

Report Highlights

Louisiana Legislative Auditor

The Louisiana Agricultural Finance Authority (Lafa) is a component unit of the State of Louisiana created in 1983 under the provisions of R.S. 3:261–283 within the Department of Agriculture and Forestry (the department). Lafa was established to alleviate a severe shortage of capital and credit available at affordable interest rates for investment in agriculture through the issuance of bonds to provide financing for agricultural loans, or the purchase and guarantee of existing loans or negotiation of new loans.

The authority consists of nine members, one of whom is the commissioner of the department and eight members appointed by the governor. Lafa has no employees; however, employees of the department perform administrative and accounting functions of the authority. R.S. 3:266 gives Lafa the authority to supervise and use public employees, equipment and material in carrying out public work.

In addition to the powers stated above, Lafa can acquire, own, or construct movable or immovable property with or without public bidding. Under this authority, Lafa has purchased and owns most of the assets used by the department as well as undertaken construction projects for the department’s new buildings statewide using department employees to perform the labor.



Typical metal building constructed by department employees.

Audit Results

- For building costs other than labor, it appears that Lafa saved the state little, if any, money by constructing buildings for the department.
- We could not determine whether the department’s policy for purchasing equipment, property, and materials through Lafa has resulted in cost savings, compared to what other agencies would have paid. However, we noted some changes that could be made in Lafa’s purchasing policy.

For building costs other than labor, it appears that LAFA saved the state little, if any, money by constructing its own buildings.

Office of Risk Management cost-to-build appraisals represent what it could cost to construct the buildings.

What We Found

- The buildings at the sites we sampled cost the state more than appraisals indicated they could have cost. Without considering labor, LAFA's costs were up to \$207,804 more (21% more) for the Monroe buildings and up to \$21,064 more (14% more) for the Jonesville building than they could have cost. We could not estimate labor costs in the comparison because the department did not keep records of who worked construction.
- Higher costs may have been due to a pattern of inadequate planning and record keeping on LAFA's part. LAFA and the department did not adequately budget or monitor construction costs, keep work schedules, or record construction labor.
- For the 84 employees we identified as working construction at the sample sites, we found 31 position descriptions. According to department employees, certain employees had construction experience. However, fewer than half (15 of the 31 or 48.4%) of the position descriptions mentioned construction-related duties.
- Using estimates we made based on these 84 employees, the department may have supplied the equivalent of 30 to 60 full-time employees for the construction projects statewide.
- The department contends that employees who worked construction were cross-utilized to minimize idle time. According to the Department Master Plan, the purpose of the construction was to consolidate various programs and offices, thus increasing cross-utilization and decreasing the need for management personnel. Reallocating idle time may allow the department to reduce the number of positions in its table of organization.

- Using state employees for construction poses an insurance risk to state funds because the state self-insures for Worker's Compensation.
- The buildings in Monroe currently contain unused space, but there are plans for expansion.
- Because LAFA does not go through the capital outlay process, the department did not benefit from all the safeguards that the process requires to ensure that a building is needed and is built at a reasonable price. In addition, the capital outlay process may result in more timely insurance information for Risk Management.

Recommendations

- ✓ If LAFA continues to perform construction using department employees, the department and LAFA should:
 - Keep records of employee construction labor.
 - Keep work schedules for construction labor.
 - Budget construction expenses, including equipment, tools, and labor based on reasonable estimates.
 - Plan construction projects using detailed projections such as those used in the capital outlay process. These projections should include, but not necessarily be limited to the following: occupancy, number of people served, cost per square foot, equipment costs, construction and planning time estimates, and alternatives considered.
 - Keep accurate records of costs vs. budgets and compare these costs throughout construction to ensure they are not spending too much.
 - Ensure that they notify the Office of Risk Management about construction progress so that builder's risk and property insurance coverages will be appropriately documented.
 - Ensure that they conduct appropriate safety training during construction per the department's new safety manual, as they have recently begun to do.
- ✓ The department should study the effects of its recent construction projects, including:
 - How the idle employee time used to construct buildings may impact its table of organization.
 - How much it saved by consolidating the space.

Matters for Legislative Consideration

R.S. 39:101 stipulates that all construction activities for state budget units and political subdivisions should go through the capital outlay process. However, LAFA is apparently not subject to this process.

Based on the language in R.S. 3:1907, R.S. 3:1317, and R.S. 3:3210, it appears that the legislature may have intended that the Feed, Fertilizer and Pesticide Funds use be limited to one building at Louisiana State University and the department headquarters, as well as other buildings within the headquarters complex physically connected and related to it. These three funds were the construction projects' primary sources.

R.S. 3:266 (21) gives LAFA the authority to supervise and use public employees, equipment, and material in carrying out public work.

The legislature may wish to consider:

- Revising R.S. 39:101 *et seq.* to clarify whether LAFA projects should be subject to the capital outlay process.
- Revising R.S. 3:1907, R.S. 3:1317, and R.S. 3:3210 to clarify whether the Feed, Fertilizer, and Pesticide Funds may be used to fund statewide renovation or construction projects for the department, either directly or through bond issues.

We do not know whether the department's policy for purchasing equipment, property, and materials through LAFA has resulted in cost savings, compared to what other state agencies would have paid.

- Revising R.S. 3:266 (21) to remove LAFA's power to build using state employee labor.
- State agencies can purchase items on state contract or bid items through the Office of State Purchasing (OSP).

What We Found

- We could not compare LAFA's purchases of equipment, property, and materials to items that OSP had on state contract or bid because OSP could not find enough comparable items for us to test against LAFA's purchases.
- LAFA did develop a procurement policy that appears to be based on the state's requirements.
- LAFA generally followed its own procurement policy, with some exceptions:
 - LAFA did not advertise large purchases. LAFA's policy requires that purchases over \$25,000 be advertised.
 - LAFA's procurement policy does not name everyone who approves invoices. LAFA's policy specifies personnel who are authorized to approve purchases; however, we were told two other employees also have the authority to approve purchases.
 - LAFA's provision for "emergency" purchases was used for more than one-fifth of the bids we sampled. LAFA's procurement policy allows for emergency purchases based on the "rule of reason."
- We noticed three additional purchasing issues that could result in cost savings to LAFA and/or improvement of its purchasing function:
 - Considering the buy-back option for large equipment—the buy-back option may be preferable if there is no further use for the equipment after one year, or if new equipment is needed annually.
 - Not appearing to specify brands—appearing to specify brands may prevent LAFA from obtaining the best possible price on a comparable item.
 - Buying small tools (\$50 - \$500) at a discounted price, without bidding—LAFA may achieve administrative savings by purchasing small power and hand tools through a state contract rather than bidding.

Recommendations

- ✓ If LAFA continues to purchase goods and services without being subject to public bidding, the authority should revise its procurement policy to be consistent with the state's as follows:
 - LAFA should revise its procurement policy to require the solicitation of bids from economically disadvantaged (small and emerging) businesses whenever possible.
 - LAFA should revise its procurement policy to remove the requirement for bidding tools and equipment costing between \$50 and \$500.
 - LAFA should revise its procurement policy to define situations requiring emergency purchases in terms of a threat to the functioning of government, the preservation and protection of property, or the health and safety of any person.
- ✓ LAFA should consistently apply its own procurement policy with respect to the following:
 - LAFA should ensure that bids for items or aggregate purchases that will cost more than \$25,000 be advertised. When the period for advertising has closed, then it should ensure that competitive bids are obtained through other means.
 - LAFA should ensure that only officials named in its procurement policy approve invoices. LAFA might consider listing in the policy the job titles of all officials it believes should approve purchases.
- ✓ LAFA and the Department of Agriculture and Forestry should consider adopting the following state procurement practices:
 - LAFA should fully evaluate the buy-back option for large equipment purchases.
 - LAFA should consider purchasing smaller items from a discounted catalogue, as it has started to do.
- ✓ LAFA and the Department of Agriculture and Forestry should adopt the following practices:
 - LAFA should adopt a control procedure other than bidding for smaller tools and equipment. One option might be the approval of purchase order requests.
 - LAFA should insert language prominently on its purchase requisition form indicating equivalent brands are acceptable.

- LAFA should plan purchases better so it will not need to resort to emergency purchasing.

Matters for Legislative Consideration

If the legislature wishes to change LAFA's special status with respect to public bidding, it may wish to consider:

- Amending R.S. 3:266 (14) to remove LAFA's exemption from public bidding.
- Amending R.S. 39:1482 (E) to remove LAFA's exemption from any restrictions on professional, personal, consulting, or contract services procurement.

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Questions?
Call Dan Kyle at
225-339-3800.

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Department of Agriculture and Forestry
Review of Construction and Purchasing Efforts
Through the Louisiana Agricultural Finance Authority

February 2001



Performance Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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February 2001



**Performance Audit
Office of the Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor**

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February 16, 2001

The Honorable John J. Hainkel, Jr.,
President of the Senate
The Honorable Charles W. DeWitt, Jr.,
Speaker of the House of Representatives

Dear Senator Hainkel and Representative DeWitt:

This performance audit report gives the results of our performance audit of the Louisiana Department of Agriculture and Forestry. This audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

This report contains our findings, conclusions, and recommendations. Appendix G contains the Louisiana Department of Agriculture and Forestry's response. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/dl

[AGFOR]



Office of Legislative Auditor

Performance Audit Louisiana Department of Agriculture and Forestry Review of Construction and Purchasing Efforts Through the Louisiana Agricultural Finance Authority

Executive Summary

The Louisiana Department of Agriculture and Forestry was created by Article IV, Section 10 of the Louisiana Constitution. This agency is headed by the commissioner of Agriculture and Forestry. In addition, the commissioner is a member of the Louisiana Agricultural Finance Authority (Lafa), which was established to alleviate the severe shortage of capital and credit available at affordable interest rates for investment in agriculture. Lafa has no employees. Department employees perform the administrative and accounting functions of the authority. R.S. 3:266 (21) gives Lafa the authority to supervise and use public employees, equipment, and material in carrying out public work. During the past two fiscal years, department employees worked on more than \$8 million worth of construction projects for 38 buildings and structures statewide. The results of this performance audit are as follows:

Construction *(See pages 7 through 22 of the report.)*

- For building costs other than labor, it appears that Lafa saved the state little, if any, money by constructing its own buildings for the department's use. Instead, the buildings at the sites we sampled cost the state more than Risk Management's appraisals indicate they could have cost.
- The department and Lafa did not budget construction costs, keep work schedules, or record construction labor. Department employees performed the construction labor.
- Though we could not determine exactly how much labor was spent on the project, we could estimate that the man-hours spent on the statewide construction projects would equal approximately 30 - 60 full-time positions at the department.

Purchasing *(See pages 23 through 32 of the report.)*

- R.S. 3:266(14) states in part that Lafa may acquire movable or immovable property with or without public bidding. Lafa owns most of the fixed assets the department uses.
- Lafa does not consistently apply its own procurement policy with respect to advertising bids and ensuring that only officials named in the policy approve purchases. Lafa made frequent use of emergency purchases.

Did the Louisiana Department of Agriculture and Forestry's construction efforts, through LAFA, result in cost savings to the state?

For building costs other than labor, it appears LAFA saved the state little, if any, by constructing its own buildings for the department's use. Instead, the buildings at the sites we sampled generally cost the state more than appraisals indicated the buildings could have cost. We compared LAFA's construction costs with cost-to-build appraisals completed by the Division of Administration - Office of Risk Management. We could not determine total cost savings because LAFA had no cost records for labor or any record of which employees worked construction projects. Therefore, we removed labor costs from the appraisals for a fair comparison. Without considering labor, LAFA's costs were approximately 6% - 21% more for the Monroe buildings and up to 14% more for the Jonesville building than they could have been. Higher costs may have been due to a pattern of inadequate planning and record keeping on LAFA's part.

We did not determine why LAFA's costs were higher than the appraisals without labor. However, we did notice a pattern of inadequate planning and record keeping that may have contributed to LAFA's higher construction costs. During construction, LAFA did not compare its actual expenditures to the estimated costs of each building. The cost estimates LAFA provided to the Bond Commission turned out to be considerably less for the sample buildings than they eventually cost. In addition, LAFA did not keep construction labor records or work schedules, so it would have been difficult to determine labor needs. Also, we found several instances where items were purchased on an emergency basis to accommodate employees who were available on short notice. Finally, because LAFA did not go through the capital outlay process, it did not prepare the detailed cost estimates that the process requires.

Labor costs could not be accurately estimated because the department and LAFA did not keep track of them. Statewide, department employees worked on construction projects for 38 buildings and structures during the past two fiscal years. The department's position is that these employees are being cross-utilized to minimize idle time, so they would be on the state payroll whether they were working construction or their regular jobs. Although we could not calculate the department's construction labor costs, we estimated the number of employees who did work construction to determine the amount of employee idle time within the department that was allocated to construction. By examining hotel records, we estimated that out-of-town department employees worked more than 1500 man-days on construction at the two sample sites. This equates to 12 to 24 employees who worked construction full-time in Monroe and Jonesville for one year. The department had a large amount of idle time available for construction that is now complete. If the purpose of these construction projects was to increase cross-utilization and decrease the need for management personnel, the department should re-evaluate its table of organization to determine if it can realize this reduction of personnel.

If LAFA had submitted the construction projects through the capital outlay process, the Division of Administration's Office of Facility Planning and Control would have managed the project. This department would have reviewed LAFA's plans for construction. Also, Facility Planning

and Control would have provided the Office of Risk Management with timely and proper documentation for property insurance coverage for the buildings during and after construction. With regard to insurance, using state employees for labor poses an additional economic risk. Insurance is part of the cost of the buildings. The state self-insures for worker's compensation, meaning it pays worker's compensation claims from a special fund in the Treasury. Though the department contends it is saving money by using state labor, a costly work accident could effectively wipe out any savings realized. If contractors had done the work, they would have purchased worker's compensation insurance.

Finally, LAFA may have financed most of the \$8 million construction cost for the statewide project using funds that the legislature intended for a more limited purpose. More than 90% of the construction funding came from the Feed, Fertilizer, and Pesticide Funds. The department transferred almost \$3.4 million directly from these funds to LAFA to pay construction costs. The funds are also pledged as security to repay an additional \$4 million in revenue bonds issued to fund construction. State law allows the funds to be used for two buildings: a building on the LSU campus and the department's headquarters. The law also allows the funds to be used to repay revenue bonds to renovate these two buildings, as well as to construct or renovate the headquarters building and other facilities physically connected to the headquarters complex and related to it. However, the department interprets this statute as providing authority to use the funds for statewide construction.

Recommendation 1: If LAFA continues to perform construction using department employees, the Department of Agriculture and Forestry and LAFA should:

- Keep records of employee construction labor.
- Keep work schedules for construction labor.
- Budget construction expenses, including equipment, tools, and labor, based on reasonable estimates.
- Plan construction projects, using detailed projections such as those used in the capital outlay process. These projections should include, but not necessarily be limited to, the following: occupancy, number of people served, cost per square foot, equipment costs, construction and planning time estimates, and alternatives considered.
- Keep accurate records of costs vs. budgets and compare these costs throughout construction to ensure they are not spending too much.
- Ensure that they notify the Office of Risk Management about construction progress so that builder's risk and property insurance coverages will be appropriately documented.
- Ensure that they conduct appropriate safety training during construction per the department's new safety manual, as they have recently begun to do.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation separately:

- The department disagrees with the portion of our recommendation that addresses keeping work schedules for construction labor. The department's response states that LAFA and the department presently keep payroll records that are sufficient for and in keeping with the various requirements of both agencies, Civil Service, and the state's Uniform Payroll System.
- The department partially agrees with the portion of our recommendation about keeping records of construction labor.
- The department partially agrees with the portions of our recommendation that address budgeting and planning construction projects and keeping track of plans vs. budgets. The department states that the recommendation for written budgets and written construction plans before implementing future public work seems to ignore the fact that virtually all of LAFA's construction is of the same type of metal building, and in some cases, the identical building. The department further states that after planning and successfully completing a number of these buildings, there is some question whether additional planning is necessary and justifiable.
- The department agrees with the final two portions of this recommendation: ensuring that it notifies the Office of Risk Management about construction progress and ensuring that it conducts appropriate safety training.

Legislative Auditor's Additional Comments: Keeping written plans, budgets, and work schedules for and records of employee construction labor, as well as comparing spending to reasonable cost estimates, is necessary and prudent from a management perspective, an oversight perspective, an accountability perspective, an accounting perspective, and a business perspective.

Recommendation 2: The Department of Agriculture and Forestry should study the effects of its recent construction projects, including:

- How the idle employee time used to construct buildings may impact its table of organization
- How much it saved by consolidating the space

Summary of Department of Agriculture and Forestry Response: The department agrees with both portions of the recommendation. The department states that it prefers its present procedure, which the response describes as "continuing or perpetual review." The department points out that it has taken on numerous other responsibilities since FYE 1982. Finally, the department says it will consider further study of the effects of the construction efforts and the office and facility consolidation project, as the department and LAFA may benefit from it.

Matter for Legislative Consideration 1: If the legislature wishes to change LAFA's construction process, they may wish to consider:

- Amending R.S. 39:101 *et seq.* and R.S. 3:266 to specifically state that LAFA projects should be subject to the capital outlay process
- Amending R.S. 3:266 to remove LAFA's power to build using state employee labor
- Amending R.S. 3:1907, R.S. 3:1317, and R.S. 3:3210 to clarify whether the Feed, Fertilizer, and Pesticide Funds may be used to fund statewide renovation or construction projects for the Department of Agriculture and Forestry, either directly or through bond issues

Did the Department of Agriculture and Forestry's policy of purchasing or leasing construction equipment, movable property, and construction materials through the Louisiana Agricultural Finance Authority result in cost savings to the State of Louisiana, as compared with other state entities?

We do not know whether the Louisiana Department of Agriculture and Forestry's policy of purchasing or leasing construction equipment, movable property, and construction materials through LAFA resulted in cost savings, compared to what other state agencies would have paid. LAFA generally followed its own procurement policy with respect to bidding, which resulted in the lowest bid on purchases most of the time. However, we cannot say that LAFA would have saved money by purchasing items on state contract or bid through the Division of Administration - Office of State Purchasing because State Purchasing could not find enough comparable items to test against LAFA's purchases. As a result, we could not compare LAFA's purchase prices with prices on state contract or items bid through State Purchasing. Though we cannot say for certain whether LAFA is getting better prices than other state entities, we can say that LAFA usually attempted to obtain competitive prices for items it purchased.

LAFA does have a procurement policy. In general, we found that LAFA's written procurement policy matches procurement policies prescribed for state agencies, with some exceptions. For instance, the state requires bid solicitations from economically disadvantaged businesses and the receipt of bids for larger purchases, while LAFA does not. The state does not require small tools under \$500 to be bid, as LAFA does. Because R.S. 3:266(14) exempts LAFA from the bid law, LAFA is under no legal obligation to include all provisions of the state's policy. As a result, LAFA may not be providing disadvantaged businesses with an adequate opportunity to bid. Furthermore, it may not be getting enough bids for larger purchases, while wasting administrative time bidding smaller purchases.

Generally, we found that LAFA followed its own procurement policy, with some exceptions. For example, the policy says that bids for purchases over \$25,000 should be advertised for a minimum of 10 days, but officials said they did not advertise. Also, LAFA's policy names personnel who are authorized to approve purchases, but one individual who was not named approved purchases in some cases. Finally, though LAFA's policy does allow for emergency purchases, we found that this provision was used more often than one might expect. Advertising and buying fewer items on an emergency basis may help the department to save money. Updating the policy to ensure that all those authorized to approve purchases are named will help to strengthen internal controls.

Finally, in our file review, we noticed three state purchasing practices that could result in cost savings to LAFA and/or improvement of its purchasing function. These include considering the buy-back option for large equipment, not appearing to specify brands, and buying small tools at a discounted price without bidding. The buy-back option for larger equipment purchases may be less expensive and could result in new equipment annually. By making it clear that LAFA will accept equivalent brands, the authority may obtain better prices on comparable equipment. By buying tools costing between \$50 and \$500 from a discounted catalog, LAFA could save administrative time.

Recommendation 3: If LAFA continues to purchase goods and services without being subject to public bidding, LAFA should revise its procurement policy to be consistent with the state's as follows:

- LAFA should revise its procurement policy to require the solicitation of bids from economically disadvantaged (small and emerging) businesses whenever possible.
- LAFA should revise its procurement policy to remove the requirement for bidding tools and equipment costing between \$50 and \$500.
- LAFA should revise its procurement policy to define situations requiring emergency purchases in terms of a threat to the functioning of government, the preservation and protection of property, or the health and safety of any person.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with revising LAFA's procurement policy to require soliciting bids from small and emerging businesses.
- The department disagrees with the portion of our recommendation that advises removing the requirement for bidding the smaller tools.
- The department disagrees with the portion of our recommendation that advises defining emergency situations.

Legislative Auditor's Additional Comments: Other state entities, including the Department of Agriculture and Forestry, must solicit bids from small and emerging (disadvantaged) businesses whenever possible. In addition, while we encourage LAFA and the department to obtain the best prices possible, we would urge them to consider how much administrative time they use bidding tools under \$500. If they are concerned about tracking and control of these purchases (see Recommendation 6), there are other means do so at their disposal. Finally, LAFA's frequent use of emergency purchasing in the sample we reviewed indicates they may resort to this option often. Thus, we believe they should carefully define emergency circumstances.

Recommendation 4: LAFA should consistently apply its own procurement policy with respect to the following:

- LAFA should ensure that bids for items or aggregate purchases that will cost more than \$25,000 are advertised. When the period for advertising has closed, then it should ensure that competitive bids are obtained through other means.
- LAFA should ensure that only officials named in its procurement policy approve invoices. LAFA might consider listing in the policy the job titles of all officials it believes should approve purchases.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with the portion of the recommendation that advises obtaining bids for purchases over \$25,000, per its policy.
- The department agrees with the portion of the recommendation that advises listing the job titles of all persons authorized to approve invoices.

Recommendation 5: LAFA and the Department of Agriculture and Forestry should consider adopting the following state procurement practices:

- LAFA should fully evaluate the buy-back option for large equipment purchases.
- LAFA should continue to purchase smaller items from a discounted catalogue, as it has started to do.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with the portion of the recommendation that advises consideration of the buy-back option for large equipment.
- The department agrees with the portion of the recommendation that advises using a discounted catalogue to purchase smaller items.

Recommendation 6: LAFA and the Department of Agriculture and Forestry should adopt the following practices:

- LAFA should adopt a control procedure other than bidding for smaller tools and equipment. One option might be the approval of purchase order requests.
- LAFA should insert language prominently on its purchase requisition form indicating equivalent brands are acceptable.
- LAFA should plan purchases better so it will not need to resort to emergency purchasing.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department disagrees with the portion of the recommendation that advises adoption of a control procedure other than bidding.
- The department agrees with the portion of the recommendation that advises inserting "equivalent" language on its purchase requisition form.
- The department partially agrees with the portion of the recommendation that advises better planning to avoid emergency purchases.

Matter for Legislative Consideration 2: If the legislature wishes to change LAFA's special status with respect to public bidding, they may wish to consider:

- Amending R.S. 3:266 (14) to remove LAFA's exemption from public bidding
- Amending R.S. 39:1482 (E) to remove LAFA's exemption from any restrictions on professional, personal, consulting, or contract services procurement

Introduction

Audit Initiation and Objectives

This performance audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. In accordance with these statutes, the Office of the Legislative Auditor scheduled an audit of the Louisiana Department of Agriculture and Forestry (the department). This audit was approved by the Legislative Audit Advisory Council on August 26, 1999.

We conducted this performance audit on the Department of Agriculture and Forestry's construction and purchasing activities through the Louisiana Agricultural Finance Authority (LAFA). We focused the audit on these areas for several reasons. First, legislators have questioned the department and LAFA's involvement in construction projects. In addition, the activities have been the subject of television and newspaper coverage, as well as a lawsuit. In response, Commissioner Odom stated that the department is saving the state as much as \$60 per square foot by doing the work using state employees. Thus, the objectives of this audit were to answer the following:

- Do the department's construction efforts, through LAFA, result in cost savings to the state?
- Does the department's policy of purchasing or leasing equipment, movable property, and construction materials through LAFA result in cost savings to the State of Louisiana, as compared with other state entities?

Appendix A describes the scope and methodology for this audit.

Background

The Louisiana Department of Agriculture and Forestry (the department) was created by Article IV, Section 10 of the Louisiana Constitution. The commissioner of Agriculture and Forestry heads this department. Under this article, the commissioner is responsible for the promotion, protection, and advancement of agriculture and forestry, except for research and educational functions expressly allocated by the constitution or by law to other state agencies.

The department consists of seven offices, as detailed in the Exhibit 1 on the following page. The exhibit also illustrates the distribution of appropriated and recommended funds for Fiscal Years Ended (FYE) June 30, 2000, and June 30, 2001.

Exhibit 1				
Expenditures and Appropriation by Program Department of Agriculture and Forestry				
Office	Existing Budget 1999-2000	Percentage of Budget	Existing Budget 2000-2001	Percentage of Budget
Agricultural and Environmental Science	\$57,190,814	48.15%	\$52,175,639	49.07%
Agro-Consumer Services	4,511,142	3.80%	3,688,943	3.47%
Animal Health Services	10,329,105	8.70%	9,284,815	8.73%
Auxiliary Account	8,960,456	7.54%	4,452,569	4.19%
Forestry	17,717,670	14.92%	16,898,596	15.89%
Management and Finance	15,212,691	12.81%	15,123,239	14.22%
Marketing	2,395,362	2.02%	2,269,868	2.13%
Soil and Water Conservation	2,462,179	2.07%	2,428,531	2.28%
Total	\$118,779,419	100.00%	\$106,322,200	100.00%
Source: Prepared by legislative auditor's staff using the 2000 - 2001 Executive Budget Request and existing operating budget figures as of 12/15/00 from the Department of Agriculture and Forestry.				

Louisiana Agricultural Finance Authority

In this audit, we focused on the Louisiana Agricultural Finance Authority (LAFA), which is in the Agri-Business Division under the authority of the Office of Marketing. LAFA is a component unit of the State of Louisiana created in 1983 under the provisions of R.S. 3:261-283 within the Department of Agriculture and Forestry. LAFA's expenditures are not included in the department's executive budget; therefore, its expenditures are not included in Exhibit 1. At fiscal year ended 1999, LAFA held more than \$27 million in assets. The authority consists of nine members, one of whom is the commissioner of the department and eight members appointed by the governor.

As stated in R.S. 3:262 (A), LAFA is established to alleviate the severe shortage of capital and credit available at affordable interest rates for investment in agriculture. It is to accomplish this by issuing bonds to provide financing for agricultural loans, through the purchase or guarantee of existing loans or negotiation of new loans. These bonds do not constitute a general, special, or moral obligation of the State of Louisiana. As of July 1999, LAFA had issued approximately \$350 million in bonds. According to a department official, the bonds are in technical default because of a change in federal law.

The authority has no employees. Employees of the department perform the administrative and accounting functions of the authority. R.S. 3:266 (21) gives LAFA the authority to supervise and use public employees, equipment, and material in carrying out public work. This law also allows LAFA to acquire, own, or construct movable or immovable property with or without public bidding. Under this authority, LAFA has purchased and owns most of the assets used by

the department, such as computers, telephones, and heavy equipment used for construction. According to a department official, LAFA is able to purchase items for the department at a better price because it does not follow the public bid law. LAFA also owns buildings including the following:

- Department of Agriculture and Forestry Headquarters
- Former Forestry Building (donated to LAFA by department)
- Agricultural and Chemistry Laboratory on the Louisiana State University - Baton Rouge campus
- Warehouse

LAFA receives rental income for several of these properties.

See Appendix C for the full text of LAFA's powers as described in R.S. 3:266.



This is an example of a typical metal building erected by LAFA for the department. (Photo taken 8/29/00)

Over the past two fiscal years, LAFA has undertaken construction projects for the department buildings statewide. In these two years, LAFA has built or renovated 38 metal frame buildings and other structures. The buildings range from large temperature-controlled Forestry warehouses to small sheds. They are located in Hammond, Haughton, Monroe, Woodworth, Oak Grove, Jonesville, and Winnsboro. Department employees completed most of the construction work for these buildings. These employees put up metal frames, hung sheet rock, ran electrical lines, and performed many other tasks to complete construction. Employees

from at least six of the seven offices within the department participated in these construction efforts.

LAFA's recent construction efforts have been financed primarily by fees collected from those who manufacture and sell feed, fertilizer, and pesticides, through the Feed, Fertilizer, and Pesticide Funds. LAFA's sources of funds for construction totaled \$8,091,537 (\$4,082,807 in FY 1999 and \$4,008,730 in FY 2000) the last two fiscal years. Of this total, more than 91% is either directly or indirectly from these three funds:

- More than 49% of the funding for LAFA's construction is a \$4 million bond issue, which these three funds are pledged to repay.

- More than 41% of the funding for LAFA's construction came directly from these funds in FYE June 30, 2000.

The department intended for the buildings to be first-class facilities housing various divisions, programs, and offices. The planned net effect was cross-utilization of employees and a reduction in management level positions.

See Appendix B for sources of construction funds and a complete list of the building constructed with them.

We do not know whether the department will construct more buildings through LAFA. According to department officials, they are finished with building activities for the foreseeable future, although they may finish office buildings for which architects have drawn plans. LAFA has lease-purchased large pieces of construction equipment that the department intends to re-use for other purposes, but this equipment could also be used for construction as well. Most importantly, LAFA may construct more buildings because it is given broad authority to do so under state laws, as can be seen in Appendix C.

Other States Do Not Have an Agricultural Finance Authority Like LAFA

We surveyed 15 states, nine of which led the nation in 1997 in the production of agricultural products, and the rest of which are southern states. Of the 15 states, only one, Alabama, has an agricultural authority that appears similar to LAFA. Its officials told us it can acquire and construct buildings, as well as use public employees for construction. Yet there are two important differences:

- It is required to bid for construction services and materials.
- It does not own the buildings.

According to the survey responses, two states have authorities that can construct agricultural buildings for very limited purposes. California's authority can construct fair grounds, while Georgia's can construct farmers' markets. Three other states, Iowa, North Carolina, and Texas, have agricultural finance authorities that concentrate solely on loans and do not construct buildings.

See Appendix D for a listing of these states.

Issues for Further Study

We noted three issues that may warrant further study in the future:

- LAFA indicated the new buildings would lead to consolidation of functions and an eventual reduction in management personnel.

Follow-up could be done in the future to see if this actually occurred.

- A LAFA official said that some of the heavy equipment used for construction would be re-used at other locations. Follow-up could be done to see if the equipment was appropriate for these uses.
- While the department, through LAFA, constructed cold storage warehouses for Forestry, it leased cold storage warehouses for the food storage program. Further study may determine whether leasing or constructing is more cost-effective.

Report Organization

The remainder of this report is divided into the following sections and appendices:

- The section titled **Construction** describes our audit results and recommendations regarding the first audit objective.
- The section titled **Purchasing** describes our audit results and recommendations regarding the second audit objective.
- **Appendix A** contains the audit scope and methodology.
- **Appendix B** contains sources of construction funds and a complete list of the buildings constructed with them.
- **Appendix C** contains the full text of LAFA's statutory powers.
- **Appendix D** contains a list of agricultural states we surveyed.
- **Appendix E** contains the costs of individual buildings in our sample.
- **Appendix F** contains LAFA's procurement policy.
- **Appendix G** contains the response of the Louisiana Department of Agriculture and Forestry.
- **Appendix H** contains our reply to points raised in that response.
- **Appendix I** contains pictures and descriptions of our sample buildings in Monroe and Jonesville.

Construction

Did the Louisiana Department of Agriculture and Forestry's construction efforts, through LAFA, result in cost savings to the state?

For building costs other than labor, it appears LAFA saved the state little, if any, by constructing its own buildings for the department's use. Instead, the buildings at the sites we sampled generally cost the state more than appraisals indicated the buildings could have cost. We compared LAFA's construction costs with cost-to-build appraisals completed by the Division of Administration - Office of Risk Management. We could not determine total cost savings because LAFA had no cost records for labor or any record of which employees worked construction projects. Therefore, we removed labor costs from the appraisals for a fair comparison. Without considering labor, LAFA's costs were approximately 6% - 21% more for the Monroe buildings and up to 14% more for the Jonesville building than they could have been. Higher costs may have been due to a pattern of inadequate planning and record keeping on LAFA's part.

We did not determine why LAFA's costs were higher than the appraisals without labor. However, we did notice a pattern of inadequate planning and record keeping that may have contributed to LAFA's higher construction costs. During construction, LAFA did not compare its actual expenditures to the estimated costs of each building. The cost estimates LAFA provided to the Bond Commission turned out to be considerably less for the sample buildings than they eventually cost. In addition, LAFA did not keep construction labor records or work schedules, so it would have been difficult to determine labor needs. Also, we found several instances where items were purchased on an emergency basis to accommodate employees who were available on short notice. Finally, because LAFA did not go through the capital outlay process, it did not prepare the detailed cost estimates that process requires.

Labor costs could not be accurately estimated because the department and LAFA did not keep track of them. Statewide, department employees worked on construction projects for 38 buildings and structures during the past two fiscal years. The department's position is that these employees are being cross-utilized to minimize idle time, so they would be on the state payroll whether they were working construction or their regular jobs. Although we could not calculate the department's construction labor costs, we estimated the number of employees who did work construction to determine the amount of employee idle time within the department that was allocated to construction. By examining hotel records, we estimated that out-of-town department employees worked more than 1500 man-days on construction at the two sample sites. This equates to 12 to 24 employees who worked construction full-time in Monroe and Jonesville for one year. The department had a large amount of idle time available for construction that is now complete. If the purpose of these construction projects was to increase cross-utilization and decrease the need for management personnel, the department should re-evaluate its table of organization to determine if it can realize this reduction of personnel.

If LAFA had submitted the construction projects through the capital outlay process, the Division of Administration's Office of Facility Planning and Control would have managed the project. This department would have reviewed LAFA's plans for construction. Also, Facility Planning and Control would have provided the Office of Risk Management with timely and proper documentation for property insurance coverage for the buildings during and after construction. With regard to insurance, using state employees for labor poses an additional economic risk. Insurance is part of the cost of the buildings. The state self-insures for worker's compensation, meaning it pays worker's compensation claims from a special fund in the Treasury. Though the department contends it is saving money by using state labor, a costly work accident could effectively wipe out any savings realized. If contractors had done the work, they would have purchased worker's compensation insurance.

Finally, LAFA may have financed most of the \$8 million construction cost for the statewide project using funds that the legislature intended for a more limited purpose. More than 90% of the construction funding came from the Feed, Fertilizer, and Pesticide Funds. The department transferred almost \$3.4 million directly from these funds to LAFA to pay construction costs. The funds are also pledged as security to repay an additional \$4 million in revenue bonds issued to fund construction. State law allows the funds to be used for two buildings: a building on the LSU campus and the department's headquarters. The law also allows the funds to be used to repay revenue bonds to renovate these two buildings, as well as to construct or renovate the headquarters building and other facilities physically connected to the headquarters complex and related to it. However, the department interprets this statute as providing authority to use the funds for statewide construction.

Recommendation 1: If LAFA continues to perform construction using department employees, the Department of Agriculture and Forestry and LAFA should:

- Keep records of employee construction labor.
- Keep work schedules for construction labor.
- Budget construction expenses, including equipment, tools, and labor, based on reasonable estimates.
- Plan construction projects, using detailed projections such as those used in the capital outlay process. These projections should include, but not necessarily be limited to, the following: occupancy, number of people served, cost per square foot, equipment costs, construction and planning time estimates, and alternatives considered.
- Keep accurate records of costs vs. budgets and compare these costs throughout construction to ensure they are not spending too much.
- Ensure that they notify the Office of Risk Management about construction progress so that builder's risk and property insurance coverages will be appropriately documented.

- Ensure that they conduct appropriate safety training during construction per the department's new safety manual, as they have recently begun to do.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation separately:

- The department disagrees with the portion of our recommendation that addresses keeping work schedules for construction labor. The department's response states that LAFA and the department presently keep payroll records that are sufficient for and in keeping with the various requirements of both agencies, Civil Service, and the state's Uniform Payroll System.
- The department partially agrees with the portion of our recommendation about keeping records of construction labor.
- The department partially agrees with the portions of our recommendation that address budgeting and planning construction projects and keeping track of plans vs. budgets. The department states that the recommendation for written budgets and written construction plans before implementing future public work seems to ignore the fact that virtually all of LAFA's construction is of the same type of metal building, and in some cases, the identical building. The department further states that after planning and successfully completing a number of these buildings, there is some question whether additional planning is necessary and justifiable.
- The department agrees with the final two portions of this recommendation: ensuring that it notifies the Office of Risk Management about construction progress and ensuring that it conducts appropriate safety training.

Legislative Auditor's Additional Comments: Keeping written plans, budgets, and work schedules for and records of employee construction labor, as well as comparing spending to reasonable cost estimates, is necessary and prudent from a management perspective, an oversight perspective, an accountability perspective, an accounting perspective, and a business perspective.

Recommendation 2: The Department of Agriculture and Forestry should study the effects of its recent construction projects, including:

- How the idle employee time used to construct buildings may impact its table of organization
- How much it saved by consolidating the space

Summary of Department of Agriculture and Forestry Response: The department agrees with both portions of the recommendation. The department states that it prefers its present procedure, which the response describes as "continuing or perpetual review." The department points out that it has taken on numerous other responsibilities since

FYE 1982. Finally, the department says it will consider further study of the effects of the construction efforts and the office and facility consolidation project, as the department and LAFA may benefit from it.

Matter for Legislative Consideration 1: If the legislature wishes to change LAFA's construction process, they may wish to consider:

- Amending R.S. 39:101 *et seq.* and R.S. 3:266 to specifically state that LAFA projects should be subject to the capital outlay process
- Amending R.S. 3:266 to remove LAFA's power to build using state employee labor
- Amending R.S. 3:1907, R.S. 3:1317, and R.S. 3:3210 to clarify whether the Feed, Fertilizer, and Pesticide Funds may be used to fund statewide renovation or construction projects for the Department of Agriculture and Forestry, either directly or through bond issues

For All Costs Except Labor, LAFA's Costs Exceed Cost to Build

To determine if LAFA's construction efforts resulted in cost savings to the state, we compared LAFA's construction costs with cost-to-build appraisals completed by the Louisiana Division of Administration - Office of Risk Management. These appraisals represent what it could cost to construct the building. As noted in the Scope and Methodology in Appendix A, we made comparisons for two of the eight LAFA construction sites. The two sites are the Jonesville boll weevil site, which contains one building and a wash house, and the Monroe site, which contains nine buildings. These two sites represent more than 40% of the statewide construction projects' expenditures. LAFA had no cost records for labor, so we removed labor costs from the appraisals for a fair comparison.

We found that for building costs other than labor, LAFA did not save the state money by constructing its own buildings. Instead, the buildings at the sites we sampled cost the state more than our appraisals indicated it could have cost. The company that created the appraisal software the Office of Risk Management uses informed us that labor makes up 30% to 45% of the appraisals, depending upon interior finish. As shown in Exhibit 2, we first removed a conservative labor cost of 31%, based on contractors' estimates as explained in Exhibit A. Then we removed the maximum possible labor cost of 45% (see Appendix A for details). With 31% labor cost removed, LAFA's costs were \$73,528 more (6% more) for the Monroe buildings and \$6,008 less (3.3% less) for the Jonesville building than the buildings should have cost. With 45% labor cost removed, LAFA's costs were \$207,803 more (21% more) for the Monroe buildings and \$21,064 more (14% more) for the Jonesville building than the buildings should have cost, based on the appraisals. Using the upper end of the labor cost range makes more sense in Jonesville, because the interiors of the boll weevil building were mostly finished office space.

Thus, LAFA's construction efforts measured against the appraisals do not indicate substantial extra costs or savings.

If contractors had bid these buildings, the bids may have produced a wide range of differing cost estimates. Different builders charge different amounts, and considerations such as interior finish would affect the price. Any estimate will vary somewhat from the actual cost. The Risk Management appraisals reflect costs for an average building.

See Appendix E for a breakdown of costs and appraisals with labor included by building.

Exhibit 2					
Comparison of LAFA's Construction Costs Without Labor to Appraisals Without Labor in Two Sampled Locations Fiscal Year Ended June 30, 2000					
Sampled Locations	LAFA Costs (Without Labor)	Appraisals (Without Labor)	Amount LAFA Spent in Excess of (Less Than) Appraisal	Percentage Difference	Excess Cost (Savings) Per Square Foot
31% labor cost removed					
Monroe (9 Buildings - 36,614 Square Feet)	\$1,218,177	\$1,144,649	\$73,528	6.4 %	\$2.01
Jonesville (1 Building - 4,864 Square Feet)	\$176,609	\$182,617*	(\$6,008)*	(3.29%)*	(\$1.24)*
45% labor cost removed					
Monroe (9 Buildings - 36,614 Square Feet)	\$1,218,177	\$1,010,373	\$207,803	20.6%	\$5.68
Jonesville (1 Building - 4,864 Square Feet)	\$176,609	\$155,546	\$21,064	13.5%	\$4.33
<p>*Note: We show the low end of the labor cost range for comparative purposes. But because the Jonesville building contains finished interior office space, the actual labor costs would be at the high end of the range.</p> <p>Source: Prepared by legislative auditor's staff from data provided by LAFA and the Office of Risk Management.</p>					

The department and LAFA produced two sets of construction cost estimates that show they are saving money through these construction activities. One of the estimates was produced by the buildings' architect and the other by a building consultant. These analyses are summarized in its response to the audit in Appendix G. However, we tested these estimates and believe the one the consultant produced is too high, as detailed in our reply to the department's

response in Appendix H. The department relies exclusively on this estimate to substantiate its savings in Monroe. The architect's cost estimate for Jonesville is considerably less than the other consultant's.

We could not include LAFA's labor costs in the comparison because the department did not keep records of who worked construction. To estimate labor costs, we attempted to determine which department employees worked construction and for how long. We talked to department officials from the assistant commissioners of all but one office down to the individuals in charge of assigning department employees to work construction at our sampled locations. These individuals could only remember some of the employees who worked construction. The department even appointed a North Louisiana coordinator, who was at one time director of the Livestock Brand Commission and assistant director of the Egg Commission, to determine which employees could be used to assist with construction. However, this coordinator did not record employee schedules or hours worked at the construction sites.

LAFA's Construction Efforts Show Lack of Planning

One reason LAFA's construction efforts may have cost more than the appraisals is the lack of planning and monitoring of the construction budgets. The commissioner and one other department official created the cost estimates that LAFA provided to the Bond Commission for the bond issue. These estimates were presented in a Master Plan for construction. According to a department official, the Master Plan produced for the Bond Commission was the only formal estimate the department made, other than the architect's blueprints. The official also said they did not anticipate that the \$4 million bond issue would cover all costs for the statewide projects.

During construction, LAFA did not compare its actual expenditures to the estimated costs of each building. We found that the actual expenditures for our sample buildings turned out to be considerably more than the cost estimates in the Master Plan and a subsequent revision prepared by bond counsel. The construction costs for Monroe and Jonesville were higher than the estimates prepared by bond counsel by 147% and 240%, respectively. In addition, the Master Plan changed considerably over the course of construction. For example, in Monroe, an office building originally budgeted for \$650,000 was not built while other buildings were added to the plans. All items in the Master Plan that were actually constructed cost more than projected. For Monroe, the general site work cost \$790,792 more than estimated, concrete cost \$342,000 more than estimated, and six additional buildings not in the original master plan cost almost \$760,000. In total, the actual expenditures for Monroe were about \$1.5 million more than estimated. For Jonesville, costs increased over the original estimate by more than \$237,000, primarily because of increases in the building costs and the need for extra fill dirt at the site.

LAFA submitted an estimate of feasibility and construction costs when applying to the Bond Commission for the \$4 million bond for its construction projects. But because LAFA did not go through the capital outlay process set forth in R.S. 39:102 and 39:103, it did not observe the stricter feasibility and projected usage guidelines that these laws require, which are discussed later in the report. If LAFA had followed these guidelines, it may have produced a more reliable estimate of the amount of work to be done and its cost. Establishing reasonable cost estimates

and then comparing them to actual expenditures will help the department to ensure that it stays within budget. This process will also allow the department to adjust the cost estimates based on unforeseen situations, such as the extra fill dirt needed in Jonesville.

Also, the department did not keep track of labor costs, so it does not truly know how much the projects cost. LAFA also did not keep work schedules, which may have resulted in the emergency purchases of materials and supplies, as is discussed in the next chapter.

Reallocating Idle Time May Allow Reduction of Department's Table of Organization

The department's official position is LAFA incurred no out-of-pocket construction expense for labor because it used department employees. LAFA refers to this policy as cross-utilization. An official told us the department believes using employee labor increases productivity and minimizes idle time during slack periods. Although we could not calculate the department's construction labor costs, we estimated the number of employees who did work construction to determine the amount of employee idle time within the department that was allocated to construction.

As mentioned previously, department officials did not keep records of the construction labor costs and could not remember many of the employees who worked construction. In the absence of this information, we used LAFA hotel invoices allocated to construction to identify department workers who came from out of town to work in Monroe and Jonesville. Through this method, we were able to identify 65 out-of-town department employees who worked at the two sampled construction sites.

The coordinator and other department officials told us that **most** of the labor was local; that is, performed by employees who were domiciled at the sites. No one, from the assistant commissioners to the local supervisors, could tell us exactly who these local employees were. Through interviews and other methods, we identified only 19 local employees. These employees could not have been identified using hotel invoices because they would not have stayed in hotels.

For the 65 out-of-town workers we identified, we estimated the total number of days they spent working construction were 1,310 in Monroe and 235 in Jonesville. At least 10 of these out-of-town employees traveled and worked more than two months out of the year on construction at our two sampled sites. Most of the construction at our sampled sites was completed during calendar year 1999. If we convert these days into full-time equivalent positions, then the department would have needed six full-time out-of-town employees for the construction work at these two sites alone in 1999.

Since we were told that most of the labor was performed by local department workers, we can assume that means over 50% of the labor was performed by these local employees. In Exhibit 3, if we say that 50% to 75% of the labor was performed by local department employees,

then the equivalent of 12 to 24 out-of-town and local employees worked construction on a full-time basis all year at our two sample sites during 1999.

The construction at our two sampled sites represents more than 40% of the total construction expenditures for the entire statewide project. If we extend this example to the entire project, then the equivalent of 30 to 60 employees worked construction on a full-time basis for one year. This represents 4% to 8% of the 764 department employees who were active at the end of fiscal year ended 2000. We also saw that the department had 313 positions appropriated to "other charges" in the budget request for that fiscal year.

Exhibit 3			
Estimate of Full-Time Equivalent Workers Used for Construction in Monroe and Jonesville Calendar Year 1999			
Percentage of Construction Labor Completed by Locals	Number of Local Employees Working Construction	Number of Out-of- town Employees Working Construction*	Total Full-Time Employees
0%	0	6	6
25%	2	6	8
50%	6	6	12
75%	18	6	24
*This table is based on our estimate that the number of hours worked by non-local department employees in 1999 is equal to 6 full-time employees.			
Source: Prepared by legislative auditor's staff based on materials supplied by LAFA.			

According to the company that provides the appraisal software, the appraisals include labor costs. These costs make up 30% - 45% of the total, depending on interior finish. When we removed the cost of labor from the appraisals, we chose a conservative figure at the lower end of this range, 31%, and the highest figure, 45%. For Monroe, this converted to \$297,325 and \$431,601 in total labor costs; for Jonesville, \$59,944 and \$87,015. As previously stated, no one knows LAFA's true labor costs. However, we were able to estimate what out-of-town labor cost, then project what local labor may have cost for the sample buildings, as described in Appendix A. When we compared the labor costs we took out of the appraisals to our projected costs, they were within the ranges we projected. Therefore, we believe that LAFA's labor at these two sites could be within the range of the amount of labor taken out of the appraisals at 31% and 45%.

As we said before, an official told us the department believes using employee labor increases productivity and minimizes idle time during slack periods. However, the official also explained that the department uses this idle time to provide help to other offices in the department. Spending idle time on construction reduces the amount of time employees could be helping other offices within the department. Because this is a use of state resources, we do not believe the labor is free. Since the construction projects are coming to an end, the department may be able to reallocate the idle time that was channeled into construction to the various offices within the department. According to the Master Plan, the purpose of the construction was to consolidate various programs and offices, thus increasing cross-utilization and decreasing the need for management personnel. Reallocating this idle time may allow the department to reduce the number of positions in its table of organization to realize this reduction in personnel.

Though we could not determine where positions might be reduced, we were able to establish some characteristics about the workers we did identify. As previously mentioned, we used hotel receipts, interviews, and other documents to identify 84 department employees--65 from out-of-town and 19 others--who worked construction in Monroe and Jonesville. Again, we do not believe this represents everyone who worked at these sites. A statistical profile of the workers we could identify is set forth in Exhibit 4 below.

Exhibit 4
Characteristics of 84 Louisiana Department of Agriculture and Forestry Employees Who Worked Construction in Monroe and Jonesville
<ul style="list-style-type: none"> • Represented 6 of the 7 offices within the department. The Office of Agricultural and Environmental Sciences sent the largest number, 37; 15 of the 37 came from the Pesticide Division.
<ul style="list-style-type: none"> • Included 8 seasonal workers. Six were from the Boll Weevil Eradication Program and two were grain samplers from Agro-Consumer Services. Seasonal workers are those identified whose employment or peak periods occur at specific times of the year and are paid hourly.
<ul style="list-style-type: none"> • Included 16 workers paid from the department accounts other than the regular salary account. These accounts are Boll Weevil Eradication (12 employees), "seasonal" account (2 employees), auxiliary account (1 employee), and student (1 employee).
<ul style="list-style-type: none"> • Were primarily salaried (88%), full-time (89%), and classified (80%).
<ul style="list-style-type: none"> • Earned an average salary of \$31,953. Seven earned more than \$55,000; one earned more than \$89,000.
<ul style="list-style-type: none"> • Worked for as long as 119 man-days at the two sites during calendar year 1999 (approximately 4.5 months). Seven department employees worked in Monroe and Jonesville more than 79 days. Three of these worked 100 days or more. One of these worked 119 days.
<p>Source: Developed by legislative auditor's staff from the Department of Agriculture and Forestry's payroll records and hotel records.</p>

Some Employees Have Construction Expertise, But Others Were Temporarily Reassigned From Unrelated Areas

We examined job descriptions of the 84 employees we identified. There were 31 such descriptions for these employees. Fewer than half (15 of 31) of the position descriptions mentioned construction-related duties such as repair and maintenance work. Department officials told us that the way they made sure an employee was qualified to work construction was through observation of his work. They said they could then determine whether or not a worker was competent.

Department officials also told us that certain employees had construction expertise. For example, maintenance personnel typically perform construction tasks. Forestry steel crews are adept at working with metal towers. One employee, who reported directly to the commissioner, supervised heavy equipment. The department had a licensed plumber, which we confirmed. Officials of the department also said they had craftsmen experienced in electrical work, heating and air conditioning, concrete work, and carpentry, according to an official. One official said the department would assign the unskilled labor to work under these master craftsmen. Even though some of these employees have experience, generally no special qualifications are required to work construction, according to the Licensing Association for Contractors.

Because construction duties are temporary for many department employees, we reviewed the Louisiana Department of Agriculture and Forestry Personnel Manual to determine its procedure for temporary work assignments. We found the policy in the department's May 1999 Personnel Manual, under the heading *Disciplinary Policy*. This policy makes it clear that employees are expected to accept temporary assignments, as shown in Exhibit 5 below.

Exhibit 5

Excerpt from the Louisiana Department of Agriculture and Forestry Personnel Manual

II. JOB PERFORMANCE

1. INSUBORDINATION.

Employee's responsibility: Employees MUST follow the direct orders and instructions of supervisors. Employees can be asked and will be expected to perform duties not specifically listed in their job descriptions but which are related to their positions. Also, employees can be asked to perform duties out of their normal job class on occasion and for periods which do not exceed 30 days. EXCEPTION: Employees will not be expected to obey orders which involve performance of potentially hazardous tasks if the employee has not been fully and properly trained for the performance of those tasks.

Supervisor's responsibility: Maintain accurate training records and ensure employees are properly trained for all tasks. If it is necessary for an employee to perform tasks not usually associated with his/her job title, and the assignment will last longer than 30 days, report this to the Personnel Office.

Source: Louisiana Department of Agriculture and Forestry Personnel Manual.

We spoke to Civil Service officials to determine protocol for temporary reassignments. They told us that if an employee is reassigned for more than 30 consecutive days the agency has to inform Civil Service in writing. The department's policy conforms to this requirement. Keeping accurate labor records of who worked where and for how long would help make it easier to meet the requirements of this policy.

Using State Employees for Construction Poses an Insurance Risk to State Funds

The state self-insures for workers' compensation, meaning that it pays for its losses from a special fund in the Treasury. In contrast, a construction contractor carries worker's compensation insurance. The premiums the contractor pays are included in the cost of construction reflected in the appraisals.

To determine the state's cost of insurance for the two sample sites, we reviewed claims files for the construction time period for worker injuries attributable to construction. We found \$23,828 in claims for Monroe and \$2,525 for Jonesville. These claims represent only a fraction of what could happen if an employee were seriously hurt. In 1989, a department employee was injured while renovating departmental headquarters in Baton Rouge. Risk Management paid \$504,838 in claims on this case. Because the state self-insures for workers' compensation, it could be exposed to hundreds of thousands of dollars in damages if a worker incurs a large claim. The department contends it is saving money by using state employees' labor. However, if a costly work accident were to occur, the cost to the state would effectively erase any labor savings realized on these jobs.

Department officials said they did not conduct formal safety training during the construction period. An official told us they did make hard hats, gloves, and eyeglasses available to workers at the construction sites and reminded them to use these safety devices. After the construction projects were complete, the department developed and issued a safety manual in July 2000. It incorporates by reference a U.S. Department of Agriculture book that includes construction safety sections. An official said that the department now conducts weekly safety meetings.

The Buildings Currently Contain Unused Space, But There Are Plans for Expansion

When we visited the Monroe and Jonesville sites, we observed that most of the Monroe and Jonesville buildings appeared to be normal commercial-grade metal buildings. One building in Monroe was made of cinder block, for chemical storage. The interiors were finished to fit their intended purposes as office or shop space. The buildings were recently completed, so some of the activities they were intended to house were just getting started. Officials told us they planned to expand the space usage.

We made the following observations about a few specific buildings:

Monroe Maintenance Shop (10,578 square feet):

The welding portion of the Monroe maintenance shop was not yet manned at the time of our visit. An official told us they planned to hire welders in addition to the two now working.



Inside of the welding portion of the maintenance/welding shop that had excess room. (8/29/00)

Monroe Radio Shop (4560 Square Feet):

The radio shop had considerable extra room. Only one radio technician, who was on the road repairing radios, occupied it when we visited. A department official said the department currently has about twice as much radio space as needed, but the commissioner wanted to expand the radio use of the department's employees. The official also said the name "Radio Shop" is deceptive because the building also houses the Forestry stand-by unit and is considered a general warehouse for the entire Monroe site.



Inside of the main storage area in the Monroe Radio Shop. Boxes are boll weevil traps. (8/29/00)

Monroe Storage Building (4,565 Square Feet):

The storage building appeared to be partially used. This building currently houses the temporary boll weevil office. However, the boll weevil eradication program will end in two to three years and be replaced by a scaled-down maintenance program. A department official stated that he does not know exactly how many employees or how much room will be needed during the maintenance phase.



Inside of the office portion of the Monroe storage building which houses the office for the boll weevil program in this area. (8/29/00)



Inside storage area of the Monroe storage building. Materials are parts of the boll weevil traps. (8/29/00)

The department's master plan for the construction projects notes that the new buildings will lead to increased cross-utilization of employees and decreased numbers of employees, with decreased need for managerial personnel. This plan was presented to the Bond Commission in 1998 when LAFA applied for the \$4 million construction bond. The projects may have actually resulted in expansion, in addition to consolidation, of the department's space.

LAFa Did Not Go Through Capital Outlay

According to R.S. 3:266(14), LAFa may construct buildings and acquire land. State law (R.S. 39:101) also stipulates that all capital outlay expenditures for state budget units and political subdivisions should go through the capital outlay process. Department officials maintain that LAFa is not subject to capital outlay and did not go through the process for its 38 buildings. LAFa's finances are not part of a department budget unit, but the authority is organizationally located within a budget unit. In addition, LAFa constructs buildings for the use of a state budget unit, the Department of Agriculture and Forestry.

Without going through the capital outlay process, LAFA did not benefit from all the safeguards that the process requires to ensure that a building is needed and is built at a reasonable price. The Office of Facility Planning and Control in the Division of Administration manages capital outlay. Officials at Facility Planning and Control said they did not receive any plans or specifications for LAFA’s recent construction efforts. If they had, staff architects and engineers there would have reviewed the plans and specifications as part of the capital outlay process. The document submitted for this review is more detailed than the analysis LAFA submitted to the Bond Commission in its Master Plan, as detailed in Exhibit 6 below.

Exhibit 6	
Comparison of LAFA's Master Plan With Typical Facility Planning and Control Submission	
What LAFA Presented to the Bond Commission	Steps for Facility Planning and Control (Space Utilization Plan & Capital Outlay Request)
<ul style="list-style-type: none"> ♦ Mention centralizing the department’s offices and decreasing personnel; however, space requirements and the number of users are not mentioned 	<ul style="list-style-type: none"> ♦ Demonstration of needs ♦ Purpose ♦ Alternatives considered ♦ Applicable standards/guidelines ♦ Number of employees ♦ People served ♦ Original and proposed: <ul style="list-style-type: none"> ➢ Gross square feet ➢ Total users & occupants ➢ Gross square foot/users & occupants
<ul style="list-style-type: none"> ♦ Total estimated operating cost plus elimination of rental payments ♦ Cost of bond counsel, State Bond Commission, trustee, and trustee counsel ♦ Estimated draw schedule for construction bond ♦ Revenues 	<ul style="list-style-type: none"> ♦ Detailed operating budget, by line item <ul style="list-style-type: none"> ➢ Expenditures ➢ Financing ♦ Prior and proposed funding
<ul style="list-style-type: none"> ♦ Breakdown of cost per building for all sites, but no detail ♦ Mention of cost of one piece of construction equipment 	<ul style="list-style-type: none"> ♦ Facility Requirements <ul style="list-style-type: none"> ➢ Type of space ➢ Line-item expenses ➢ Equipment costs ➢ Description of renovations & additions ➢ Description of hazardous materials ➢ Description of the roof ♦ Cost estimates <ul style="list-style-type: none"> ➢ Land ➢ Planning ➢ Construction ➢ Hazardous materials ➢ Miscellaneous/contingency ➢ Construction equipment ♦ Time estimates <ul style="list-style-type: none"> ➢ Planning ➢ Construction
<p>Source: Created by legislative auditor's staff from information provided in the Bond Commission's Master Plan and information provided by the Office of Facility Planning and Control.</p>	

In addition to reviewing the process, the Office of Facility Planning and Control also ensures that the Office of Risk Management receives timely and proper notice of building construction for insurance purposes. The state, through the Office of Risk Management, insures state-owned buildings during the construction process and after they are completed. The state has two types of insurance that cover its buildings. Builder's risk insures buildings and other structures during the course of construction, and regular property coverage insures buildings that are finished. Any state building is covered for regular property coverage, whether Risk Management knows about the building or not. Although the department and LAFA eventually report completed buildings to Risk Management, the process of reporting is not automatic, as it is for most other state agencies. When Facility Planning and Control manages construction, it notifies Risk Management when construction is underway and when buildings are complete. This way, the state has appropriate and timely records for its builder's risk and property insurance coverage.

While regular property coverage for completed buildings is self-insured by the state, builder's risk insurance is purchased from commercial carriers and billed to each agency. These carriers may choose to cover a loss under the state's builder's risk policy even if an agency did not report that the construction was going on. In fact, there is some confusion whether LAFA had builder's risk for the metal buildings. A department official told us that LAFA did not. However, an 11/24/98 LAFA memorandum to bond attorneys represents that all construction and new building on state-owned property is automatically covered under existing policies. Without full knowledge of construction in progress, the state's exposure under this policy cannot be known. In addition, the insurance carrier may cease the state's coverage if they do not trust state agencies to fully disclose risks.

LAFAs Construction Funding Sources May Not Be What the Legislature Intended

The Fertilizer, Feed, and Pesticide Funds provide more than 90% of the funds for LAFA's \$8 million statewide building projects, both directly and as payment for the \$4 million bond issue. However, the funds may have been intended for a more limited purpose. The three funds have similar provisions with respect to the use of their funds. These provisions are in R.S. 3:1907, R.S. 3:1317, and R.S. 3:3210 for the Feed, Fertilizer, and Pesticide Funds, respectively. The monies in these funds can be used directly to:

- Provide for the expenses of the particular program.
- Renovate, maintain, and equip a building on the Baton Rouge campus of Louisiana State University for administrative offices and analytical laboratories.
- Build, equip, and maintain a building to house the offices of the Department of Agriculture and Forestry.

Thus, in these three statutes, there is no mention of buildings other than the two mentioned previously for direct use of the funds. In addition, anticipated monies from the funds can be funded into revenue bonds for the purposes of renovating a building on the Baton Rouge campus of Louisiana State University and:

“ . . . acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with promoting and assisting agriculture and forestry in this state.”

Based on the language in this statute and its legislative history, it appears that the legislature may have intended that the funds' use be limited to the one building at Louisiana State University and the department headquarters, as well as other buildings within the headquarters complex physically connected and related to it. However, LAFA's position in its bond resolution is that the statewide buildings are connected and related to the headquarters building because they are satellite offices of the department. The difference lies in what the term “connected related” means. Our interpretation is that it may mean attached to the headquarters.

In FYE 2000, the department transferred approximately \$3.4 million from the three funds to LAFA for construction. The funds are also supposed to cover a variety of program expenditures. In the two fiscal years we examined, the Feed and Fertilizer Funds did not provide funding for program purposes, but the Pesticide Fund did. The department transferred \$2.5 million from the Pesticide Fund to the State Treasury for the expenses of the Agriculture and Environmental Sciences division. A total of \$412,708 from these three funds was left over after FY 2000 after interest payments and transfers to LAFA and the department. This amount as well as future fund revenues will be used as part of the January 2001 debt service payment on the \$4 million construction bond issue.

The Feed program's purposes include registration and labeling, inspecting, sampling and analysis, publication of documents, and enforcement of penalties. The Fertilizer program publishes documents and enforces penalties. The Pesticide program has varied uses such as the enforcement of penalties; registration of pesticides; certifying and licensing pesticide salespersons, dealers, and applicators; monitoring, investigating, and enforcing penalties for pesticide wastes and water protection; and school pesticide safety. The funds for these programs come from fees paid by those who manufacture and sell the products. As long as the funds are pledged to secure the repayment of revenue bonds, the inspection fees for Feed and Fertilizer will remain at 75 cents per ton. When the bonds are paid off, the fees will drop by one-third to 50 cents per ton.

Purchasing

Did the Department of Agriculture and Forestry's policy of purchasing or leasing construction equipment, movable property, and construction materials through the Louisiana Agricultural Finance Authority result in cost savings to the State of Louisiana, as compared with other state entities?

We do not know whether the Louisiana Department of Agriculture and Forestry's policy of purchasing or leasing construction equipment, movable property, and construction materials through LAFA resulted in cost savings, compared to what other state agencies would have paid. LAFA generally followed its own procurement policy with respect to bidding, which resulted in the lowest bid on purchases most of the time. However, we cannot say that LAFA would have saved money by purchasing items on state contract or bid through the Division of Administration - Office of State Purchasing because State Purchasing could not find enough comparable items to test against LAFA's purchases. As a result, we could not compare LAFA's purchase prices with prices on state contract or items bid through State Purchasing. Though we cannot say for certain whether LAFA is getting better prices than other state entities, we can say that LAFA usually attempted to obtain competitive prices for items it purchased.

LAFA does have a procurement policy. In general, we found that LAFA's written procurement policy matches procurement policies prescribed for state agencies, with some exceptions. For instance, the state requires bid solicitations from economically disadvantaged businesses and the receipt of bids for larger purchases, while LAFA does not. The state does not require small tools under \$500 to be bid, as LAFA does. Because R.S. 3:266(14) exempts LAFA from the bid law, LAFA is under no legal obligation to include all provisions of the state's policy. As a result, LAFA may not be providing disadvantaged businesses with an adequate opportunity to bid. Furthermore, it may not be getting enough bids for larger purchases, while wasting administrative time bidding smaller purchases.

Generally, we found that LAFA followed its own procurement policy, with some exceptions. For example, the policy says that bids for purchases over \$25,000 should be advertised for a minimum of 10 days, but officials said they did not advertise. Also, LAFA's policy names personnel who are authorized to approve purchases, but one individual who was not named approved purchases in some cases. Finally, though LAFA's policy does allow for emergency purchases, we found that this provision was used more often than one might expect. Advertising and buying fewer items on an emergency basis may help the department to save money. Updating the policy to ensure that all those authorized to approve purchases are named will help to strengthen internal controls.

Finally, in our file review, we noticed three state purchasing practices that could result in cost savings to LAFA and/or improvement of its purchasing function. These include considering the buy-back option for large equipment, not appearing to specify brands, and buying small tools

at a discounted price without bidding. The buy-back option for larger equipment purchases may be less expensive and could result in new equipment annually. By making it clear that LAFA will accept equivalent brands, LAFA may get better prices on comparable equipment. By buying tools costing between \$50 and \$500 from a discounted catalog, LAFA could save administrative time.

Recommendation 3: If LAFA continues to purchase goods and services without being subject to public bidding, LAFA should revise its procurement policy to be consistent with the state's as follows:

- LAFA should revise its procurement policy to require the solicitation of bids from economically disadvantaged (small and emerging) businesses whenever possible.
- LAFA should revise its procurement policy to remove the requirement for bidding tools and equipment costing between \$50 and \$500.
- LAFA should revise its procurement policy to define situations requiring emergency purchases in terms of a threat to the functioning of government, the preservation and protection of property, or the health and safety of any person.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with revising LAFA's procurement policy to require soliciting bids from small and emerging businesses.
- The department disagrees with the portion of our recommendation that advises removing the requirement for bidding the smaller tools.
- The department disagrees with the portion of our recommendation that advises defining emergency situations.

Legislative Auditor's Additional Comments: Other state entities, including the Department of Agriculture and Forestry, must solicit bids from small and emerging (disadvantaged) businesses whenever possible. In addition, while we encourage LAFA and the department to obtain the best prices possible, we would urge them to consider how much administrative time they use bidding tools under \$500. If they are concerned about tracking and control of these purchases (see Recommendation 6), there are other means do so at their disposal. Finally, LAFA's frequent use of emergency purchasing in the sample we reviewed indicates they may resort to this option often. Thus, we believe they should carefully define emergency circumstances.

Recommendation 4: LAFA should consistently apply its own procurement policy with respect to the following:

- LAFA should ensure that bids for items or aggregate purchases that will cost more than \$25,000 are advertised. When the period for advertising has closed, then it should ensure that competitive bids are obtained through other means.
- LAFA should ensure that only officials named in its procurement policy approve invoices. LAFA might consider listing in the policy the job titles of all officials it believes should approve purchases.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with the portion of the recommendation that advises obtaining bids for purchases over \$25,000, per its policy.
- The department agrees with the portion of the recommendation that advises listing the job titles of all persons authorized to approve invoices.

Recommendation 5: LAFA and the Department of Agriculture and Forestry should consider adopting the following state procurement practices:

- LAFA should fully evaluate the buy-back option for large equipment purchases.
- LAFA should continue to purchase smaller items from a discounted catalogue, as it has started to do.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department partially agrees with the portion of the recommendation that advises consideration of the buy-back option for large equipment.
- The department agrees with the portion of the recommendation that advises using a discounted catalogue to purchase smaller items.

Recommendation 6: LAFA and the Department of Agriculture and Forestry should adopt the following practices:

- LAFA should adopt a control procedure other than bidding for smaller tools and equipment. One option might be the approval of purchase order requests.
- LAFA should insert language prominently on its purchase requisition form indicating equivalent brands are acceptable.
- LAFA should plan purchases better so it will not need to resort to emergency purchasing.

Summary of Department of Agriculture and Forestry Response: The department addressed the components of this recommendation as follows:

- The department disagrees with the portion of the recommendation that advises adoption of a control procedure other than bidding.
- The department agrees with the portion of the recommendation that advises inserting "equivalent" language on its purchase requisition form.
- The department partially agrees with the portion of the recommendation that advises better planning to avoid emergency purchases.

Matter for Legislative Consideration 2: If the legislature wishes to change LAFA's special status with respect to public bidding, they may wish to consider:

- Amending R.S. 3:266 (14) to remove LAFA's exemption from public bidding
- Amending R.S. 39:1482 (E) to remove LAFA's exemption from any restrictions on professional, personal, consulting, or contract services procurement

State Purchasing Could Not Find Comparable Prices, But There Is Evidence That LAFA Solicits Competitive Bids

We could not compare LAFA's purchases of items to items that State Purchasing had on state contract or bid because State Purchasing could not find enough comparable items for us to make a generalization. We attempted to test three types of items--movable property, construction materials, and large construction equipment--against similar items that State Purchasing had bid or that were on its database as having been bid by the agencies.

We could not compare the movable property items for which State Purchasing could find comparables because the items were purchased under different circumstances. Therefore, we cannot say whether LAFA is saving money by purchasing non-construction movable property outright. For the construction materials, the samples State Purchasing could find had differences in the timing and quantity purchased. According to a State Purchasing official, the quantity purchased may affect the unit price of an item. We found no matching prices and quantities. In addition, prices for materials are volatile. For example, the price of lumber is the lowest it has been in 15 years, according to the representative of a vendor on state contract. For the construction equipment, there were only two items that State Purchasing considered comparable. For one of them, we can say that State Purchasing appears to have purchased this equipment at a lower annual cost on a buy-back rather than the lease-purchase option LAFA used. We further discuss this observation later in the narrative.

However, we did observe that LAFA attempts to obtain competitive prices. We reviewed 42 bids for 55 items LAFA bid totaling more than \$767,000 to evaluate cost savings and compliance with LAFA's internal procurement policy. We found that LAFA did solicit

competitive bids for 41 of the 42 bids. In most of these cases, LAFA accepted the lowest bid. For the six purchases for which LAFA did not accept the lowest bid, there was an explanation for rejecting the lowest bid.

LAFAs Procurement Policy Generally Matches the States, But It Is Not as Thorough in Some Instances

State law [R.S. 3:266 (14)] exempts LAFA from public bidding for movable and immovable property. LAFA is also expressly exempted from any restrictions on professional, personal, consulting, or contract services procurement (R.S. 39:1482 E). Nevertheless, LAFA did develop a procurement policy that appears to be based on the state's requirements. LAFA's procurement policy is set forth in a four-page internal memorandum in effect since September 1997. It states the number of bids that should be solicited for items in certain price ranges, as well as the method that should be used to obtain the bid (i.e., phone, fax, or written). LAFA's procurement policy also names certain officials who are authorized to approve purchases. These provisions are explained more fully in the chart in Appendix E.

The state's procurement policy is set forth in R.S. 39:1551 *et seq.* These laws authorize the governor to establish procurement procedures for small purchases for most state boards, commissions, institutions, budget units, and departments. Executive Order MJF 98-20 establishes procurement rules concerning small purchases. R.S. 39:1594 sets forth procurement laws for purchases that exceed \$10,000. LAFA's procurement policy is similar to these provisions, with some exceptions. Some of the major differences include:

Small and Emerging Businesses

- State agencies must solicit bids from economically disadvantaged (small and emerging) businesses whenever possible. LAFA does not have this requirement.

Bid Requirements

- State agencies are not required to bid items under \$500. LAFA does not require bidding under this price level but makes an exception for tools costing over \$50. In this one area, LAFA's policy is actually more restrictive than the state's. But this restriction may be more costly in terms of administrative time, as discussed later.
- For purchases exceeding \$10,000, state agencies must give adequate public notice of the invitation for bids at least ten days before the date set forth for the opening of bids, except those for materials or supplies for housing state agencies, for which the invitation shall be open for at least 20 days. State entities must advertise purchases of \$25,000 or more for at least 10 days and for 20 days or more for materials and supplies for the housing of state agencies. LAFA must advertise bids for purchases over \$25,000 for a minimum of 10 days.

Emergency Purchases

- State entities are allowed to make emergency purchases in extreme circumstances. Entities must justify “emergency” purchases by evaluating the threat to the functioning of state government, the preservation or protection of property, or the health or safety of any person. In contrast, LAFA’s emergency purchase provision does not explain the mechanics of emergency purchases. An official told us LAFA’s emergencies are defined by the “rule of reason.”

Brand Specifications

- State agencies are required by law to clearly state that equivalent brands are acceptable when purchasing technical equipment, apparatus, machinery, materials, or supplies. LAFA has no such requirement.

LAFA Generally Followed Its Own Procurement Policy, With a Few Exceptions

LAFA’s solicitation policy is specific with respect to the number and type of bids (phone, written or faxed). This policy is detailed in Appendix E. For most bids (30 of 42), LAFA was in compliance with its solicitation policy. Two of the non-complying bids required more solicitations than were sent out and one was missing documentation. For the rest, LAFA did not advertise. LAFA generally accepted the lowest bid (34 times out of 40 items that were bid and documented) and gave a reason for rejecting the lowest bids in the six remaining instances. In all, we saw three significant areas where LAFA did not appear to comply with its own internal procurement policy.

LAFA did not advertise large items. LAFA solicited the correct types of bids (i.e., written, phone, or fax) for most bids we evaluated. However, we found that it did not advertise purchases over \$25,000, as required, in all cases that we reviewed involving large purchases of heavy equipment. In fact, officials told us they did not advertise at all. Instead, LAFA solicited these bids by telephone or fax for eight of the nine items totaling \$682,806 as shown in Exhibit 7 on the following page. Advertising bids may help find other vendors that could provide the item at a lower price.

Exhibit 7	
Construction* Items Over \$25,000 Bought by LAFA That Should Have Been Advertised	
Item	Price
(1) Crawler Dozer (tractor)	\$77,977
(2) Motor Grader	147,908
(3) Soil Packer	45,000
(4) Backhoe Loader	41,400
(5) 1/4 Frame Steel Bathtub End Dump Trailer	35,439
(6) Soil Compactor (soil packer)	89,675
(7) Crawler Mounted Excavator	159,500
(8) Concrete	33,230
(9) Sheet rock and mud	52,677
TOTAL	\$682,806
<i>Average</i>	<i>\$75,867</i>

*Although these items were purchased with construction funds, LAFA allocated only their depreciation expense to the construction sites.

Source: Compiled by legislative auditor's staff from LAFA ledgers.

LAFA's procurement policy does not name everyone who approved invoices. We asked the department about several invoices and purchase orders we saw that were signed by LAFA employees other than those specified in the policy. We were told that two other department employees also have the authority to approve LAFA purchases. However, these exceptions are not reflected in the written procurement policy.

LAFA often made emergency purchases. Finally, we found 10 memoranda describing "emergency" purchases for nine of the 42 bids we examined. Specifically, there were nine emergency purchase memos and one handwritten note on a bid sheet stating that an official approved the purchase of the eight items that were listed on the bid sheet. We also noticed six additional emergency memoranda in the files concerning items that were not included in our sample. While LAFA's procurement policy does allow for emergency purchases based on the "rule of reason," we found that this provision was used for more than one-fifth of the bids we sampled.

In all "emergency" situations that we examined, the purchases were approved. The emergency memoranda and note did not contain the signature or initials of the person authorizing the purchase. Often, the memoranda we examined described situations in which equipment was urgently needed at a site to accommodate personnel and work schedules. As noted previously, employees were assigned to construction sites as they became available under the department's policy of cross-utilization. These emergency purchases were sometimes for significant amounts:

one memorandum described a verbal purchase order for a crawler mounted excavator that was leased at \$6,500 per month, then purchased for \$159,000. Another emergency purchase was a \$41,400 backhoe loader that was never bid or advertised. Webster's Collegiate Dictionary defines "emergency" as an "unforeseen combination of circumstances . . . calling for immediate action." If these situations were often unforeseen, then LAFA and the department might not be planning adequately for construction needs. Exhibit 8 illustrates a typical "emergency" memorandum.

Exhibit 8**Sample of Emergency Purchasing Memorandum**

Louisiana Agricultural Finance Authority
P. O. Box 3481
Baton Rouge, LA 70821-3481
225-952-8170
FAX 225-922-0679

November 4, 1999

MEMORANDUM

TO: Office of Management and Finance
FROM: Hilary Stephenson, LAFA

Please note for the LAFA purchase order 624H1199 this bid was done on an accelerated basis as per Richard Herrin. These tools were need by Brad before Friday because he was leaving for the construction sites and would not be back for several weeks.

Thank you.

Source: LAFA purchasing files.

Adopting Three State Purchasing Practices Could Improve LAFA's Purchasing Function

In our file review, we noticed three additional purchasing issues that could result in cost savings to LAFA and/or improvement of its purchasing function.

Considering the buy-back option for large equipment. First, we found six pieces of heavy equipment that LAFA bought on a lease-purchase option. State Purchasing had bid one item, a crawler dozer, that was comparable to items LAFA bought. However, State Purchasing purchased this item with a buy-back option. This option appears to have a lower annual cost than LAFA's lease-purchase, if the equipment is not purchased at the end of the year. While the agency that bought the crawler dozer on a buy-back option spent \$2,345, LAFA spent \$14,000 in lease payments. Thus, the buy-back option seems preferable if there is no further use for the equipment after one year, or if new equipment is needed annually. However, this option requires advancing the total purchase price at the beginning of the contract.

Two department officials stated that they chose the lease-purchase option to "see what the equipment could do before they purchased it." In addition, one official stated that the buy-back option is overly restrictive. He believes LAFA can get a better resale deal in the open market, although the authority has never done so. Furthermore, he stated that the department intends to use the equipment in other locations. Even so, LAFA may be able to save on future heavy equipment purchases by fully evaluating this option.

Not appearing to specify brands. Second, we looked at instances where LAFA appeared to specify a brand and model on its purchase order requisitions, which are invitations to bid for the movable property items we identified. This occurred 12 times for the 23 purchase order requisitions we found, almost always for items priced less than \$7,500. The printed pages that sometimes followed the specification page of the invitation to bid contain language that says an equivalent model is acceptable, but this information is not prominent or easy to notice. Thus, suppliers who did not have the exact brand described may not have responded to the bid. While LAFA policy does not forbid specifying brands, appearing to do so may prevent the authority from obtaining the best possible price on a comparable item. One agency official agreed that the phrase "or equivalent" should accompany any brand specified on bidding materials.

Buying small tools at a discounted price, without bidding. Third, LAFA obtained bids for several small hand and power tools costing less than \$500. Its policy requires that tools over \$50 be bid. According to a State Purchasing official, although they encourage finding competitive prices, getting bids on items costing less than \$500 may waste administrative time. Data from the National Association of State Purchasing Officers indicate that Louisiana is one of only 11 states that have minimum-price bid limits of \$501 or lower. For this reason, there is pressure to raise Louisiana's minimum bid limit.

The State Purchasing official informed us that they had just entered into a contract with a supplier for small power and hand tools. We asked him to run a comparison with the new contract for the tools he could not find in the list of LAFA movable property purchases we gave him. He found exact brand and model matches for four small hand and power tools. The prices

of the items in the catalogue were, in total, 5.5% less than LAFA's purchase price adjusted for inflation.

We cannot say LAFA could have used this contract, because it was not available during the time of the LAFA purchases. However, LAFA may achieve administrative savings by buying small tools from a catalogue on discount, rather than bidding them. LAFA's purchasing officer stated that she has recently began using this catalogue. Buying small tools (\$50 - \$500) without bidding would also require a change in LAFA's procurement policy. An official expressed reluctance to do this, saying bidding gives the agency an additional control over this equipment. One option that would allow controls without bidding is for the department to approve purchase order requests for these items. Then, LAFA could purchase the item from a discounted list such as the one described above. This would allow the department to control what is purchased as well as what is spent on each item.

Appendix A

Audit Scope and Methodology

Appendix A: Audit Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. Work on this audit began in late April 2000 and ended in December 2000. We limited our audit work to the Louisiana Department of Agriculture and Forestry's construction, leasing, and purchasing practices through the Louisiana Agricultural Finance Authority (LAFA).

First Audit Objective

To achieve the first audit objective of determining whether or not the department's construction efforts, through LAFA, result in cost savings to the State of Louisiana, we compared LAFA's construction costs at two sample sites to appraisals that show the cost to build. We chose two sample sites from the eight sites LAFA had built: the Jonesville boll weevil site (one building and a wash house) and the Monroe site (nine buildings). To evaluate the cost-effectiveness of LAFA's construction efforts at these sites, we obtained and reviewed cost information provided by the department and LAFA. This information included LAFA's fiscal year 1999 and 2000 general ledgers as well as LAFA's collation of construction costs. In addition, we talked with the department employees about construction and purchasing issues. In particular, two of the department officials explained to us how LAFA allocated costs to each building. We used their allocation figures in our calculations.

We received LAFA's final estimate of its construction costs by building in August. Department officials told us they allocated these costs to specific buildings after construction was complete, so they were not sure they included everything. In fact, we later found several items bought for use at construction sites that were not allocated to construction in LAFA's ledger. Therefore, we believe the figures these officials gave us are conservative. We spent time with these officials understanding and analyzing the components of the costs. After reviewing these costs, we added or subtracted costs to match the cost elements contained in the appraisals. In our comparison, we did not consider the site costs such as site preparation, parking lots, or agricultural fields, as these were not appraised by the Office of Risk Management.

We compared the information we received from the department and LAFA to appraisals performed by state loss prevention officers at Risk Management using a software program provided by Marshall and Swift. Since Risk Management subscribes to the Marshall and Swift service, we were able to obtain these appraisals at no additional cost to the state. Risk Management did these appraisals as a matter of policy because it arranges insurance for all the buildings the state owns. In order to insure the buildings, Risk Management has to know how much each building is worth. Though the Risk Management appraisals were primarily for insurance purposes, they can be modified to show the cost to build a structure.

To satisfy ourselves that Marshall and Swift could provide a reliable estimate of the cost to build these structures, we did the following:

1. We reviewed the company's literature and considered what the company claims to do. Marshall and Swift provides cost data for new construction and renovations that occur in the United States and Canada. The company has been in business more than 67 years. It collects specific costs for labor, materials and installed components, as well as breakdowns of the actual marketplace cost for buildings.

The company uses local costs and multipliers and updates its software quarterly. We confirmed that Risk Management did receive these updates consistently.

2. We called the company to verify that the appraisals Risk Management did could tell us the cost to build.
3. We consulted local and national appraisers to determine whether they used Marshall and Swift. The appraisers we spoke with said they use Marshall and Swift to estimate building costs.
4. We called five local metal building contractors to see what they would have charged to build one of the sampled buildings. They quoted prices comparable to the appraisal for a sample metal building.
5. We reviewed the Monroe and Jonesville appraisals against others that Risk Management did in Hammond to check for consistency.
6. We checked the Monroe and Jonesville appraisals against certain variables to ensure that they were properly calculated.
7. We visited each site in August and took photographs. We also ensured that the buildings' attributes listed in the appraisals matched what we saw during our site visits.
8. We consulted the Web site for *Appraisal Today*, a newsletter and Web site for appraisal-related news. The only vendor listed for cost-to-build data was Marshall and Swift. Comments on the Web site say that all appraisers have used and/or referred to Marshall and Swift cost data in books, on-line, and in software.

For each of the buildings, we estimated or identified LAFA's costs for the following components included in the Marshall and Swift appraisals:

1. Cost of materials - From LAFA's collation of construction costs, we were able to identify the cost of materials for each building.
2. Labor costs - Department officials could not tell us which employees worked on the construction projects or for how long. Thus, we were only able to estimate a possible range of labor costs to test whether the appraisals were reasonable, as follows:

Out-of-Town Employees

- From the ledgers, we identified hotel vendor payments allocated to construction accounts.
- We obtained copies of hotel vendor files and determined which department employees stayed in these lodging facilities during construction.
- We then estimated how many days the employees worked on construction from the number of nights stayed recorded on a hotel invoice. We added

one day to the number of nights stayed, based on the assumption that an employee would have worked and/or traveled at least part of the day before the first night's stay and part of the day after the last night's stay.

- We also used the deposition of a department employee, as well as interviews with department employees, to identify additional names of department employees that worked on the sample buildings.
- Using salaries from the department employee database, we determined what these estimated construction days cost for each employee who stayed in lodging facilities plus 25% for benefits.

Local Employees (domiciled within the parish of the sampled buildings)

- We calculated the average salary of department employees who were domiciled in the parish of the sampled buildings.
 - We then estimated how many days these local employees worked as a percentage of the days the out-of-town employees worked, beginning with 95% of the work performed by local employees domiciled within the parish and ending with 0% of the work performed by local employees. The coordinator and other department officials told us that most of the labor was performed by employees who were domiciled at the sites.
 - We multiplied the average local employee salaries and benefits by the range of estimated days for local labor.
 - We added the local employees and traveling employees labor cost together for a range of possible construction labor cost to the state.
3. Contractor's overhead (translated as any additional costs the department or LAFA would incur, such as travel expenses) - We estimated how many days the employees who traveled worked on construction. From this, we estimated per diems paid for traveling employees' meals during the period they worked on the construction projects.
 4. Cost of connecting utilities - From LAFA's collation of construction costs, we identified the cost of connecting utilities to the Monroe site. We could not identify any cost of connecting utilities in Jonesville.
 5. Architectural and engineering fees - From LAFA's collation of construction costs, we identified architectural and engineering fees.
 6. Insurance cost - We reviewed workers' compensation claim files at the Office of Risk Management to determine the amount paid in claims for construction-related injuries at the Monroe and Jonesville sites.
 7. Equipment costs - From LAFA's collation of construction costs and documentation provided by the department officials, we identified equipment costs associated with the sampled buildings.

8. Interest costs for financing - The department made four interest payments on the \$4,000,000 in construction bonds during the period of construction totaling \$278,217. Using the department's collation of construction costs, we calculated the Monroe project cost and Jonesville project cost as a percentage of the total costs of all projects. We then multiplied this percentage by the total interest payments made during the period of construction and allocated interest cost to each building.

Using these elements, we calculated the total estimated costs for each building in our sample. We then compared these costs to the Office of Risk Management's appraisals of the sampled buildings. We made various adjustments as described in Appendix E to ensure that LAFA's costs and the appraisals contained the same elements. Because the appraisals contained labor costs and LAFA's costs did not, we calculated a final comparison removing labor costs from the appraisals. To arrive at a percentage of costs to remove, we did the following:

- We asked five local metal building contractors what percentage of total costs each allocated to labor. We averaged their responses (31%).
- We asked Marshall and Swift what percentage of its cost-to-build estimate was labor cost. Marshall and Swift gave us a range of 30% - 45%, depending on the interior finishing. This percentage includes worker's compensation premiums, which we estimated to be \$27.80 per \$100 of payroll, based on information from the Louisiana Worker's Compensation Corporation (LWCC). This rate is conservative compared with the average of commercial construction trade rates quoted to us by LWCC. Because these rates are substantial, they significantly affect labor costs reflected in the appraisals. Thus, the reported extra costs or savings are highly sensitive to the worker's compensation rate selected.
- We removed 31% from the appraisals as labor cost. This is the average provided by the contractors and is at the lower end of the Marshall and Swift range. Therefore, we believe it is conservative. We also removed 45% to show the effect at the high end of the range.
- After we removed the percentages above, we calculated how much of these costs would be attributable to worker's compensation premiums. We did not remove the amount attributable to premiums. Instead, we left these premiums in the appraisals, as we had included the state's costs for worker's compensation in the costs LAFA paid.

We also removed state sales taxes from the appraisals, as the state would not pay these taxes. A contractor would pay these taxes, but the proceeds would be paid to the state.

Second Audit Objective

To achieve the second audit objective of determining if the department's policy of purchasing or leasing construction equipment, movable property and construction materials through LAFA results in a cost savings to the state, we obtained LAFA's purchasing policies. We compared these policies with the general purchasing requirements imposed on state agencies. We obtained a database of purchases of LAFA's movable property from the Louisiana Property Assistance Agency. We then interviewed officials from the Office of State Purchasing to determine if they could provide assistance in researching comparable items that they might have in their databases or files.

We selected a sample of 31 movable property items randomly and judgmentally to test against purchases or bids through State Purchasing. After selecting the items, we separated them into construction and non-construction samples based on whether or not they were paid for with construction funds. We then selected a sample of 24 different types of construction materials to test against purchases or bids through State Purchasing. We obtained purchase orders from the department for each item selected in both samples. We tested LAFA's purchases of these items for compliance with its procurement policy.

Appendix B

LAFAs Sources of Funds for
Construction and Buildings That
Were Constructed With These Funds

Appendix B: LAFA Sources of Funds for Construction and Buildings That Were Constructed With These Funds

Sources of Construction Funds

The chart below lists sources of funding used by LAFA for construction efforts that benefited the Louisiana Department of Agriculture and Forestry. As mentioned in the report, the major sources of funding were the \$4,000,000 bond issue and the Pesticide, Feed, and Fertilizer funds.

SOURCES	FUNDING FYE 1999	FUNDING FYE 2000	TOTAL	% OF FUNDING
1998 Bond Issue	\$4,000,000	\$0	\$4,000,000	49.43%
Pesticide Fund	0	684,660	684,660	8.46%
Feed Fund	0	1,116,230	1,116,230	13.80%
Fertilizer Fund	0	1,586,878	1,586,878	19.61%
Rental	0	200,000	200,000	2.47%
Interest	82,807	14,469	97,276	1.20%
Risk Management Reimbursement	0	50,493	50,493	0.62%
Overpayment Refund	0	6,000	6,000	0.07%
Contributed Capital Nursery	0	350,000	350,000	4.33%
TOTAL	\$4,082,807	\$4,008,730	\$8,091,537	100.00%

Source: Prepared by legislative auditor's staff using OLA Financial and Compliance audit reports on LAFA from FYE 1999 and FYE 2000.

Buildings Constructed With These Funds

The following list contains the locations as well as the types of buildings that were constructed by LAFA for use by the Louisiana Department of Agriculture and Forestry. The list also indicates whether the buildings were renovated or newly constructed.

Site Name	Building Name	#	Work Performed
Hammond	Pump House	1	New Construction
	Radio Shop	2	New Construction
	Maintenance/Weld Shop	3	New Construction
	Storage Project	4	New Construction
Haughton	Pump House	5	New Construction
	Wash Down Pad	6	New Construction
	Well House	7	New Construction
	Radio Shop	8	New Construction
	Maintenance/Weld Shop	9	New Construction
	Storage	10	New Construction
Jonesville	Office Building	11	New Construction
	Washhouse	12	New Construction
Monroe	City Building Project	13	Renovation
	Wash Down Pad	14	New Construction
	Chemical Storage	15	New Construction
	Pump House # 1	16	New Construction
	Pump House # 2	17	New Construction
	Radio Shop	18	New Construction
	Maintenance/Weld Shop	19	New Construction
	Storage	20	New Construction
	Farm Shed	21	New Construction
Seedling Storage	22	New Construction	
Oakdale	Hangar Project	23	New Construction
Oak Grove	Office Building	24	New Construction
	Washhouse	25	New Construction
Winnsboro	Office Building	26	New Construction
	Washhouse	27	New Construction
Woodworth	Wash Down Pad	28	New Construction
	Pump House	29	New Construction
	Radio Shop	30	New Construction
	Body Shop	31	New Construction
	Carpenter Shop	32	New Construction
	Farm Shed	33	New Construction
	Paint Shop	34	New Construction
	Maintenance/Record Shop	35	New Construction
	Welding Shop	36	Renovation
	Indian Creek Baths	37	New Construction
Property Warehouse	38	Renovation	

Source: Prepared by legislative auditor's staff using documents obtained from LAFA officials.

Appendix C

LAFA's Statutory Powers

Appendix C: LAFA's Statutory Powers

LAFA's Powers as Described in R.S. 3:266

(1) Sue and be sued in its own name and in the name of any subsidiary corporation or entity which may be created pursuant to Paragraph (19) of this Section.

(2) Have a seal and alter the same at its pleasure.

(3) Adopt bylaws for the internal organization and government of the Authority.

(4) Adopt, promulgate, and amend rules and regulations for the administration of the Chapter in accordance with the Administrative Procedure Act (R.S. 49:950, *et seq.*), provided that such regulations shall require fair, impartial, uniform, and equitable treatment of all lending institutions and shall establish objective standards and criteria to control and govern access to and allocation of services and functions authorized by this Chapter.

(5) Make and execute contracts and all other instruments necessary or convenient for the exercise of its powers and functions under this Chapter with any federal or state governmental agency, public or private corporation, lending institution, or other entity or person.

(6) Accept, administer and expend donations of movable or immovable property from any source, and receive, administer, and expend appropriations from the legislature and financial assistance, guarantees, insurance or subsidies from the federal or state government.

(7) Subject to the rights of holders of bonds of the Authority, to renegotiate, refinance or foreclose on any mortgage, security interest or lien; or commence any action to protect or enforce any right or benefit conferred upon the Authority by any law, mortgage, security interest, lien, contract or other agreement; and bid for and purchase property at any foreclosure or at any other sale or otherwise acquire or take possession of any property; and in any such event, the Authority may complete, administer, pay the principal of and interest on any obligation incurred in connection with such property, dispose of and otherwise deal with such property in such manner as may be necessary or desirable to protect the interest of the Authority or of holders of its bonds therein.

(8) Procure or provide for the procurement of insurance or reinsurance against any loss in connection with its property or operations, including but not limited to insurance, reinsurance, or other guarantees from any federal or state governmental agency or private insurance company for the payment of any bonds issued by the Authority, or bonds, notes or any other obligations or evidences of indebtedness issued or made by any subsidiary corporation or entity created pursuant to Paragraph (19) of this Section or by any lending institution or other entity or person, or insurance or reinsurance against loss with respect to agricultural loans, mortgages or mortgage loans, or any other type of loans, including the power to pay premiums on such insurance or reinsurance.

(9) Insure, co-insure, reinsure, or cause to be insured, co-insured, or reinsured, agricultural loans, mortgage loans or mortgages, or any other type of loans and pay or receive premiums on such insurance, co-insurance, or reinsurance, and establish reserves for losses, and participate in the insurance, co-insurance, or reinsurance of agricultural loans, mortgage loans or mortgages, or any other type of loans with the federal or state government or any private insurance company.

(10) Undertake and carry out or authorize the completion of studies and analyses of agricultural conditions and needs within the state and needs relating to the promotion of agricultural exports and ways of meeting such needs, and make such studies and analyses available to the public and to the agricultural industry, and to engage in research or disseminate information on agriculture and agricultural exports.

(11) Accept federal, state, or private financial or technical assistance and comply with any conditions for such assistance, provided such conditions are not in conflict with the intent of this Chapter.

(12) Establish and collect fees and charges in connection with its loans, deposits, insurance commitments, and services, including but not limited to, reimbursement of costs of issuing bonds, origination and servicing fees, and insurance premiums.

(13) Make loans to or deposits with lending institutions and purchase or sell agricultural loans.

(14) Acquire or contract to acquire from any person, firm, corporation, municipality, federal or state agency, by grant, purchase, or otherwise, movable or immovable property or any interest therein; own, hold, clear, improve, lease, construct, or rehabilitate, and sell, invest, assign, exchange, transfer, convey, lease, mortgage, or otherwise dispose of or encumber the same, subject to the rights of holders of the bonds of the Authority, at public or private sale, with or without public bidding.

(15) Borrow money, issue bonds, and provide for the rights of the lenders or holders thereof and purchase, discount, sell, negotiate and guarantee, insure, coinsure and reinsure notes, drafts, checks, bills of exchange, acceptances, bankers acceptances, cable transfers, letters of credit and other evidence of indebtedness.

(16) Subject to the rights of holders of the bonds of the Authority, consent to any modification with respect to the rate of interest, time, payment of any installment of principal or interest, security, or any other term or condition of any loan, contract, mortgage, mortgage loan, or commitment therefor or agreement of any kind to which the Authority is a party or beneficiary.

(17) Maintain an office at such place or places as the Authority shall determine.

(18) Serve as the beneficiary of any public trust heretofore or hereafter created pursuant to the provisions of R.S. 9:2341, *et seq.*

(19) With the prior approval of the agriculture committees of the House of Representatives and the Senate, to create such subsidiary corporations or entities as may be necessary to borrow money, insure or reinsure agricultural loans, or issue bonds in the international financial market.

(20) Issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within this state. The bonds shall be authorized and issued by one or more resolutions adopted by a majority vote of the members of the authority and shall be payable solely from the income and revenues as set forth in the resolution authorizing the issuance of the bonds.

(21) Notwithstanding any other law, supervise and utilize public employees, equipment, and material in carrying out public work, including public work in furtherance of Formosan termite suppression.

Source: Prepared by legislative auditor's staff using R.S. 3:266, Powers of authority.

Appendix D

List of Leading and Southern Agricultural States Used in Survey

Appendix D: List of Leading and Southern Agricultural States Used in Survey

The following states were chosen to participate in a survey. The survey contained questions relating to the powers and authority given to each state's agriculture department and its agriculture finance authority or development authority.

List of All States That Received a Survey

Top 10 Leading Agricultural States	Additional Eight Southern States
▪ California	▪ Alabama
▪ Florida	▪ Arkansas
▪ Illinois	▪ Georgia
▪ Iowa	▪ Kentucky*
▪ Kansas	▪ Mississippi
▪ Minnesota*	▪ South Carolina
▪ Nebraska	▪ Tennessee*
▪ North Carolina	▪ Virginia
▪ Texas	
▪ Wisconsin	
*These states did not respond to the survey. Source: Prepared by legislative auditor's staff using data obtained in part from the USDA Web site (www.usda.gov) and the Southern Regional map.	

The Survey

The following questions were sent to these states to determine whether the state has an agricultural authority identical to or similar to LAFA:

1. Does your state have an authority or commission dedicated to financing agricultural projects?
2. LAFA is authorized to acquire, construct, renovate, and/or equip buildings for agricultural purposes.
 - Can your state's agriculture department acquire, construct, renovate, and/or equip buildings?
 - Can your commission or authority acquire, construct, renovate, and/or equip buildings?

Please answer the questions below ONLY IF your state's agricultural finance commission or authority can acquire, construct, renovate, and/or equip buildings.

3. LAFA uses both LDAF employees and contract labor in its construction efforts. IF your state's commission or authority can acquire, construct, renovate, and/or equip buildings:
 - Does it have the authority to use and supervise public employees, equipment and material in carrying out these duties?
 - Does it use contract employees to acquire, construct, renovate, and/or equip buildings?
4. The state of Louisiana has bid laws. However, LAFA is exempt from these laws. IF your state's commission or authority can acquire, construct, renovate, and/or equip buildings:
 - Is it subject to a public bid law?
 - Is it required to accept bids for construction services and materials?
 - What is the minimum cost of a project and/or equipment that requires bidding?
5. In Louisiana, LAFA leases buildings to LDAF and other entities. LAFA also owns the majority of LDAF's assets. IF your state's commission or authority can acquire, construct, renovate, and/or equip buildings:
 - Does it own any of the buildings?
 - If so, does it lease any of the buildings that it owns to the agriculture department, other state agencies, federal agencies, or other entities?
 - Does it own any other fixed assets or movable property?

Appendix E

Breakdown of Building Costs and Appraisal Values for Monroe and Jonesville Construction

Appendix E: Breakdown of Building Costs and Appraisal Values for Monroe and Jonesville Construction

Building Costs

The following chart gives a breakdown of the building costs for the structures that LAFA built in Monroe and the boll weevil office that LAFA built in Jonesville.

Building	Cost Per Department	Add Site Development	Minus Utilities	Add Interest	Add Insurance (Worker's comp)	Add Travel Expenses	Add Other	Total
Radio Shop	\$127,497.92	\$9,032.38	(\$9,272.99)	\$4,976.61	\$1,148.61	\$1,272.10		\$134,654.64
Maint/Weld	202,551.79	\$20,952.75	(9,272.99)	8,377.89	1,933.63	2,141.52		226,684.60
Storage	92,443.47	9,042.29	(9,272.99)	3,606.14	832.30	921.79		97,572.99
Pump House #1	7,845.07	633.85		331.58	76.53	84.76		8,971.79
Pump House #2	9,193.44	742.79		894.34	206.42	228.61	\$12,933.00	24,198.60
Seed Storage	211,695.91	7,845.89	(9,272.99)	8,222.92	1,897.87	2,101.91		222,491.51
Seedling Storage	436,265.71	22,056.05	9,272.99)	17,560.81	4,053.07	4,488.83		475,151.48
Chemical Storage	9,287.39	1,584.63		425.17	98.13	108.68		11,504.00
Wash Down Pad	8,407.52	633.85		626.35	144.56	160.10	6,975.00	16,947.39
Total	\$1,105,188.22	\$72,524.48	(\$46,364.95)	\$45,021.80	\$10,391.13	\$11,508.30		\$1,218,176.99
Jonesville Boll Weevil	\$170,395.34			\$2,694.25	\$1,294.38	\$2,225.12		\$176,609.08

Source: Compiled by legislative auditor's staff using documentation obtained from LAFA officials and officials at the Office of Risk Management.

- **Cost per department:** The construction cost for each building that LAFA reported in its collation of construction costs.
- **Add site development:** Portion of the expenses that LAFA had originally allocated to general site work that we determined should be allocated to individual buildings.
- **Minus utilities:** We removed the cost of running power lines to the Monroe site in order to match the Marshall and Swift appraisals.
- **Add interest:** We allocated a portion of the interest expense from the bond that was used to finance construction in order to match the Marshall and Swift appraisals.
- **Add insurance:** We allocated a portion of the worker's compensation claims that were made at each site during the construction period in order to match the Marshall and Swift appraisals.
- **Add travel:** We allocated a portion of the per diems that were paid to department employees who worked construction in order to match the Marshall and Swift appraisals.
- **Add other:** We added some items to the buildings that LAFA paid for, but were not allocated to the buildings in LAFA's construction costs, in order to match the Marshall and Swift appraisals. We removed the cost for the water softener for Pump House #2 from the general site category and added it to the building's cost. We found the cost for the pressure washer on the general ledger and added it to the Wash Down Pad.

Appraisals

The following chart gives a breakdown of the appraisal values that are being compared to LAFA's construction costs for the structures that were built by LAFA in Monroe and the boll weevil office that was built in Jonesville.

Building	Replacement Cost New	Extras Removed	Description of Extras Removed	Total With Extras Removed	Total With State Sales Taxes and 31% Labor Removed*	Total With State Sales Taxes and 45% Labor Removed*
Radio Shop	\$166,409.00	\$7,501.00	2 Overhead Doors ¹	\$156,768.00	\$115,847.15	\$98,673.82
		2,140.00	Halide Light ²			
Maint/Weld	265,930.00			265,930.00	196,514.81	167,383.20
Storage	169,681.00	8,000.00	Radio Tower ³	154,981.00	114,526.61	97,549.04
		6,700.00	2 Overhead Doors ¹			
Pump House #1	173,312.00	68,000.00	Water Tank ⁴	5,312.00	3,925.42	3,343.51
		100,000.00	Pump System ⁵			
Pump House #2	30,843.00			30,843.00	22,792.11	19,413.38
Seed Storage	230,872.00	6,700.00	2 Overhead Doors ¹	224,172.00	186,292.91	170,396.12
Seedling Storage	596,176.00	10,050.00	3 Overhead Doors ¹	586,126.00	474,842.70	428,140.21
Chemical Storage	25,160.00			25,160.00	18,592.53	15,836.35
Wash Down Pad	143,412.00	128,100.00	Fuel Tanks ⁶	15,312.00	\$11,315.14	9,637.77
Total	\$1,801,795.00	\$337,191.00		\$1,464,604.00	\$1,144,649.39	\$1,010,373.40
Jonesville Boll Weevil	\$255,123.00	\$8,000.00	Radio Tower ³	\$247,123.00	\$182,616.97	\$155,545.59
Source: Prepared by legislative auditor's staff using Cost-to-Build appraisals performed by the Office of Risk Management and information obtained from construction companies.						

* LAFA did not pay state sales taxes on building materials or tools used for construction. In addition, if a contractor is hired, any state sales taxes on construction items would be paid to the state. For these reasons, we removed state sales taxes from the appraisals so they could be accurately compared to LAFA's construction costs. Also, the 31% and 45% labor costs include an amount for worker's compensation premium. We removed only the labor costs, not the premium.

1. Extra Overhead Doors were mistakenly added to these buildings. The appraisal software already includes overhead doors in this type of building, so the extra doors that were added to the appraisals double-counted the number of doors that should have been included. We removed the doors so the appraisals would accurately represent the buildings.
2. The Halide light was included in the appraisal for the Radio Shop so it could be insured against loss in the state's insurance system. However, this light was not included in LAFA's construction costs for this building and we removed it for an accurate comparison. The light's cost was included in the costs for the general site, which is outside of the scope of our comparison.
3. The Radio Towers for these buildings were not carried on LAFA's books and not included in LAFA's construction costs. We removed them from the appraisals so the appraisals could be accurately compared to the construction costs.

4. We removed the Water Tank from the appraisal for Pump House #1 because it was moved to Monroe from another LDAF site and was not included in LAFA's construction costs for this building. In addition, the Water Tank was not physically attached to the building.
5. We removed the Pump System from the appraisal for Pump House #1 because it was moved to Monroe from another LDAF site and was not included in LAFA's construction costs for this building.
6. The Fuel Tanks were removed from the appraisal for the Wash Down Pad building because the tanks were not carried on LAFA's books and were not included in LAFA's construction costs for this building. In addition, the Fuel Tanks were not physically attached to the building. The Fuel Tanks were only included in the appraisals for this building so they could be included in the state's insurance system.

Appendix F

LAFAs and the State's Procurement Policies

Appendix F: LAFA's and the State's Procurement Policies

Louisiana State Purchasing Policies

As mentioned in the report, R.S. 39:1551 *et seq.* gives the Governor of Louisiana the authority to prescribe a procurement policy for government entities. Executive Order MJF 98-20 sets forth the state's procurement policy for small purchases (items under \$10,000). R.S. 13:1594 establishes the state's procurement policy for large purchases (items over \$10,000).

Creation of LAFA's Purchasing Policy

In September 1997, LAFA created its own procurement policy. As mentioned in the report, its policy is similar to Executive Order 98-20 and R.S. 39:1594 in that most of the ranges of costs contain virtually the same bid requirements. According to a department official, LAFA is not bound by law to adhere to its procurement policy. R.S. 3:266 (14) states that LAFA may "acquire or contract to acquire from any person, firm, . . . , movable or immovable property, . . . , at public or private sale, with or without public bidding." (See Appendix C.)

Differences Between the Policies

- **Economically Disadvantaged (Small and Emerging) Businesses**
 - Executive Order MJF 98-20 states ". . . whenever possible, . . . qualified bidders shall be a certified economically disadvantaged business." The law (R.S. 51:1751 *et seq.*) defining economically disadvantaged businesses was changed in 1999 to define these as "small and emerging" businesses.
 - The LAFA procurement policy does not have this requirement.
- **Items Under \$500**
 - Executive Order MJF 98-20 states that purchases that do not exceed \$500 do not require competitive bidding.
 - The LAFA procurement policy does not require bidding under \$500, except in the case of tools and/or equipment over \$50.
- **Advertising Bids**
 - R.S. 39:1594C(1) states in part that adequate public notice of the invitation for bids shall be given at least 20 days before bid opening. This notice shall be written, to persons in a position to furnish the supplies, or advertised for purchases over \$25,000.
 - LAFA's policy states that equipment costing over \$10,000 must be let for a minimum of 10 days. Bids over \$25,000 must also be advertised for 10 days.

- **Emergency Purchases**
 - Title 34 (Government Contracts, Procurement and Property Control), Chapter 11 allows emergency purchases when one of the following criteria is met:
 - Evaluating the threat to the functioning of state government
 - Preservation or protection of property
 - Health or safety of any person
 - The method that LAFA uses to determine an emergency situation is not stated in its procurement policy. An official told us that emergency purchases are governed by “the rule of reason.”

The following chart compares LAFA’s procurement policy with the state’s procurement policies.

Comparison of LAFA’s Procurement Policy and the State’s Procurement Policies (Executive Order 98-20 and R.S. 39:1594)					
Range of Purchase	\$1 - \$500	\$500 - \$2,000	\$2,000 - \$10,000	\$10,000 - \$25,000	Over \$25,000
LAFA’s Policy	Bids not required (except for small tools over \$50)	3 telephone bids	5-8 written or faxed bids	5-8 written or faxed bids	Bids must be advertised ≥ 10 days.
Executive Order 98-20	Bids not required	At least 3 telephone bids	At least 5 written or faxed bids	N/A	N/A
R.S. 39:1594	N/A	N/A	N/A	Adequate public notice of the invitation to bid must be given at least 20 days before bid opening.	Bids must be advertised.

Source: Prepared by legislative auditor’s staff using information provided by Department of Agriculture and Forestry and copies of Executive Order 98-20 and R.S. 39:1594.

Appendix G

Louisiana Department of Agriculture and Forestry's Response



LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY

BOB ODOM, COMMISSIONER

W.G. "BUD" COURSON, DEPUTY COMMISSIONER



February 1, 2001

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Dr. Daniel G. Kyle
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

re: Louisiana Department of Agriculture and Forestry:
Purchasing and Construction Performance Audit
February 2001

The following is the written reply to the document designated as a preliminary draft of a performance audit of the purchasing and construction activities of the Department of Agriculture and Forestry (the Department) and the Louisiana Agricultural Finance Authority (LAFA). The document to which this reply applies will be referred to in this reply as the auditor's report.

EXECUTIVE SUMMARY

The audit fails in several respects, but more particularly fails, to meet its stated objective of determining whether there were cost savings inuring to the State, because the auditor's efforts were made in an area outside of the auditor's expertise, education and experience. The auditor utilized the wrong data, personnel, means and method in reaching conclusions on cost savings. The result is erroneous conclusions. The reply to the audit report utilizes professionals with expertise, education and experience in the needed fields to reach the stated objective of the audit and, as a result, reaches the correct conclusion, i.e., that the State is achieving substantial savings even when considering only the limited criteria selected by the auditor as the sole criteria for answering the question.

Introduction

Construction

The auditor's report states that the objective of the audit was to determine whether the construction and purchasing practices of the Department and LAFA resulted in cost savings to the State. To answer this question, the auditor wanted to know the estimated cost of selected buildings built by LAFA with public employees.

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It should be noted at the outset that although qualified professional cost estimators of construction cost who utilize proven methods for accurately determining construction cost abound, the auditor did not seek or secure the services of such persons in reaching the cost data presented in the auditor's report, and instead relied upon persons who admittedly are not professional cost estimators.

Further, although accepted and sophisticated computer software exists to assist professionals in obtaining and confirming accurate construction cost estimates, the auditor chose instead to utilize and rely upon computer software used primarily to obtain "appraisals" for "insurance purposes" that actually had to be "modified" to develop the auditor's cost data. The software program in question remained, even after modification, less sophisticated than the historical data utilized by professionals in the construction cost estimating profession.

In utilizing this modified insurance computer software program, the auditor inputted incorrect data about the buildings constructed, which skewed the resulting construction cost estimates in a downward direction.

Accordingly, the auditor utilized the wrong data, personnel, means and method in arriving at the cost data needed to correctly accomplish the objective of the audit. Not surprisingly, the result is unreliable cost data and the audit reached the wrong conclusion as, in reality, the State is achieving substantial savings through LAFA's construction efforts. Some of the savings the State is achieving is demonstrated and confirmed by construction cost estimating professionals utilizing correct data, personnel, means and method, as will be discussed more fully below.¹ In addition, the State is achieving additional savings through other direct and indirect benefits not included in the audit report that will be discussed below.

Purchasing

The audit report, although not without error, more accurately reflects some of the circumstances related to purchasing practices utilized by LAFA. Those purchasing practices of LAFA are substantially similar to the purchasing practices of State Purchasing, but there are some differences. The audit report makes recommendations that could be beneficial under some circumstances.

1

The professional cost estimating and quality reports are attached to and made a part of this reply.

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Those recommendations will be considered for additional cost implications and for possible implementation by LAFA. All recommendations are discussed more fully below.

Other

The audit report contains various and numerous errors which predictably become more numerous and egregious as the auditor departs from the auditor's areas of expertise, education and experience. The more noteworthy of these errors will be discussed more fully below.

Cost Savings to the State Derived from Construction Efforts

From the outset, the audit report demonstrates that the audit cannot achieve its objective of determining whether the construction practices of LAFA achieve savings for the State because the method utilized by the auditor ignores labor costs and any savings derived therefrom. As anybody knows, if you build it yourself, you save the labor cost. LAFA and the Department (collectively Agriculture) are no different.

Agriculture has a mission that necessarily deals with seasonal demand for much of its services. The demand for services can be as variable as the weather. Therefore, demand for employees' time varies greatly during the year and is frequently unpredictable. As a matter of common sense management and managerial efficiency, Agriculture uses its employees where they are needed, when they are needed and does so with some flexibility regarding their job title. For example, fire fighters may have some free time available to them when it is not fire season, but very little free time available during fire season. In a system that lacks flexibility, the firefighters' free time would be idle time. Idle time is not acceptable to Agriculture.

With Agriculture's flexible system, called "cross utilization," any employee with free time due to lack of seasonal work or otherwise will be cross utilized in other activities of Agriculture that promote, protect or advance agriculture in Louisiana.

In 1980, Agriculture had offices and other facilities at 13 different locations in Baton Rouge alone. All of these, with the exception of the Commissioner's office at the Capitol, were rented. This was a very inefficient and expensive arrangement. So, in the eighties, Agriculture's office and facility consolidation project began, and is in its second and final stage.

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It is this office and facility consolidation project that has resulted in the construction of office buildings and related facilities by LAFA and for the Department, that is the focus of the audit report.

Each fiscal year during the office and facility consolidation project the Legislature appropriated to Agriculture the monies budgeted for Agriculture to carry out its normal agricultural duties. At the end of each fiscal year during the office and facility consolidation project all of Agriculture's normal agricultural duties were completed within the budgeted amount. However, through cross utilization, at the end of some of the years, Agriculture had, and the State had, one or more completed buildings and related facilities to use in subsequent years built by Agriculture's employees without any additional labor cost to the State.

Those completed buildings and related facilities represent increased productivity and are assets of the State. Those completed buildings and related facilities represent significant cost savings to the State since they were achieved at no additional labor cost to the State.

Thus, as long as the auditor elects to make his cost analysis ignoring the obvious cost savings from the better use of the existing labor force, the auditor is omitting significant cost savings to the State and cannot, for that reason alone, report accurately. And there are other reasons why the auditor's report is inaccurate.

In addition to ignoring the cost savings to the State in labor, the auditor is ignoring other enormous savings to the State derived from fiscal and economic aspects of the office and facility consolidation project. The sources of some of the other more substantial savings to the State are as follows.

In the first phase of the office and facility consolidation project, LAFA has realized over \$13 million in rental expense savings to the State.

In the first phase of the office and facility consolidation project, LAFA paid off the debt of the Baton Rouge facilities; and all other debt for all other facilities will be paid off in 2004. Therefore, all of the relevant state-owned facilities will be debt free assets carried on the State's balance sheet without the need for any additional funding from the State's general fund.

In comparison, the Department of Revenue and Taxation near LAFA's facility on Florida Boulevard in Baton Rouge, is in its 21st year of renting offices and has paid \$22,890,000 in rental expense payments from the general fund. The State does not and will not have at any future time any asset derived from these expenditures.

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LFA has in the past and continues now to rent office and other space it owns to other State agencies at rent which is below the market price for similar accommodations. For example, LFA is renting office space at the Baton Rouge location to the State Employees Group Benefits Program and the Department of Civil Service at \$8.00 per square foot, which is below the average rental per square foot in the area. For example, State Employees Group Benefits was paying in excess of \$13.00 per square foot in rent before moving to Agriculture's facilities. That is a \$5.00 per square foot savings to the State that is not only historical, but is continuing into the foreseeable future.

This rental revenue derived from other State agencies, like State Employees Group Benefits, under Agriculture's office and facility consolidation project, is returning to the State rather than to private vendors as it once was.

These and other savings to the State are readily ascertainable. By ignoring them, the auditor is not looking at or reporting on the complete picture in his macro analysis.

The auditor is not looking at the complete picture in his micro analysis either.

For example, the audit report only analyzes the cost of a portion of the individual projects involved in the office and facility consolidation project rather than the entire project.

On the individual projects that are analyzed for cost, the audit report omits all cost analysis of the general site improvements.

The audit report omits all analysis pertaining to the indirect benefits accruing to the State. For example, Agriculture, in exchange for construction services, received free of charge from the City of Monroe, the use of 68 acres of land which Agriculture uses as a tree seedling nursery. The auditor omitted the value of the benefits to the State, i.e., the value of the use of the 68 acres of land.

The audit report omits direct benefits accruing to the State. For example, Agriculture, in exchange for construction services, received free of charge full title to 250 acres of land from the City of Monroe. The auditor omitted the value of the benefit to the State, i.e., the value of the 250 acres of land.

The auditor sought to obtain construction cost estimates without the services of a professional construction cost estimator and used a modified insurance computer software program that is less sophisticated than that which was needed.

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In using the modified insurance computer software, the auditor inputted data that was incorrect. For example, as noted in the attached architect's report, the auditor inputted less than the actual square footage of the buildings, less than the actual height of the buildings, the improper ranking for each building, the wrong description of the walls, and the wrong information for the heating, ventilation and air conditioning. All of these errors in data input had in common the effect of skewing the auditor's cost estimates to an amount lower than they should have been.

As a result of the foregoing, the auditor's representations of cost data and the conclusions reached therefrom as presented in the audit report are clearly and demonstrably unreliable and erroneous. Further, while the auditor has admitted making some of the errors described herein and made certain corrections to the audit report's cost estimates or "appraisals" as this reply was being written, the efforts of the auditor to remedy this flawed and failed report will be insufficient to do so.

Utilizing professional construction cost estimators and confirming their results with construction cost estimating data as contained in the attached reports, LAFA has demonstrated that the State is receiving significant cost savings from LAFA's construction efforts. These significant cost savings are dramatic when all other cost savings to the State are included in the analysis. Several of the cost savings to the State, like the savings on rental expenses, the use of land, and the value of and increases in the value of the land acquired, are recurring and will be realized again and again in future years. For example, the savings to the State just on the construction of the buildings at Jonesville and Monroe alone, and without the savings from construction relating to general site work, are as follows:

Comparison of LAFA's Construction Costs with Labor to Professional Cost Estimating Reports

Building Sites w/o Site Work	LAFAs Cost Per Leg. Aud.	Professional Cost Estimators' Average	Savings to State in Dollars	Savings to State Per Sq. Ft.	Savings to State in %
Jonesville (1 Building)	\$176,609	\$381,845	\$205,236	\$32.58	54
Monroe (9 Buildings)	\$1,218,177	\$2,528,123	\$1,309,946	\$29.84	52
TOTAL	\$1,394,786	\$2,909,968	\$1,515,182	\$30.19	52

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Therefore, the savings to the State on the construction costs alone, on only a portion of the buildings, excluding the savings to the State on general site work, excluding the savings to the State from other direct benefits to the State and excluding the savings to the State from other indirect benefits to the State, when expressed in U.S. dollars, are one million, five hundred fifteen thousand, one hundred and eighty two dollars (\$1,515,182.00). This savings is according to the professional construction cost estimators' data.² Stated in other words, LAFA is building buildings for about one-half of what it would cost the State in additional dollars if the buildings were not built by LAFA.

Purchasing

The Department follows the purchasing practices used by other state agencies. LAFA's purchasing practices are substantially similar to the purchasing practices of the Department and other state agencies. The audit report makes recommendations that could be beneficial under some circumstances. Those recommendations will be considered for additional cost implications and for possible implementation by LAFA. Those recommendations and others will be discussed more fully below.

Reply to: Recommendation 1

LAFA and the Department presently keep payroll records that are sufficient for and in keeping with the various requirements of both agencies, Civil Service requirements and the State's Uniform Payroll System. These records are audited every year and this is the first recommendation for this requested change.

The recommendation for written budgets and written construction plans before implementing future public work does seem to ignore the fact that virtually all of the construction of LAFA is of the same type of metal building, and in some cases, is the identical building.

2

The data is derived from the professional cost estimating reports as described in Footnote 1, except that the data of the attached final report of Construction and Business Consultants, a Division of Rittner International Corp., if used, would make the savings to the State somewhat higher than stated herein.

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After planning and successfully completing a number of these buildings, there is some question as to how much additional planning may be necessary and whether the additional expense of same can be justified.

Risk Management will continue to be notified prior to the initiation of any public work and will be informed of the progress and completion.

Presently, safety training procedures are under review and the procedures of the Safety Manual will be followed.

All other recommendations contained herein not specifically addressed, if any, will be considered for additional cost implications and for possible implementation by LAFA.

Recommendation 2

This recommendation seems to suggest a periodic review of personnel needs for purposes of determining whether labor savings can be achieved.

The present procedure employed by LAFA and the Department is a preferable procedure. LAFA and the Department utilize a continuing or perpetual review. The Department has taken on numerous additional responsibilities legislated to it. For example, since FY 81-82, the Department has taken on the following additional responsibilities: the Food Distribution Program, the Office of Forestry Program, the Office of Soil and Water Conservation Program, the Motor Fuels Program, the Boll Weevil Eradication Program, and the Formosan Termite Eradication Program. Last year, the Department's position count was reduced from 839 to 788; and since FY 82, the position count of the Department has been reduced from 1205 to 788, or by 35 percent.

LAFA and the Department may benefit from further study of the effects of the construction efforts and the office and facility consolidation project. Further study of the economic benefits to these agencies and the State will be considered.

Recommendation 3

All of the recommendations of Recommendation 3 will be considered for additional cost implications and for possible implementation by LAFA, with the exception that until further study, which LAFA will implement, reveals good cause, LAFA will not cease bidding tools and equipment costing between \$50 and \$500, as recommended by the audit report.

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Recommendation 4

All recommendations contained herein will be considered for additional cost implications and for possible implementation by LAFA.

Recommendation 5

All recommendations contained herein will be considered for additional cost implications and for possible implementation by LAFA.

Recommendation 6

All recommendations contained herein will be considered for additional cost implications and for possible implementation by LAFA, except as noted in connection with Recommendation 3, i.e., until further study, which LAFA will implement, reveals good cause, LAFA will not cease bidding tools and equipment costing between \$50 and \$500, as recommended by the audit report.

Other

The audit report contains various and numerous errors. It is notable that the errors are more numerous and more substantive as the audit report departs into subject matter outside of the expertise, education and experience of the auditor.

The following is a reply or commentary, addressing some of the audit report's errors not previously discussed in this reply.

1. Exhibit 1 at page two purports to display the recommended budget of the Department for FY 2000-2001. The exhibit does not contain the recommended budget of the Department for FY 2000-2001.
2. The audit report contains information that in no way relates to the objective of the audit and that cannot be considered as background material for this audit. For example, the audit report states that hundreds of millions of dollars of bonds issued by LAFA in the 80's are currently in default.

In addition to having no bearing whatsoever on any component of the audit report, the statement omits the information that the State has no liability whatsoever, potential or otherwise, in connection with these bonds, that the default is technical in nature and that the bondholders were paid essentially in full.

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One can only wonder what the purpose of this information is.

3. The audit report erroneously assumes and states that LAFA has no employees.
4. The audit report makes several references to unnamed Department officials as authority for various policies or policy interpretations of LAFA and the Department. The auditor has not conferred with the policymakers of either the Department or LAFA in connection with these policy statements.
5. The audit report at page three characterizes the Department as not following the public bid law. Although the term "public bid law" is used from time to time, there is no law designated as the "public bid law." Laws pertaining to public bidding are located in various places of the law and in some regulations. Any suggestion that the Department does not follow the laws pertaining to bidding is erroneous. Any suggestion that LAFA does not follow law applicable to it is also erroneous. Both agencies, the Department and LAFA, comply with all applicable laws.
6. The audit report states that the full text of LAFA's powers and authorities are contained in Appendix C. Appendix C does not contain the full text of LAFA's powers and authority.
7. The audit report states that the construction that is the subject of the audit was performed by Department employees. Construction is performed by "public employees" who are sometimes employed in the service of LAFA, but who are always employees of the State.
8. The audit report states at page four that "Other States Do Not Have an Agricultural Finance Authority Like LAFA." The audit report itself describes several states that have agricultural authorities that construct agricultural buildings. The audit report states that the auditor surveyed eighteen states, which is incorrect since three states did not reply. Accordingly, the auditor surveyed fifteen states, six of which, or in excess one-third of which, have agricultural authorities that construct agricultural buildings.

It is unclear how the statement that other states do not have an agricultural finance authority like LAFA can be made. The statement is incorrect or, at the very least, misleading.

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9. The audit report is replete with speculation.
10. The audit report is overly redundant.
11. The audit report refers to the Department of Facility, Planning and Control. There is no Department of Facility, Planning and Control.
12. The audit report states that the auditor spoke to “the deputy commissioners of each office.” There is but one deputy commissioner, and he was not contacted. The audit report is apparently attempting to reference assistant commissioners. However, the auditor did not speak to all of the assistant commissioners either.
13. The audit report repeatedly states that the Department did not keep track of labor costs. The Department budgets all labor and keeps track of all labor costs. The Department does not keep special records for when employees are on temporary assignments during cross utilization, as this information has never been needed. Keeping information that is not needed is costly and wasteful. This subject is discussed further in the reply to Recommendation 1.
14. The audit report states that “some employees may have construction expertise, but others were temporarily reassigned from unrelated areas” (emphasis ours). The audit report itself notes that these employees constructed thirty-eight buildings during the relevant period of the audit. The auditor has been provided with the report of a construction professional who designates the quality of the buildings in question as equal to or better than the standard found in the industry.

This statement is clearly disingenuous since the auditor knows that many if not most of the employees have practical experience, actual construction experience and that some are licensed construction craftsmen.
15. The audit report states that LAFA has not gone through the capital outlay process in recent years. Two of LAFA’s most recent projects came to LAFA from the Legislature through the capital outlay process.
16. The audit report unnecessarily makes recommendations for adoption of practices that are already in practice.

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Conclusion

The auditor was first authorized to conduct this audit 18 months ago. The active portion of the audit took the auditor six months to complete. The objective of the audit has not been achieved and the auditor has reached an erroneous result for all the foregoing reasons.

When seeking answers to important policy questions reliance should not be made upon the opinions of those who are opining on matters which lie outside of their expertise, education and experience.

At times the auditor's inquiry seemed to be frivolous as when the audit report indicated, in Appendix A, that the auditor's method included picking up the phone, cold calling local contractors and asking them what they thought a building would cost to build. Can this be a serious inquiry? Can this inquiry lead to reliable results? This kind of inquiry will lead to bad data and erroneous conclusions. It has done just that in this audit.

If further information is needed, please feel free to contact me.

Very truly yours,


Skip Rhorer
Assistant Commissioner

SR:sw

cc: Commissioner Odom

Appendix H

Legislative Auditor's Additional Comments

Appendix H: Legislative Auditor's Additional Comments

In Appendix G, we provide the department's response to the audit. Estimates the department include in its response show more than \$1.5 million in savings to the state for construction of buildings. Because we did not receive these cost estimates until January 26, 2001, we were unable to thoroughly analyze them. Nevertheless, we were able to make some observations about these estimates. We make the following points about the estimates and other issues raised in the department's response.

Differences in Evaluation of Construction Costs

The department presents information from its own cost estimators in a table on page 6 of its response. These cost estimates are significantly higher than the estimates from the Office of Risk Management's appraisals that we use in our report. The department's cost estimates also show significant cost savings to the state, which directly contradicts what we say in our report. The department did not share its cost estimate information with us until after our report draft had been completed and delivered to the department. Although we were not able to conduct a lengthy analysis on these estimates, we believe that the cost estimate information presented in the department's response is too high.

The information presented in the table on page 6 of the department's response is actually a conglomeration of different sources. The information for the Monroe buildings is taken solely from information provided by Construction and Business Consultants (C&BC). The information for Jonesville is an average of a cost estimate from C&BC and three other estimates from STBP Architects, the department's architect for the statewide buildings. One of STBP's estimates was a probable cost estimate and the other two were used to verify that estimate.

Cost Estimates by Construction and Business Consultants (C&BC)

C&BC provided estimates on the Jonesville building and each of the nine buildings in Monroe, as well as other buildings statewide. The department relied on these estimates exclusively for its Monroe calculations and substantially for its Jonesville calculations in its response on page 6 of Attachment G. We do not believe these estimates are reasonable because:

- The C&BC estimates are much higher than the Risk Management appraisal *and* the STBP cost estimate, as the following table shows. The C&BC building estimates are:
 - 68% - 625% more than the Risk Management estimates for the Monroe buildings
 - 57% - 91% more than the STBP estimates for the Monroe buildings
 - 85% more than the Risk Management estimate for the Jonesville building
 - 37% more than the STBP estimate for the Jonesville building

Below, we compare the costs for the buildings that both outside experts (C&BC and STBP) estimated along with the Risk Management appraisals.

Building	Square Footage	Risk Management (ORM) Appraisal	STBP Probable Cost Estimate*	% STBP is more than ORM	C&BC Estimate	% C&BCs is more than ORM	% C&BC is more than STBP
Monroe Building							
Radio Shop	4,560	\$156,768	\$230,691	47%	\$361,793	131%	57%
Maintenance/Welding	10,578	\$265,930	\$355,957	34%	\$569,787	114%	60%
Storage	4,565	\$154,981	--	--	\$379,713	145%	--
Pump House #1	320	\$5,312	--	--	\$38,510	625%	--
Pump House #2	375	*\$5,843	--	--	\$31,697	442%	--
Seed Storage	3,961	*\$145,172	\$168,161	16%	\$321,057	121%	91%
Seedling Storage	11,135	*\$426,327	\$450,783	6%	\$716,084	68%	59%
Chemical Storage	800	\$25,160	--	--	\$76,985	206%	--
Wash Down Pad	320	*\$5,312	--	--	\$32,497	512%	--
Jonesville Building							
Jonesville Boll Weevil	4,864	\$247,123	\$334,008	35%	\$456,274	85%	37%
<p>Notes: * These numbers differ from those shown in the report because we removed equipment that Risk Management had included in these four appraisals. We did this because the department's cost estimates did not include it. This equipment included a water softener, seed and seedling coolers, and a pressure washer.</p> <p>In addition, STBP performed a Marshall and Swift appraisal on the Jonesville building only. This appraisal is \$349,900, which is 42% higher than the Risk Management appraisal.</p> <p>Source: Prepared by legislative auditor's staff from data provided by the Department of Agriculture and Forestry and the Office of Risk Management.</p>							

- Certain costs seemed high, based on other data we had. For example:
 - The estimates used a worker's compensation rate of \$52 per \$100 of payroll, which is double the average rate for construction trades quoted to us by the Louisiana Worker's Compensation Corporation.

- The C&BC estimates valued the washdown pad, a small metal building with an unfinished interior used to store a pressure washer, at \$32,000, or \$100 per square foot. (See below for picture of actual washdown pad.) In contrast, metal frame mini-warehouses with roll-up doors in Baton Rouge were recently permitted at around \$8 or \$9 per square foot, which may or may not include the slab. Baton Rouge metal building contractors quoted us prices of \$15 - \$30 per square foot, including the slab.

**Monroe Wash Down Pad
320 Square Feet**



Cost Estimates by STBP Architects

These architects drew the plans for many of the buildings in the statewide building project. They provided three types of estimates/appraisals:

- *Marshall and Swift* appraisal for the Jonesville building only
- *Probable Cost* estimates for some of the buildings in our sample based on their own experience and component costs in the South Louisiana market
- *R.S. Means* estimate

The department's response in the table on page 6 of Attachment G contains an average of the three methods above and the C&BC estimate for Jonesville only.

Marshall and Swift Estimate

The architect had never used the *Marshall and Swift* program and may have incorrectly input some components, as discussed below in our response to the assertion that appraisals we used contained incorrect inputs.

R.S. Means Estimate

We were not provided with any information that would allow us to evaluate the estimates STBP made using *R.S. Means*, which the architect told us he used to verify the other methods.

Probable Cost Estimate

The STBP *probable cost* estimate was the closest estimate to the appraisals completed by the Office of Risk Management. However, the probable cost estimate appears to be at the high end of possible costs for a Jonesville-type building. Baton Rouge commercial real estate professionals and contractors we contacted gave us prices to build office space inside metal buildings ranging from \$50 to \$80 per square foot. Warehouse-type space ranged from \$15 - \$30. The ORM appraisals are above the low end of these ranges while the STBP probable cost estimate is just over the high end of the ranges. These ranges could also vary significantly because the buildings were constructed in Jonesville and Monroe rather than Baton Rouge. The ORM appraisals equate to \$60 per square foot for office space and \$20 per square foot for warehouse space. In contrast, the STBP probable cost estimate is just over \$80 per square foot for office space and \$30 per square foot for warehouse space.

Reliability of the Software Used by the Office of Risk Management

The department's response questions the reliability of the software package the Office of Risk Management used to produce our estimates. The response also states that the Office of Risk Management input data into the software package incorrectly. The Marshall and Swift software used by Risk Management to produce the appraisals is an industry standard for cost-to-build appraisals for insurance purposes. Using this software, Risk Management--not the Legislative Auditor--produced the appraisals. We spoke with several real estate appraisers throughout the nation, who said that this package is accurate and reliable. We also checked the Risk Management appraisals against rough estimates from local contractors and found the appraisals to be conservative. We consulted with representatives from Marshall and Swift in interpreting the software package and its components.

We believe that Risk Management's Marshall and Swift estimate of the Jonesville building does not contain incorrect inputs.

The department's response contends, on page 6 of Attachment G, that we--or more properly, Risk Management--input incorrect information with respect to the following elements. They apparently base this assertion on STBP's Marshall and Swift appraisal of LAFA's Jonesville building. As previously stated, STBP's Marshall and Swift appraisal calculation was 42% higher than Risk Management's. Even though he did this appraisal, the architect admitted to us he was unfamiliar with the Marshall and Swift software. Risk Management changed certain elements as necessary in its appraisal. However, we do not believe all of the information was incorrect:

- **Square footage:** The STBP estimate includes the entire building as finished space. Part of it is actually a covered canopy, which is not finished space.
- **Actual ceiling height:** Risk Management believes it entered the height of the building correctly.
- **Ranking:** Risk Management modified the low ranking it had initially given the Jonesville building, resulting in an adjustment in LAFA's favor.
- **Walls:** Risk Management believes it correctly interpreted the software's description of the walls.
- **HVAC:** Risk Management believes the heating, ventilation, and air conditioning systems were correctly described in the appraisal. In addition, the Risk Management appraisal HVAC cost matched the HVAC cost STBP estimated in its probable cost estimates. Risk Management added a heating system for the work area.

Appendix I

LAFB Buildings in Monroe and Jonesville

Appendix I: LAFA Buildings in Monroe and Jonesville

Monroe Buildings

Radio Shop



- Square Footage: 4,560
- 100% storage warehouse (includes some area used as office space)
- Includes roll-up doors and canopy (canopy not included in square footage)

Maintenance/Welding Shop



- Square Footage: 10,578
- 15% office space, 80% material storage (future welding area) and maintenance area
- Maintenance area has mezzanine used for storage
- Includes roll-up doors

Storage Building



- Square Footage: 4,565
- 100% storage space
- Currently about 33% used as temporary boll weevil eradication office (no interior office finish)

Monroe Buildings (Continued)

Pump House #1 and #2



- Square Footage: 320 (Pump House #1), 375 (Pump House #2)
- 100% equipment (shop) space
- Includes water softener (\$25,000)

Seed Storage



- Square Footage: 3,961
- 100% storage warehouse (includes some office space)
- Includes cooler, rollup doors, and canopy (canopy not included in square footage)

Seedling Storage



- Square Footage: 11,135
- 100% storage warehouse (includes some office space)
- Includes cooler, overhead doors, and canopy (canopy not included in square footage)

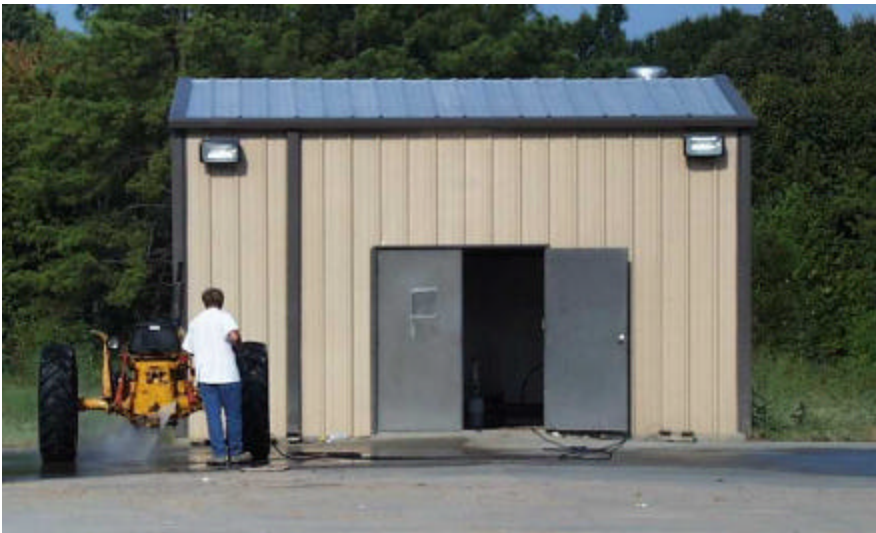
Monroe Buildings (Concluded)

Chemical Storage



- Square Footage: 800
- 100% bag fertilizer storage
- Walls - cavity concrete block

Wash Down Pad



- Square Footage: 320
- 100% equipment (shop) space
- Contains gas-fired pressure washer

Jonesville Boll Weevil Eradication Building



Right Side View



Left Side View



Front View

- Square Footage: 4,864
- 70% office building, 30% service repair garage
- Includes an outside storage shed and canopies front and back (canopies not included in square footage)