SONOMA COUNTY

GENERAL SERVICES DEPARTMENT

CAROLINE JUDY
DIRECTOR

ADMINISTRATIVE SERVICES • ENERGY & SUSTAINABILITY • FACILITIES DEVELOPMENT & MANAGEMENT • FLEET OPERATIONS • PURCHASING

July 29, 2019

Honorable, Gary Nadler
Sonoma County Superior Court
600 Administration Drive
Santa Rosa, CA 95403

GENERAL SERVICES RESPONSE TO GRAND JURY REPORT
MANAGING PUBLIC PROPERTIES IN SONOMA COUNTY
JUNE 2019

The Grand Jury, County of Sonoma issued a report, "*Managing Public Properties in Sonoma County*" in June 2019. The report included four recommendations to which General Services was required to respond: R2, R3, R5 and R6. General Services' responses are as follows:

FINDINGS

We agree with these findings:
F1. Deferred maintenance of County buildings and other facilities has become so considerable that it requires extraordinary measures and limits management's ability to plan effectively for future facilities.

F3. There is no formal requirement that County departmental administrators inform the Board of Supervisors regarding current-year deferred maintenance decisions on capital assets including cost to the County budget.

F7. Facility maintenance is persistently underfunded, at levels substantially below recommended industry standards.

F9. Deferred maintenance contributes to more rapid deterioration of facilities and therefore, in the long run, to higher facilities costs.

F13. Capital assets that suffer from significant accumulations of deferred maintenance may be impaired assets for accounting purposes.

We disagree wholly or partially with these finding(s):
F2. Sonoma County Capital Assets Policy FA-l fails to provide sufficient reporting for management to determine the extent to which normal maintenance and repairs of buildings and other County facilities are being deferred.

We disagree wholly with this finding. The purpose of Fiscal Policy FA-1, *Accounting for Capital Assets*, is to ensure accurate and complete physical and financial records needed for financial reporting. The policy is not intended to address areas such as planning and budgeting for capital asset purchases and disposals, asset maintenance activities, or the appropriate use of County-owned assets. These items should be addressed in a separate policy to be developed by General Services and the County Administrator's Office. This separate policy would provide for the capture of maintenance and improvements and its impact to overall asset value. The condition of a facility in conjunction with the impacted asset value should be a greater consideration in the addressing funding and planning.
We would agree that a policy revision would be in order to capture the impact of deferring maintenance and conversely the extension of an asset's service life from repairs or replacement.

F4. Real asset records are scattered over an excessive number of record keeping and asset management systems.

We disagree partially with this finding. All physical/financial asset records are maintained in the EFS Asset Management (AM) module, however General Services maintains separate asset management systems to track work orders, maintenance and repair of the assets. A greater level of access to the EFS Asset Management Module would be appropriate though this module does not contain desirable features of a modern property asset management software system.

F5. General Services, as well as other departments, have yet to take advantage of integrating with the Enterprise Financial System's (EFS) Asset Management module which provides asset tracking, acquisition, maintenance, inventory, and cost-sharing.

We disagree partially with this finding. Although General Services would greatly benefit from an asset management software system, General Services requires a robust integrated asset management, cost accounting, and work order system with software capabilities providing space allocation information. It is our understanding that EFS does not fulfil all of these needs.

F6. The true cost of maintaining the County's facilities has been substantially understated for over a decade by deferring needed maintenance.

We disagree partially with this finding. As the amount of funding for maintenance had remained flat since the economic downturn of 2006, unfunded maintenance projects have been identified and valued in the Annual Capital Improvement Plan (CIP). However, competing needs of critical nature frequently occur in a limited budget.
F8. Deferred maintenance costs are continuing to accumulate to an extent that they constitute a major reduction in asset value not reported in the County's financial statements.

We partially disagree with this finding. The County is required to comply with Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In order to record an impairment loss, GASB 42 requires that the impairment be significant, unexpected and permanent, and also result in a decline in service utility. Following the provisions of GASB 42, an outdated or decrepit office building that is still used as an office is not impaired, because there has been no decline in service utility. However, several financial and property asset management publications indicate deferred maintenance as a liability. For instance Standard & Poor's rate the debt issuances of thousands of infrastructure owners and view high deferred maintenance levels as a credit weakness (***Deferring***

America's Infrastructure Maintenance Carries Risk, *Anne Selting, Infrastructure Finance Outlook, S&P Global Ratings, Q2 2018 Review*).

F10. Public and employee safety are adversely affected by deteriorating building conditions brought about by deferred maintenance.

We disagree partially with this finding. Building conditions would not be the only factor in public and employee safety. However, health and safety of employees and the public can be compromised by deteriorating building conditions such as a leaking roof that could be subject to mold, bacteria and fungus. Another example could include worn finishes which would only appear as aesthetic. However, wear on finishes such as carpet could be worn to the extent where frayed areas or unraveling seams become a tripping hazard as noted in some areas of County buildings.

F12. The County lacks in-house capabilities for determining and setting deferred maintenance valuations.

We disagree partially with this finding. General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating. The department contracted with VFA because the extensive scope of work would have detracted from staff resources committed to other projects. Staff effort must be fully reimbursable and as such it was more efficient to contract the effort to VFA.

F11. The current condition of facilities creates a difficult environment for making future plans and decisions about used and new facilities.

We disagree partially with this finding. While the current condition of existing aging buildings is a factor, the lack of vacant space, the costs of renovating facilities constructed in an era where asbestos and lead based paints were in common use, and the lack of financial resources to implement desired new uses and tenant improvements are far more significant factors impacting decision making.

F14 Board of Supervisors has not been able to fully implement the Capital Improvement Plan due to appropriation of funding to other departments.

We partially disagree with this finding. The Annual Capital Improvement Plan (CIP) is a planning document used to identify capital needs and prioritize funding based on the criteria set forth in the Sonoma County Administrative Policy 5-2, *Policy for Capital Project and Asset Responsibility.* New projects are added to the CIP each year, and it is not commonplace for all projects to be fully funded. An updated evaluation and inventory of deferred maintenance needs has not been completed since 2014 because of competing priorities. However, as it stands now, the County faces a $258 million backlog of deferred maintenance on the County government center campus, and staff have determined it to be more cost efficient to build a new campus than to repair the existing building. The Board of Supervisors have directed staff to move forward in exploring options for replacing existing County campus buildings or relocating to a new location. In light of this, only critical investments on the County campus have been prioritized for funding.

RECOMMENDATIONS

R2. The County Administrator obtain an independent cost analysis and justification of deferred maintenance on capital assets from each department head and present to the Board of Supervisors by March 2020, and following on an annual basis. [F3]

Response: The recommendation has been implemented.

The General Services Department is responsible for the maintenance and management of County property assets. Individual departments do not manage capital assets. General Services contracted with VFA Associates in 2014 to perform a facilities conditions analysis which is the industry standard baseline assessment of facilities. Best management practice is to perform a new or refreshed facilities condition assessment every five years. General Services intends to submit for approval a Capital Improvement Project for FY 2020/21 to update the facilities condition assessment and expand to buildings that ar omitted from the original study.

It should be noted that facilities condition assessments are not the same as cost estimates or analysis of individual projects. Cost estimates for capital projects are included in the Annual Capital Improvement Plan. These cost estimates are generally developed by skilled staff within the department. Large projects such as the Behavioral Health Housing Unit require additional cost estimating services typically performed by one of the County's Master Service Agreement architectural and engineering firms.

R3. The County Administrator work with department heads to evaluate and take advantage of the EFS Capital Asset Management module to avoid duplication, consolidate data, provide cost savings, and report updates to the Board of Supervisors by December 31, 2019. [F4, F5]

Response: The recommendation requires further analysis.

The County purchased and implemented EFS Asset Management county-wide in July 2014 in order to provide a centralized accounting system to track capital assets for the purpose of financial accounting. However there were additional asset management modules that were not purchased or implemented. . General Services requires a robust integrated asset management, cost accounting, and work order system with software capabilities providing space allocation information. The General Service Director will work with the County Administrator and ACTTC staff to determine if additional services are needed, and will provide an update to the Board of Supervisors as part of the Budget development process by June 30, 2020.

R5. The Director of Health Services reduce employee and public exposure to hazards, minimize risks of OSHA and liability exposure by enforcing a higher level of maintenance by December 31, 2019. [F10]

Response: The recommendation will not be implemented because it is not warranted.

Currently, General Services has been working closely with the Risk Management Division of Human Resources Department to identify and mitigate employee and public exposure to hazards, minimize risks of OSHA and liability exposure. Risk Management is responsible, in coordination with General Services, for the tracking and monitoring of all OSHA complaints, and consults and informs Health Services staff of issues, resolution and completion. Collaboration with Risk Management benefits the County in potentially providing insurance coverage for certain events and providing immediate assessment and recommendation by qualified safety specialists.

R6. The County Administrator and the General Services Director assign resources such as sufficient staffing for determining and setting deferred maintenance valuations by December 31, 2019. [F 12]

Response: *The recommendation requires further analysis.*

General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating. Because General Service's staff are 100% cost recoverable, other projects have been prioritized over updating deferred maintenance valuations. Further analysis will be needed to determine how many staff hours would be required to update and maintain deferred maintenance valuations, and how that would impact other projects. Best management practice is to reassess facility conditions every five years. As a part of that process, outstanding deferred maintenance items will be re-estimated. General Services will work with the County Administrator to continue to evaluate resource needs and report back to the Board of Supervisors by June 30, 2020 as part of the FY 2020-21 Capital Improvement Program (CIP) recommendations and Annual Budget.

OTHER COMMENTS:

Page 9, paragraph 4:

- The May 2018 report was not prepared by a consultant but by County staff, collating data from past sources and documenting trends in maintenance of county facilities.

OFFICE OF THE COUNTY ADMINISTRATOR

COUNTY OF SONOMA

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August 19, 2019

Honorable, Gary Nadler
Sonoma County Superior Court
600 Administration Drive
Santa Rosa, CA 95403

RE: Response to the 2018-19 Sonoma County Civil Grand Jury Report

Dear Honorable Judge Nadler,

Thank you for the opportunity to respond to the above stated Civil Grand Jury Report. The following is the County Administrator's Office response to the Report titled "Managing Public Properties in Sonoma County."

If you have any questions, or require additional information, please do not hesitate to contact me at 707-565-2588.

Sincerely,

Sheryl Bratton
Sonoma County Administrator

Response to Grand Jury Report

Report Title: Managing Public Properties in Sonoma County

Report Date: June 2019

Response By: Sheryl Bratton **Title:** County Administrator

Agency: Sonoma County Administrator's Office

FINDINGS

We agree with these findings:

F3. There is no formal requirement that County departmental administrators inform the Board of Supervisors regarding current-year deferred maintenance decisions on capital assets including cost to the County budget.

F7. Facility maintenance is persistently underfunded, at levels substantially below recommended industry standards.

We disagree wholly or partially with these findings:

F4. Real asset records are scattered over an excessive number of record keeping and asset management systems.

We disagree partially with this finding. All physical/financial asset records are maintained in the EFS Asset Management (AM) module. EFS AM has been implemented county-wide. Some departments use other systems to maintain data not needed for financial reporting of assets, such as maintenance planning for buildings.

F5. General Services, as well as other departments, have yet to take advantage of integrating with the Enterprise Financial System's (EFS) Asset Management module which provides asset tracking, acquisition, maintenance, inventory, and cost-sharing.

We disagree partially with this funding. The County purchased and implemented PeopleSoft Asset Management in July 2014 to provide a centralized system to track capital assets for the purpose of financial accounting. EFS Asset Management is currently the centralized system of record for recording and reporting all asset acquisitions, transfers, cost adjustments, retirements and depreciation for all County departments. Maintenance and work orders are tracked in a separate module called PeopleSoft Maintenance Management. The Maintenance module was not purchased by the County.

F6. The true cost of maintaining the County's facilities has been substantially understated for over a decade by deferring needed maintenance.

We disagree partially with this finding. As the amount of funding for maintenance had remained flat since the economic downturn of 2006, unfunded maintenance projects have been identified and valued in the Annual Capital Improvement Plan (CIP).

F10. Public and employee safety are adversely affected by deteriorating building conditions brought about by deferred maintenance.

We disagree partially with this finding. Building conditions are not the only factor in public and employee safety. In large part, worn or outdated finishes are merely aesthetic issues. However, there may be some cases where health and safety of employees and the public could potentially be compromised by deteriorating building conditions, such as leaking roofs or tripping hazards.

F12. The County lacks in-house capabilities for determining and setting deferred maintenance valuations.

We disagree wholly with this finding. General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating.

RECOMMENDATIONS

R2. The County Administrator obtain an independent cost analysis and justification of deferred maintenance on capital assets from each department head and present to the Board of Supervisors by March 2020, and following on an annual basis. [F3]

Response: The recommendation has been implemented.

An independent cost analysis performed by VFA associates has been completed, which will be updated in FY 2020/21. In addition, General Services and Regional Parks staff have evaluated Government Facilities located on County-owned properties including the Marinas. Staff provided a report on deferred maintenance needs during the Fiscal Year 2019-20 Budget Hearings and further discussion with the Board of Supervisors will begin in the fall of 2019.

R3. The County Administrator work with department heads to evaluate and take advantage of the EFS Capital Asset Management module to avoid duplication, consolidate data, provide cost savings, and report updates to the Board of Supervisors by December 31, 2019. [F4, F5]

Response: The recommendation requires further analysis.

The County purchased and implemented EFS Asset Management county-wide in July 2014 in order to provide a centralized accounting system to track capital assets. Additional asset management modules for IT, Maintenance Management, and Real Estate tracking were not purchased or implemented. The County Administrator will direct General Services Director to work with ACTTC staff to determine if additional services are needed. Staff will provide an update to the Board of Supervisors through the Budget development process by June 30, 2020.

R4: The County Administrator and the Board of Supervisors budget regularly for facility maintenance at levels consistent with recommended industry standards by December 31, 2019. [F6, F7]

Response: The recommendation has been implemented.

In order to avoid significant increases in deferred maintenance costs for County facilities, the Board of Supervisors adopted a Facility Maintenance and Investment/Deferred Maintenance Funding policy during the Fiscal Year 2017-18 Budget Hearings. As the policy states, the Board of Supervisors will appropriate, for a 5 year period commencing with Fiscal Year 2017-2018, forty percent (40%) of all new property tax growth, which is above the growth needed to keep up with inflation for existing levels of general fund services, to the Capital Projects Budget to be used towards addressing deferred maintenance of County facilities. Following Board adoption of the policy, the County Administrator's Office established a process for General Services to request use of the Deferred Maintenance fund. Since the creation of this fund, a number of critical deferred maintenance projects have been mitigated.

In light of the current status of deferred maintenance on the County campus, the Board of Supervisors have directed staff to evaluate options to replace existing County buildings or relocating to a new location. Funding in support of this project has been appropriated from both the annual Capital Budget and in the Facility Maintenance fund over multiple fiscal years.

R5. The Director of Health Services reduce employee and public exposure to hazards, minimize risks of OSHA and liability exposure by enforcing a higher level of maintenance by December 31, 2019. [F10]

Response: The recommendation will not be implemented because it is not warranted.

General Services has been working closely with the Risk Management Division of Human Resources Department to identify and mitigate employee and public exposure to hazards, minimize risks of OSHA and liability exposure. Risk Management is responsible, in addition to General Services, to track and monitor to resolution all OSHA complaints and consults and informs Health Services staff of issues, resolution and completion.

R6. The County Administrator and the General Services Director assign resources such as sufficient staffing for determining and setting deferred maintenance valuations by December 31, 2019. [F12]

Response: The recommendation requires further analysis.

General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating. Because General Service's staff are 100% cost recoverable, other projects have been prioritized over updating deferred maintenance valuations. Further analysis will be needed to determine how many staff hours would be required to update and maintain deferred maintenance valuations, and how that would impact other projects. The County Administrator and General Services will continue to annually evaluate resource needs and report to the Board of Supervisors by June 30, 2020 as part of the FY 2020-21 Budget recommendations.

2018-2019 Grand Jury Report:

Managing Public Properties in Sonoma County

Response from the Sonoma County Auditor-Controller-Treasurer-Tax Collector

FINDINGS ADDRESSED TO ACTTC:

F2. Sonoma County Capital Assets Policy FA-1 fails to provide sufficient reporting for management to determine the extent to which normal maintenance and repairs of buildings and other County facilities are being deferred.

Disagree wholly. The purpose of Fiscal Policy FA-1, *Accounting for Capital Assets*, is to present a uniform method of maintaining capital asset records and to apply a consistent method of accounting for capital assets. The focus of this policy is to ensure accurate, complete and timely physical and financial records needed for financial reporting in accordance with generally accepted accounting principles (GAAP). The policy addresses asset impairment, which is required for GAAP reporting and, to the extent deferred maintenance results in a financial impairment, it is covered in policy FA-1.

The policy is not intended to address areas outside of the authority and responsibility of the ACTTC, such as planning and budgeting for capital asset purchases and disposals, asset maintenance activities or the appropriate use of County-owned assets. If the County is lacking a policy specifically related to the tracking and reporting of required and deferred maintenance of County-owned assets, that policy should be created by the department(s) with oversight and authority of that activity (County Administrator, General Services, Sonoma County Water Agency, etc.)

F8. Deferred maintenance costs are continuing to accumulate to an extent that they constitute a major reduction in asset value not reported in the County's financial statements.

Disagree wholly. The ACTTC is not aware of any assets that qualify for impairment that should constitute a reduction in asset value not reported in the County's financial statements. The Sonoma County Comprehensive Annual Financial Report (CAFR) is prepared in accordance with GAAP applicable to state and local governmental entities. As such, the County is required to comply with Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In order to record an impairment loss, GASB 42 requires that the impairment be significant, unexpected and permanent, and also result in a decline in service utility. If an impairment meets these tests, the asset value must be accounted for at the lower of fair market value or carrying value (i.e. historical cost less accumulated depreciation/amortization). Following the provisions of GASB 42, an outdated or decrepit office building that is still used as an office is not impaired, because there has been no decline in service utility. Conversely an outdated or decrepit office building that cannot be used as an office without major repairs may be impaired if the fair market value is less than the carrying value of the asset, however, very old buildings/improvements are likely to be at or near full depreciation already.

F13. Capital assets that suffer from significant accumulations of deferred maintenance may be impaired assets for accounting purposes.

Agree. Assets are impaired for accounting purposes when there is a decline in service utility that is significant, unexpected and permanent. Significant deferred maintenance could result in an impairment. Impaired assets that will no longer be used in operations should be accounted for at the lower of fair market value or carrying value (i.e. historical cost less accumulated depreciation/amortization). Impaired assets that continue to be used in operations should be accounted for at the carrying value reduced by an amount proportionate to the loss in service utility.

RECOMMENDATIONS ADDRESSED TO ACTTC:

R1. The ACTTC (Auditor-Controller-Treasurer-Tax Collector) establish a procedure by October 1, 2019, to supplement Capital Assets Policy FA-I with deferred maintenance reporting comparable to that in Federal Accounting Standards SFFAS 6, 40 & 42. [F2, F8]

This recommendation will not be implemented because it is not warranted. The tracking and reporting of planned, actual and deferred maintenance activities is not the responsibility of the ACTTC, and it is not appropriate to apply Federal Accounting Standards in the preparation of the County's Comprehensive Annual Financial Report (CAFR). The ACTTC agrees with the Grand Jury's statement that accurate information about deferred maintenance should be provided to the Board of Supervisors in a consistent and timely manner; however, we do not agree that the CAFR is the appropriate mechanism for this reporting. As a local governmental entity, Sonoma County is required to prepare the CAFR in conformity with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The GASB does not require or recommend reporting of deferred maintenance by local governments and, therefore, does not provide a standard or guidance for such reporting. We surveyed peer counties and our external auditor, and found no examples of non-federal governmental entities that include deferred maintenance information in their CAFR. While GAAP does allow financial statement preparers some discretion in the preparation of financial reports in the absence of official guidance, it directs preparers to apply 'widely recognized and prevalent practice' in that situation. Reporting of deferred maintenance does not meet this standard, and including it would make our CAFR less comparable to other county and local government CAFR's and potentially confuse readers. A report created for the Board of Supervisors and management use can be designed to meet the County's unique needs, without the restrictions placed on financial reports, such as the CAFR.

The purpose of Fiscal Policy FA-1, *Accounting for Capital Assets*, is to present a uniform method of maintaining capital asset records and to apply a consistent method of accounting for capital assets. The focus of this policy is to ensure accurate, complete and timely physical and financial records needed for financial reporting in accordance with GAAP. The policy addresses asset impairment, which is required for GAAP reporting, and to the extent deferred maintenance results in a financial impairment, it is covered in policy FA-1, although there is no specific mention of impairment due to deferred maintenance. The ACTTC will update policy FA-1 to make it clear that significant deferred maintenance could cause an asset to be impaired.

Policy FA-1, *Accounting for Capital Assets*, is not intended to address areas outside of the authority and responsibility of the ACTTC, such as planning and budgeting for capital asset purchases and disposals, asset maintenance activities or the appropriate use of County-owned assets. If the County is lacking a policy specifically related to the tracking and reporting of required and deferred maintenance of County-owned assets, that policy should be created by the department(s) with oversight and authority of that activity (County Administrator, General Services, Sonoma County Water Agency, etc.)

R7. ACTTC review assets with accumulated deferred maintenance and adjust the record of accumulated depreciation if material impairment is found by July 1, 2020. [FI3]

The recommendation is not warranted because the ACTTC already has an effective process in place to annually review assets and identify the impairments that could be a result of deferred maintenance.

The ACTTC reviews assets annually for impairment as part of the financial closing process. Prior to year-end, ACTTC sends a Financial Reporting Survey (Survey) to all County departments with assets as reported in the financial system. The Survey asks if the department has any impaired assets and provides guidance on how to determine impairments per Government Accounting guidance. Responses to the Survey are reviewed by the ACTTC financial reporting team, and any adjustments for impairment losses are recorded. Impairments could be caused by significant deferred maintenance; however, our Survey does not explicitly reference deferred maintenance.

ACTTC will include an explicit example of impairment caused by significant deferred maintenance in the annual Survey for June 30, 2020 reporting. Assets that are reported as potentially impaired for any reason including deferred maintenance will continue to be run through the asset impairment test and reported appropriately in the CAFR.

Sonoma County Department of Health Services

Department of Health Services' Response to "Managing Public Properties in Sonoma County" Grand Jury Report

R5. The Director of Health Services reduce employee and public exposure to hazards, minimize risks of OSHA and liability exposure by enforcing a higher level of maintenance by December 31, 2019. [F10]

Response: Recommendation R5 has not been implemented and will not be implemented.

The Department of Health Services does not have legal authority to enforce or require the maintenance that address the concerns in R5. Maintenance of County owned facilities and their systems is administered by the General Services Department, and issues such as poor heating and inadequate air flows fall under the jurisdiction of the California Division of Occupational Safety and Health (DOSH), better known as Cal/OSHA, which sets and enforces health and safety workplace standards.

The Department of Health Services will work with the County Administrator's Office, the Department of General Services, Human Resources Risk Management, and the California Division of Occupational Safety and Health (DOSH) to provide educational materials on workplace health and safety standards and guidelines consistent with the County's Safety Management Program.