

June 2, 1997

Members of the Legislative Audit Committee:

The Honorable James E. "Pete" Laney, Chair
The Honorable Bob Bullock, Vice Chair
The Honorable Bill Ratliff
The Honorable Kenneth Armbrister
The Honorable Robert Junell
The Honorable Tom Craddick

An audit by The Texas Department of Criminal Justice (Department) indicates that the Department circumvented the already weak controls related to construction manager selection and reimbursement during fiscal years 1993 through 1996. This contributed to questions of favoritism in the selection of construction management firms and to payments for unallowable and inappropriate reimbursements to these firms. Other weaknesses were noted in contract consistency, project budget controls, and dispute resolution during this period.

The State Auditor's Office was requested by the Department to provide a quality assurance function on this audit, which was conducted by the Department's Internal Audit Division (Internal Audit). We believe Internal Audit's *Report on Construction Project Management* (Audit 9629) to be an accurate presentation of the audit results, and we are in general agreement with its findings and recommendations.

We believe the building program's environment contributed to the problems noted. This construction took place during a period of large funding increases and an "ends justify the means" atmosphere. The Department's construction management operated under a perceived mandate to do whatever it took to get the prisons completed rapidly. This weakness in the operating environment during this period likely affected other areas of operations.

Some of the same weaknesses in the construction process have been noted in previous reports by our Office. *An Audit Report on Purchasing and Contract Administration at the Texas Department of Criminal Justice* (SAO Report No. 97-006, October 1996) concluded that processes did not ensure the objective selection of the best proposal, that construction contracts were inconsistent, and that key provisions to ensure accountability were not always included. Similar conclusions were noted outside the construction area for purchasing in general. Other related reports from the State Auditor's Office include *Prison Construction in Texas* (SAO Report No. 93-024, December 1992) *Follow-Up on Prison Construction in Texas* (SAO Report No. 94-142, August 1994) and *An Audit Report on Improving the Construction Process* (SAO Report No. 95-031, November 1994).

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The administration of the Department and the construction program has changed since the period in question. New construction policies and procedures have been or are currently being formalized. The Texas Board of Criminal Justice has also taken steps to increase its oversight in construction and purchasing areas.

Please feel free to contact Worth Ferguson at 479-4796 if you have any questions. The Department's Internal Audit Division can be contacted at 467-9957 for additional information or copies of its report. Copies of related State Auditors's Office reports can be obtained from Production Services at 479-4740.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin". The signature is written in black ink and is positioned above the typed name.

Lawrence F. Alwin, CPA
State Auditor

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