016 to prevent failure or significant loss of function. The contractor estimated that long-term major maintenance costs would exceed $400 million for the 20-year period from 2011 to 2030. In addition, division officials cautioned that estimates do not account for any necessary tenant relocation.

King County's portfolio includes several buildings that present unique challenges. The King County Courthouse and Yesler Building are each about 100 years old, and were not designed with modern systems.[1] Moreover, division officials report that the King County Correctional Facility and Administration buildings have required costly and ongoing maintenance since their construction.

As shown in Exhibit C, the five King County facilities with the greatest short-term critical needs based on the 2012 observed deficiencies are the King County Courthouse, Maleng Regional Justice Center Detention Facility and Courthouse, King County Correctional Facility, and Administration Building. Over half the total observed deficiencies exist in the King County Courthouse and Maleng Regional Justice Center Detention Facility alone.[2]

Exhibit C: The short-term cost of repairing observed deficiencies totals about $100 million.

Building	2011-2016 Observed Deficiencies	Share of Total
King County Courthouse	$35,789,775	37.0%
Maleng Regional Justice Center Detention	$20,775,092	21.5%
King County Correctional Facility	$11,630,600	12.0%
Maleng Regional Justice Center Courthouse	$8,184,085	8.5%
Administration Building	$7,100,560	7.4%

[1] The King County Courthouse was built in 1917 and the Yesler Building in 1908.
[2] Division officials indicated that major repairs of the King County Courthouse are included in the 2015-16 budget submittal, and they have proposed that the Yesler Building be redeveloped.

Yesler Building	$3,808,418	3.9%
Youth Service Center - Alder	$2,663,796	2.8%
Records & Archives Warehouse Building	$1,716,692	1.8%
Youth Service Center - Spruce	$827,193	0.9%
District Court Northeast	$545,245	0.6%
Orcas Building	$530,283	0.5%
King County Elections Building - Earlington	$513,382	0.5%
Public Health Center - Northshore	$512,840	0.5%
Public Health Center - Eastgate	$372,901	0.4%
Kent Animal Shelter - Kennel	$314,665	0.3%
Goat Hill Garage	$289,014	0.3%
Regional Communications Emergency Coordination Center	$253,218	0.3%
Police Precinct #3 - Hicks Rayburn Building	$202,667	0.2%
Police Barclay Dean Evidence Warehouse	$164,608	0.2%
District Court Shoreline	$134,233	0.1%
Police Precinct #4 - Burien	$96,135	0.1%
Chinook Building	$70,800	0.1%
Kent Animal Shelter - Office	$51,691	0.1%
Police Barclay Dean Evidence Office	$37,440	0.0%
Public Health Center - Federal Way	$18,238	0.0%
Total observed deficiencies	**$96,603,571**	**100%**

Note: Buildings that have been identified for surplus or demolition are not included on this list.

Source: King County Auditor's Office analysis of Meng Model Deficiency Report, April 4, 2013. "King County Facility Management Division Facility Condition Assessment – Phase II Update," Volume A, Meng Analysis Report, June 2013

What is the impact of having a major maintenance backlog of this size?

King County is currently operating at a high risk for major costs and disruption. For example, the electrical and heat, ventilation, and air conditioning (HVAC) systems in the King County Courthouse date back to the 1960s and are over two decades past their recommended replacement dates. These systems can fail at any time, which could render all or a large part of the building unusable until major repairs are completed. Aged, failing systems also waste energy and other resources. For example, division staff compared the heating and ventilation system in the courthouse to keeping the doors and windows of a house open all year long and turning up the heat in the winter. The division estimates that the courthouse uses twice as much energy as a comparable facility because of poorly functioning and outdated building systems. Other potential impacts from having a maintenance backlog include the following:

- the county will pay more for energy and water because of system inefficiencies
- equipment failure or building shut downs may occur
- health and safety issues may arise
- facilities look worn with obvious deteriorations
- lack of maintenance may affect tenant attitudes and morale
- staff may not be able to provide scheduled maintenance due to the frequency and cost of emergency repairs.[3]

With a growing backlog of needs, system failures and service disruptions become more likely as building components age beyond their expected lifespans. The impact of unplanned disruptions could be much greater than planned disruption to facilitate major repairs. For example, the division identified several systems in the King County Courthouse that could fail and require large-scale relocation of tenants. This would be difficult and costly to accommodate without prior arrangements. Some systems, such as the HVAC system in the courthouse, are so old that replacement parts are no longer available and major upgrades would be required in the case of a system failure. In addition, the system is out of compliance with Seattle Energy Code in a variety of ways, resulting in a significant amount of wasted energy, according to division officials.

Has the Major Maintenance Reserve Fund been fully funded as required?

To date, the fund has not been supported adequately to meet predicted major maintenance needs as required by King County Code.[4] In the period from 2002 to 2010, actual revenues totaled $78 million, or 34 percent of the $230 million need predicted by the division's model. Largely because of this underfunding, the division has conducted only a third of the recommended maintenance projects since 2002.

[3] Division officials stated that they plan to implement a preventative maintenance module in their work order system to increase resources for preventative maintenance and reduce resources required for reactive maintenance.
[4] King County Code 4A.200.410.G states that the Major Maintenance Reserve Fund shall be fully financed based on the financial model, and funding requirements shall be fulfilled by contributions from the general fund, contributions from the non-general fund agencies, and other sources.

The fund was originally intended to be supported from building specific per square foot charges to tenant agencies. While non-general fund tenants have paid a per square foot rate based on anticipated maintenance needs predicted by the division's facility condition model, the amount of the general fund contribution has not reflected the maintenance needs predicted by this model for buildings occupied by general fund agencies. Instead, the Office of Performance, Strategy, and Budget (PSB) has independently designated the amount available to support building maintenance for each budget cycle. The division has used these amounts to prioritize annual maintenance projects within the limit PSB provided.

Because contributions to the fund have been insufficient to address predicted major maintenance needs, the division's program has evolved into a "just-in-time" system where only the most urgent maintenance and repair risks are addressed. These projects often address problems overdue for attention and are necessary just to maintain building operations.

In order to determine an appropriate level of funding for building maintenance and repairs, policy-makers must have an accurate assessment of needs based on a target condition level. King County Code requires the fund to support adequate maintenance to allow buildings to realize their "full useful lives." But how this goal translates into a facility condition target is unclear. Clearer criteria for major maintenance performance would enable decision-makers to make strategic decisions about the appropriate level of funding necessary to purchase a target level of building conditions. This can be done using the FCI measure described above. For these targets to be useful, the FCI must be accurate, which depends on having up-to-date condition data measured in a consistent manner (see Recommendation 1 above).

Recommendation 2

The Facilities Management Division should work with the County Executive and County Council to set a target condition level for each building the division manages using the Facility Condition Index.

Why has funding lagged so far behind predicted major maintenance needs?

Competing demands for scarce resources and communications lacking key information have been the primary factors limiting major maintenance funding. The division has not been effective at communicating key information necessary for policy-makers to make strategic decisions to address major maintenance funding needs, which are in competition with many other programs dependent on the general fund. Specifically, it has not presented the full magnitude of the maintenance backlog or communicated the impact of continuing to defer maintenance to county executive and county council decision-makers.

While the ultimate decision on whether to fully fund major maintenance is in the hands of executive and council decision-makers, the division has adopted a reactive approach to communicating major maintenance needs. It has presented budget proposals sized to fit limited funding levels set by PSB instead of clearly communicating the size of the maintenance backlog. Senior executives and council officials report they were unclear on the implications of underfunding for county buildings.

A review of the division's 2013 budget proposal to the County Executive and conversations with division managers indicate that while the division provides detailed explanations for proposed projects, it does not provide three types of key information recommended by best practices literature:

- A description of the current condition of the buildings in the division's portfolio, including total costs to address all major maintenance needs.
- Priority-related information that separates maintenance needs into two important categories: critical needs that carry an unacceptable level of risk for compounding costs; and non-critical needs that may be postponed without substantial additional cost or operational risk.
- Quantitative financial implications of on-time or deferred maintenance, including any water and/or energy inefficiencies.

All three types of information, provided on a consistent basis, would help make the division's budget proposals more salient and defensible.

Recommendation 3

The Facilities Management Division should strengthen communication with decision-makers to enable them to make strategic decisions about major maintenance funding. Specifically, it should describe the current condition and total major maintenance needs of buildings under the fund, separate the needs into critical and non-critical categories, and describe the financial implications of deferring maintenance.

FMD Major Maintenance Reserve Fund

Does the Major Maintenance Reserve Fund financial model provide an accurate prediction of major maintenance costs?

User decisions, out-of-date information, and technical flaws have limited the Major Maintenance Reserve Fund financial model's usefulness. The financial model, used until the development of the 2015-16 major maintenance budget proposal, did not provide a complete and accurate prediction of major maintenance needs for a variety of reasons. While the concept behind the model was sound, it has not worked as intended for a number of reasons:

- The division included a "system coverage" factor in the model that inappropriately reduced predicted maintenance costs to reflect the constrained funding environment. Use of the system coverage factor reduced the total predicted maintenance and repair costs for all buildings by 38 percent. According to division officials, it was used to generate a smaller deferred maintenance estimate to reflect the constrained funding environment. Distorting the output of the model in this way limited its usefulness for planning to address major maintenance needs.
- The financial model the division used to derive the funding rate for non-general fund agencies until 2014 was based on 2002 data. Although updated data from 2012 were available, the division had not incorporated the data into its financial model at the time of this audit. Therefore, the division could not be sure that the model's pricing of major maintenance needs, and thus, the fund rates, are reflective of actual conditions of the buildings.
- Over the years there have been a number of inadvertent errors introduced into the calculation of predicted costs due to incorrect formulas and out-of-date data. Absence of a user's manual and lack of periodic testing of the model by division staff and outside parties have contributed to this problem. For example, in some cases a model works correctly using initial data, but as inputs change over time, glitches in the formulas can distort results.

King County Code points to this financial model to determine the level of funding necessary for major maintenance but flaws in the model render its predictions unreliable. Division officials indicated that PSB is currently revising the financial model, using 2012 condition data, for the County Executive's 2015-16 budget submittal this fall. The division and PSB indicated they had not completed the new version of the model in time to include it in this audit.

FMD Major Maintenance Reserve Fund

Recommendation 4

The Facilities Management Division and Office of Performance, Strategy, and Budget should ensure that the new financial model accurately predicts the full cost of major maintenance for buildings in the Major Maintenance Reserve Fund portfolio and uses the most current facilities condition data. The King County Auditor's Office will review the updated model as part of our audit follow-up.

What could be done to increase the effectiveness of the Major Maintenance Reserve Fund?

Spending limitations have contributed to higher than necessary cost for some major maintenance projects. Division personnel related challenges to efficient spending from limited or inflexible funding. For example, the water pipe replacement project for the King County Correctional Facility replaced much of the piping within the building, but did not originally include replacing the main supply pipe. This pipe connects to the city water supply and is clogged with minerals. The contractor's bid to add this work to the project was $230,000. However, because this amount exceeded the approved budget for the project, the division was unable to include the additional work. The division's current plans are to conduct this final part of the project separately at a cost $760,000. If the division had been able to move funds from another project to cover the extra cost, it could have saved $530,000.

Division officials report that underfunding frequently requires them to break down larger projects into phases, which then incur fixed costs for design, procurement, and site preparation (sometimes including tenant relocation) for each phase instead of only once. As shown in the example above, a phased approach ends up costing more than implementing a project all at one time. In addition, division officials indicated that funding major maintenance by building instead of by project would result in greater cost-efficiency by enabling them to fix unforeseen problems in funded projects.

Recommendation 5

The Facilities Management Division should propose a new budget structure to address inefficiencies related to phased projects and inflexible project spending.

Does the division have performance measures in place to demonstrate the impact of major maintenance spending?

No, the division does not measure or report on the impact of major maintenance spending on building conditions. Without performance measures to provide feedback on the effectiveness of past decisions, neither the division nor decision-makers can optimize future major maintenance funding and spending decisions.

Tracking the condition of buildings over time and reviewing trends in FCI scores is an important means to evaluating the implementation of King County's major maintenance program. By employing this commonly used tool for tracking building conditions, the division could track and report on the condition of a single building, or any group of buildings, over a period of years. By comparing the actual FCI with established targets, the division could both evaluate performance of the major maintenance activities on building conditions and identify future funding needs to achieve target condition levels.

Recommendation 6

The Facilities Management Division should measure and report on the performance of the Major Maintenance Reserve Fund by comparing Facility Condition Index scores based on current building condition data to established targets.

Executive Response

King County

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September 2, 2014

Kymber Waltmunson
King County Auditor
Room 1033
C O U R T H O U S E

Dear Ms. Waltmunson:

Thank you for the opportunity to provide a response to the Major Maintenance Reserve Fund (MMRF) report. The Facilities Management Division (FMD) shares your concern about the condition of County facilities and looks forward to implementing the recommendations to improve communication about building condition assessments and financial needs.

FMD's recent collaboration with a facility condition assessment consultant was a critical first step toward establishing the amount of financial resources needed to ensure timely building infrastructure repair and replacement. However, these needs are challenging to address given the severe shortage of resources in many County funds.

The new initiative for the Yesler Building is an example of an innovative approach to major maintenance needs. The Council recently adopted an Executive supplemental budget proposal to assess the financial feasibility of rehabilitating the Yesler Building for use by the Department of Public Defense (DPD), whose downtown Seattle operations are currently housed in several leased spaces. This proposal would deal with the large backlog of maintenance needed for the Yesler Building while providing a cost-effective option for DPD.

The County Executive is currently examining options to address the major maintenance needs at the King County Courthouse, and may include funding for further assessment in the 2015/2016 Proposed Budget. The 2015/2016 Proposed Budget will also reflect a review of MMRF existing project balances with the goal of using available resources for new priority projects. The 2015/2016 Proposed Budget may also fund proposals to make more efficient use of available space with the possibility of reducing the overall amount of space the County needs, which would, in turn, reduce maintenance backlogs.

Executive Response (continued)

Kymber Waltmunson
September 2, 2014
Page 2

As noted in responses to individual recommendations, these initiatives can only go so far if the County continues to confront on-going, structural revenue limitations. The County's General Fund revenue growth is capped by State law at less than the rate of inflation and population growth, which means that continual searches for efficiencies and program reductions are needed to balance each biennial budget. Many other funds have similar challenges, and the 2015/2016 Proposed Budget will include significant reductions in programs and services.

King County also has no countywide revenue source dedicated to infrastructure repair and replacement. The Real Estate Excise Tax (REET) provides such a funding source for cities, but is available to King County only in the unincorporated area. This brings in only a modest amount of money, especially because there is little commercial property in the unincorporated area and hence little REET on such sales. By policy, King County has devoted REET to parks facilities, leaving no dedicated revenue source to fund major maintenance of general government buildings.

As a result of these revenue challenges, King County has been knowingly underfunding major maintenance of general government facilities for many years. There are few options to address this without additional revenue or cuts in direct services.

We look forward to working with you in the coming year as we improve our facility assessment and budgeting procedures.

Sincerely,

Dow Constantine
King County Executive

Enclosure

cc: Fred Jarrett, Deputy County Executive, King County Executive Office (KCEO)
Rhonda Berry, Chief of Operations, KCEO
Caroline Whalen, Director, Department of Executive Services (DES)
Kathy Brown, Director, Facilities Management Division (FMD)
Carol Basile, Deputy Director, Finance and Business Operations Division, DES

Executive Response (continued)

Response to Audit of the Facilities Management Division (FMD) Major Maintenance Reserve Fund

Recommendation #1:	Agency Position:	Schedule for Implementation
Implement consistent, reliable, and cost effective methodology for updating current building conditions	Concur: Current FMD efforts are the first steps to achieving the desired outcome.	Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget

Comments:

The FMD has undertaken a rigorous process to update current building condition data. Prior to the current Meng study, condition data was updated by consulting with both those who operate the FMD managed buildings and those who deliver major maintenance projects in those very same buildings. This process was less costly than an annual consultant driven update but, over time, led to outdated quantitative data about the condition of various buildings.

The Meng methodology, which emphasizes a continuum of facility condition indices, does suggest a routine update of building condition assessments. The FMD is planning to implement such an update process based on inspections and assessments of approximately one third of its buildings each year, on a three-year cycle. Information from these assessments will be used to update the MMRF model and to help prioritize each biennium's MMRF project list.

Recommendation #2:	Agency Position:	Schedule for Implementation
Work with Executive and Council to set a target condition level for each building the division manages using Facility Condition Indices	Concur	Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget

Comments:

None

Executive Response (continued)

Recommendation #3:	Agency Position:	Schedule for Implementation:
FMD should strengthen communication with decision-makers and present information as recommended in best practices literature	FMD partially concurs with the recommendation while offering that rather than the quality of the communication of the building facility condition, the primary cause for MMRF underfunding is the County's limited fiscal capacity.	Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget

Comments:

The FMD has complied with all budget instructions related to developing proposed major maintenance budgets. The FMD believes that the chronic underfunding of major maintenance is primarily caused by the limited set of revenue tools available to counties as compared to cities. There currently is no dedicated source of revenues available to fund major maintenance.

The FMD has also testified, as necessary, about the continuing need for major maintenance investments. The two most recent rounds of testimony had to do with Council deliberations about replacing the Youth Services Center and a discussion of the chronic underfunding of major maintenance presented with the Council approval of the 2013 Real Property Asset Management Plan.

However, it is acknowledged that there is room for improvement to the budget packages proposed for the MMRF Program with an eye to best practices. The FMD will respond positively to any changes to required justification accompanying proposed MMRF budgets.

Recommendation #4:	Agency Position:	Schedule for Implementation:
FMD and PSB should ensure that the new financial model accurately predicts the full cost of major maintenance for buildings in the MMRF portfolio	Concur	Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget

Comments: None

Executive Response (continued)

Recommendation #5:	Agency Position:	Schedule for Implementation:
The FMD should propose a new budget structure to address inefficiencies related to phased projects and inflexible project spending	The FMD concurs and will coordinate efforts with the Office of Policy, Strategy and Budget	Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget

Comments:

There are several options for reducing inefficiency related to phased projects and inflexible project spending. For example, in 2012 an option to budget at the building level was considered. A decision regarding this option was postponed, in part, to allow sufficient time to establish the necessary supporting project categorization in the financial system. Next, the Capital Project Management Work Group in its 2015 implementation of the most recent Executive Order will address the reporting barriers that could be resolved to improve the feasibility of the building level budgeting with sub-project implementation. A budget option to provide the ability to respond quickly to a project that becomes a higher priority during the biennium will also be evaluated by the end of 2015.

Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

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.

Audit Scope and Objectives

The objectives for the performance audit of the Facilities Management Division (FMD) Major Maintenance Reserve Fund were to:

- describe how facilities under the Major Maintenance Reserve Fund are being maintained and whether a maintenance backlog exists
- determine the extent to which the division's processes for facilities management reflect best practices
- determine the extent to which funding processes result in efficient maintenance of facilities as required by King County Code

Methodology

To achieve the objectives listed above, the King County Auditor's Office interviewed FMD leadership, management, and staff, as well as county executive and county council senior staff. We analyzed the facilities assessment models developed by the Carter Burgess and Meng contractors in 2002 and 2012, as well as the division's 2014 financial model, financial plans, and budget submissions. In addition, we reviewed leading industry practices for major maintenance of facilities and compared them to FMD's practices. Finally, we toured the King County Courthouse to see some of the effects of deferred maintenance firsthand.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objectives. This included review of selected policies, plans, processes, and reports. We assessed computer generated data for use in a variety of areas of the audit. In some cases, we were not able to use the data because of their unreliability. These findings are noted in the report. In the instances where we did use the data, we determined that they were sufficiently reliable for our intended purposes.

List of Recommendations & Implementation Schedule

Recommendation 1: The Facilities Management Division should implement a consistent and reliable process for assessing and updating current building condition data using a cost-effective methodology.

> **Implementation Date:** Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget.
> **Estimate of Impact:** Accurate and comparable data are critical to effectively managing county buildings, from tracking condition to predicting future maintenance costs.

Recommendation 2: The Facilities Management Division should work with the County Executive and County Council to set a target condition level for each building the division manages using the Facility Condition Index.

> **Implementation Date:** Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget.
> **Estimate of Impact:** Target condition levels will allow the division to determine funding needs for the desired level of building maintenance and prioritize resources efficiently.

Recommendation 3: The Facilities Management Division should strengthen communication with decision-makers to enable them to make strategic decisions about major maintenance funding. Specifically, it should describe the current condition and total major maintenance needs of buildings under the fund, separate the needs into critical and non-critical categories, and describe the financial implications of deferring maintenance.

> **Implementation Date:** Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget.
> **Estimate of Impact:** Communicating this key information will assist the County Executive and County Council in making informed decisions about when and how to fund major maintenance.

List of Recommendations & Implementation Schedule (continued)

Recommendation 4: The Facilities Management Division and Office of Performance, Strategy, and Budget should ensure that the new financial model accurately predicts the full cost of major maintenance for buildings in the Major Maintenance Reserve Fund portfolio and uses the most current facilities condition data. The King County Auditor's Office will review the updated model as part of our audit follow-up.

> **Implementation Date:** Develop by the end of 2015 to be used in 2016 in the preparation of the 2017/2018 biennial budget.
> **Estimate of Impact:** Accurate predictions of major maintenance costs are fundamental to effectively and efficiently planning for major maintenance funding needs.

Recommendation 5: The Facilities Management Division should propose a new budget structure to address inefficiencies related to phased projects and inflexible project spending.

> **Implementation Date:** Develop by the end of 2015 to be used in the 2016 in the preparation of the 2017/2018 biennial budget
> **Estimate of Impact:** Additional flexibility could allow the division to take advantage of opportunities for cost savings when conducting large projects or bundling smaller projects.

Recommendation 6: The Facilities Management Division should measure and report on the performance of the Major Maintenance Reserve Fund by comparing Facility Condition Index scores based on current building condition data to established targets.

> **Implementation Date:** This is a standard feature of the process to update facility conditions and will be addressed in the first annual update.
> **Estimate of Impact:** Measuring the impact of major maintenance funding on the condition of buildings will indicate whether funding (and associated maintenance work) is sufficient to keep buildings from degrading further. This information can be used to inform subsequent funding decisions.