

Review of Capital Outlay Funding and Cash Flow Processes (DRAFT Report)



House Appropriations Capital Outlay/General Government Subcommittee

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DeAnn Compton, Audit Director

Auditor of Public Accounts

Audit Objectives

- Obtain a thorough understanding of the capital project funding process, including the three-stage process and use of pooled funding;
- Evaluate the effectiveness of the process to determine the timing of bond issuances to meet construction cash needs;
- Determine the effectiveness of the current process used to prioritize capital outlay projects on a statewide level;
- Determine the feasibility of a statewide capital outlay prioritization system; and
- Determine the status of DGS' implementation of a capital project IT solution required in the 2008 Chapter 879 Acts of the Assembly.

Scope

- Reviewed the pooled project approach, introduced in the 2008 Special Session and any legislative changes through the 2013 Session.
- Reviewed processes and procedures put into place through June 2013.

Audit Methodology

- Conducted surveys with:
 - General Services, Planning and Budget, Treasury, SCHEV, and the members of the Six-Year Capital Outlay Plan Advisory Committee (6PAC).
- Surveyed user agencies and institutions of higher education.
- Reviewed policies and procedures.

Pooled Project Approach Overview

- The 2008 Special Session (Chapter 1 of the Acts of Assembly) created a phased review, approval, and appropriation method for funding capital projects.
- Each project is assigned into one of the three phases: pre-planning, detailed planning, or construction.
- Based on the assigned phase, the projects are grouped into funding pools.
- Chapter 1 established the Six-Year Capital Outlay Plan Advisory Committee (6PAC) to analyze potential capital projects and assist the Governor in creating the Six-Year Capital Outlay Plan.

2013 Legislative Changes (Chapter 806)

- Established an annual limit of \$250 million of debt issuance in any fiscal year for projects approved for construction in Chapter 806.
- Requires agencies and institutions to submit quarterly cash flow requirements to the 6PAC for projects authorized in Chapter 806.
 - Requires the 6PAC to meet at least quarterly to evaluate project progress.
 - Requires the APA to annually report on the adherence to the cash flow requirements for each project and any deviation that creates a delay in the projects. First report expected fall 2014.

Recommendation #1

- **OBSERVATION:** Only requiring projects included in Chapter 806 to submit cash flow requirements significantly diminishes the value of the quarterly cash flow projections.
- **RECOMMENDATION #1:** The General Assembly may wish to consider requiring all projects using the pool funded approach to submit quarterly cash flow requirements to the 6PAC.

Recommendation #2

- **OBSERVATION:** Historically, Planning and Budget, rather than the Director of General Services, has issued capital outlay instructions to agencies and institutions.
- **RECOMMENDATION #2:** The General Assembly may wish to consider modifying Code of Virginia Section 2.2-1517 to reflect the actual entity or party responsible for the issuance of capital outlay instructions to agencies and institutions.

Recommendation #3

- **OBSERVATION:** The number of projects submitted annually by agencies and institutions can vary significantly. Some agencies submit in excess of 150 projects. Limiting the amount of capital submissions could lead to significant savings by agencies and institutions along with General Services and Planning and Budget due to the resources required to submit and review capital outlay projects.
- **RECOMMENDATION #3:** General Services and Planning and Budget should consider limiting the number of capital request submissions by agencies and institutions. This limit should consider the number of projects an agency or institution can realistically construct within the next six years based on current programmatic needs and resources available.

Recommendation #4

- **OBSERVATION:** Members of the 6PAC do not consistently receive detailed project information prior to the committee meetings. No one is assigned responsibility for coordinating this process. Without detailed project information, 6PAC members are unable to ensure Code of Virginia Section 2.2-1516 is consistently applied.
- **RECOMMENDATION #4:** The General Assembly may wish to consider designating a responsible party who can ensure all 6PAC members are provided available information on a continuous basis regarding potential and ongoing projects to enable each member to make informed decisions.

Recommendation #5

- **OBSERVATION:** The current Six Year Capital Outlay Plan does not provide sufficient information for a reader to determine the status of all projects included.
- **RECOMMENDATION #5:** The Governor and the General Assembly may wish to consider providing greater transparency of the Commonwealth's capital outlay projects by
 - identifying the status of each project in the Six Year Capital Outlay Plan,
 - indicating whether a project advanced to pre-planning, detailed planning, or the construction phase, and
 - including a project description that briefly describes the project and provides basic justification information.

Recommendation #6

- **OBSERVATION:** Planning and Budget was not able to provide a detailed accounting of the \$50 million Central Capital Planning Pool appropriation established by 2008 Special Session. However, we determined that
 - during fiscal year 2012, over \$34.2 million of the funds were reverted to the General Fund and the remaining funds were advanced to various agencies to perform pre-planning and detailed planning activities.
 - during fiscal year 2013, the Pool received reimbursement of \$14.8 million for various projects advancing to the construction pool. These reimbursements were used to advance \$14.7 million to new projects for planning purposes.
- **RECOMMENDATION #6:** Planning and Budget should develop a method to track the Central Capital Planning Pool expenses to ensure appropriate use, as well as determine if the reimbursement from bond proceeds is occurring as required.

Recommendation #7

- **OBSERVATION:** Chapter 806 of the 2013 General Assembly establishes a maximum limit of \$250 million in bond proceeds issued during any given fiscal year for projects approved in this Chapter. Chapter 806 also requires agencies and institutions to submit quarterly cash flow projections to assist Treasury in determining the appropriate amount of bonds to issue. These requirements only apply to projects included in Chapter 806.
- **RECOMMENDATION #7:** Treasury should develop a mechanism to track issuance amounts associated with projects approved for construction in Chapter 806. The methodology must be able to track Chapter 806 projects and other pool funded projects separately.

Recommendation #8

- **OBSERVATION:** There is no coordination between Planning and Budget, General Services, and SCHEV regarding the capital outlay submission review process.
- **RECOMMENDATION #8:** Planning and Budget, General Services, and SCHEV should coordinate efforts to review the information submitted by agencies and institutions during the capital outlay review process to avoid duplication of effort.

Recommendation #9

- **OBSERVATION:** GCPay does not interface with any agency or higher education institution's accounting system. Therefore, approval of the contractor's application for payment does not automatically initiate payment. In addition, entities must enter expense data into GCPay separate from their accounting system. Without reconciling GCPay to their accounting system, agencies and institutions cannot ensure the data in GCPay is accurate and reliable.
- **RECOMMENDATION #9:** General Services should require all agencies and institutions to reconcile project expense data in GCPay to the applicable Accounting System used by the entity. This will ensure users will be able to make informed decisions regarding the timing of bond issuances and track overall project status.

Recommendation #10

- **OBSERVATION:** The multi-stage pool funded capital outlay process does not fit every project. Projects do not always advance through the three phases in a consistent manner. There are numerous examples of projects bypassing either a detailed planning pool or pre-planning pool. There are also examples of projects skipping all phases and being placed directly into the construction pool without any pre-planning or detailed planning work completed. Due to the nature of some projects, this may be reasonable for some projects.
- **RECOMMENDATION #10:** The General Assembly, along with the 6PAC, may wish to consider developing criteria to define the type of projects that do not need to progress through all three phases. They should also ensure all projects that do not meet those criteria advance through each required project phase in a consistent manner.

Recommendation #11

- **OBSERVATION:** Institutions may be using non-general fund sources as a means to advance projects more quickly through pre-planning and detailed planning prior to receiving authorization from the General Assembly. If an institution uses local funds to conduct planning prior to receiving proper approval, there is a risk the 6PAC or the General Assembly may not approve the project at a later date. Therefore, those funds used to advance the project before proper approval would have no value.
- **RECOMMENDATION #11:** The General Assembly may wish to give consideration to the inherent timing issues associated with the segmented project approval for the various stages of the pooled process. Agencies and institutions should also ensure they receive proper approval prior to using non-general funds for pre-planning and/or detailed planning.

Recommendation #12

- **OBSERVATION:** The pool process can hinder the use of Design-Build and CM at Risk construction contracts from working effectively if project approval and funding does not occur timely.
- **RECOMMENDATION #12:** The General Assembly may wish to consider modifying the pool funded process to better accommodate the use of Design-Build and CM at Risk construction contracts.

Recommendation #13

- **OBSERVATION:** Consideration of FF&E funds have not consistently occurred during the creation of the various construction pools since 2008.
- **RECOMMENDATION #13:** The General Assembly may wish to consider consistently including FF&E funds in the capital planning process and in the related construction pool. Not applying FF&E funding consistently through the legislative process decreases the transparency of capital spending from a tax payer's viewpoint and creates the potential that newly constructed facilities will not be available for use if there is no funding available for FF&E.

Overall Conclusion

- The pooled project approach is not functioning as intended for some projects.
 - Due to their nature, some projects are not advancing through the three phases in a consistent manner.
 - Projects are bypassing detailed planning or pre-planning or going straight to construction.

Overall Conclusion

- The Commonwealth has realized significant benefits from the new approach, even though it has not functioned as intended.
 - Completion of comprehensive planning before authorization of construction.
 - More accurate and competitive construction bids due to project estimates not being made publicly available.

DRAFT Report

- This report is still in the draft stage.
- We are awaiting final responses.
- We plan to finalize the report and issue within the next few weeks.

Contact

DeAnn Compton

Audit Director

Capital Asset Management

DeAnn.Compton@apa.Virginia.gov

(804) 225-3350