



Accuracy of Capital Project Cost Estimates

Proposed Final Report
Joint Legislative Audit & Review Committee
September 23, 2009

Mark Fleming, JLARC Staff

JLARC Reviewed Agencies with Large Capital Programs



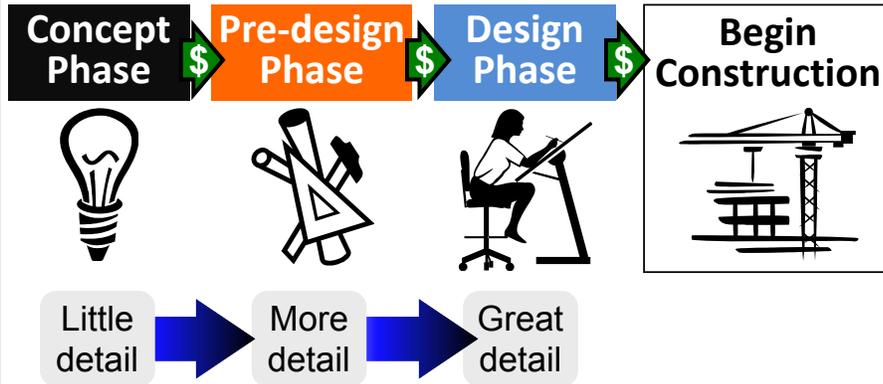
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- Mandated by ESHB 2675 (2008)
 - Review accuracy of project cost estimates
 - Evaluate process for developing estimates
- Focused on 10 agencies accounting for 84% of state capital budget
- Reviewed all major projects completed between July 1, 2001 and December 31, 2008

Accuracy Depends on Project Detail



ESTIMATE ACCURACY



Expectations of Accuracy Increase as Projects Develop



ESTIMATE ACCURACY

- Cost estimate classification system expresses accuracy in ranges for each phase of development:

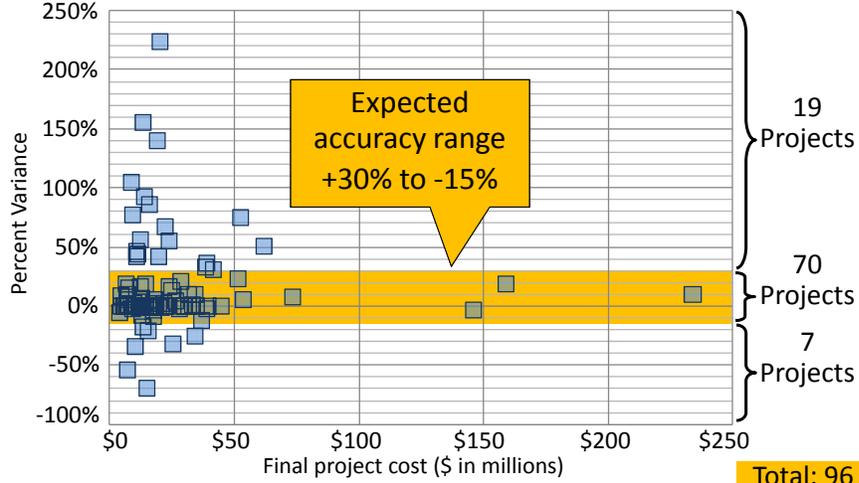
Phase	High	Low
Concept	+30%	-15%
Pre-design	+20%	-10%
Design	+10%	-5%

Source: Association for the Advancement of Cost Engineering International.

Concept Phase: 73% of Cost Estimates Met Expectations for Accuracy



ESTIMATE ACCURACY

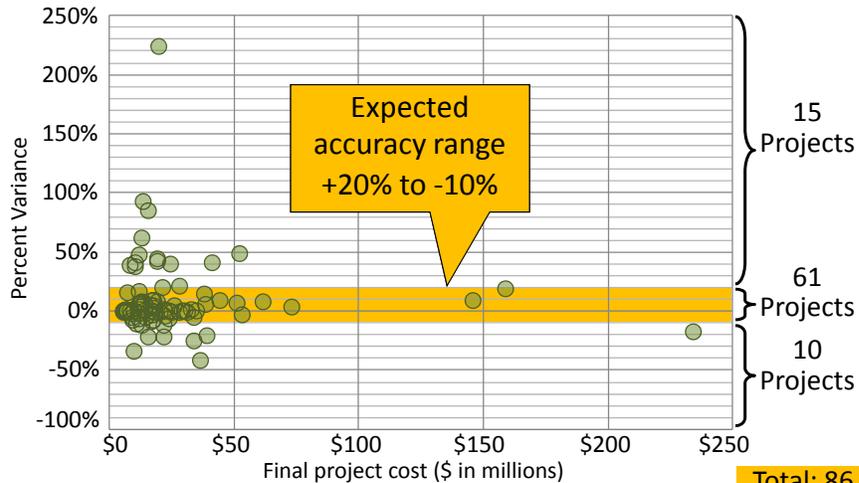


Source: JLARC analysis of survey data and Association for Advancement of Cost Estimating International Recommended Practice 17R-97.

Pre-design Phase: 71% of Cost Estimates Met Expectations for Accuracy



ESTIMATE ACCURACY

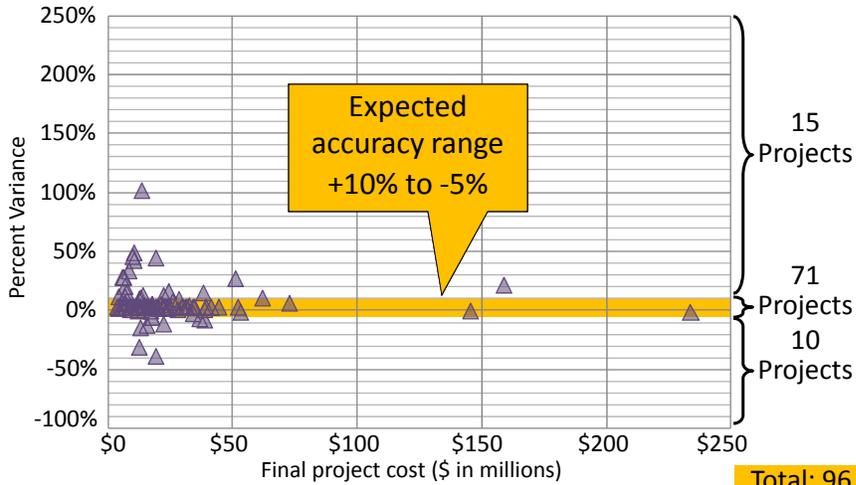


Source: JLARC analysis of survey data and Association for Advancement of Cost Estimating International Recommended Practice 17R-97.

Design Phase: 74% of Cost Estimates Met Expectations for Accuracy



ESTIMATE ACCURACY



Source: JLARC analysis of survey data and Association for Advancement of Cost Estimating International Recommended Practice 17R-97.

Report Page 7

Accuracy of Cost Estimates Proposed Final Report

September 23, 2009

7

State Agency Cost Estimating Follows Recognized Practices



ESTIMATING PROCEDURES

- OFM defines budget process and identifies required information.
- Agencies incorporate key steps into their project development and cost estimating procedures.
- OFM reviews cost estimates for logic and completeness.

JLARC found no obvious omissions in the process.
Consistent with conclusions in 2005 JLARC review of the capital budget process

Report Pages 11-15

Accuracy of Cost Estimates Proposed Final Report

September 23, 2009

8

Project Estimate and Financial Data Not Readily Available



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- Project cost estimates are only available from individual state agencies.
- State accounting system information is fragmented:
 - Expenditures may be reported under multiple accounts.
 - Excludes non-appropriated local funds.
- Final project cost information must be compiled for each project.

Recommendations



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- Recommendation 1: OFM should clarify accounting procedures to require that:
 - Agencies record expenditures where the funds are actually used; and
 - Agencies report use of non-appropriated local funds by individual project.
- Recommendation 2: OFM should require a final close out report for each capital project, including final total costs and scope changes.

Mixed Responses to Recommendations



Agency	Rec.1	Rec. 2
Office of Financial Mgmt	Do Not Concur	Concur
General Administration	Concur	Concur
Dept. of Social & Health Svcs.	Concur	Concur
Dept. of Corrections	Concur	Concur
University of WA	Partially Concur	Do Not Concur
WA State University	No Response	Do Not Concur
Eastern WA University	Concur	Concur
Central WA University	Partially Concur	Partially Concur
Western WA University	Concur	Concur
The Evergreen State Coll.	Partially Concur	Partially Concur
Community & Tech Colleges	Partially Concur	Partially Concur

Agency Concerns



- OFM does not concur with Recommendation 1 because it believes that changing the state accounting system to report non-appropriated local funds by project will be difficult and expensive. OFM believes it can achieve this goal through the close-out report JLARC recommends.
- Several higher education institutions state that both recommendations will create a new layer of administrative reporting and be overly burdensome.

Legislative Auditor Response



- OFM is correct in stating that the summary report will meet the intent of the recommendation.
- However, OFM should continue to explore methods to adjust official accounting records to incorporate non-appropriated funds into project accounts.

Legislative Auditor Response



- JLARC disagrees that a final closeout report will be an undue burden to higher education institutions.
- Much of this information is currently reported to OFM in semi-annual progress reports.
- The institutions already have the final total costs when they value their assets for the state accounting system.
- A final close out report will provide readily accessible information for Legislative and Executive oversight.

Contact Information



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