

**PERFORMANCE AUDIT OF
CAPITAL BUDGET
PROCESSES**

REPORT 05-7

REPORT DIGEST

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STATE OF WASHINGTON

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REVIEW COMMITTEE

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Mandate

The 2003-2005 Capital Budget directs JLARC to conduct a performance audit of state capital planning, design, and construction processes. In this study, we provide an overview of the capital process, including policy history and oversight roles and responsibilities. We describe the criteria used to evaluate agency planning and execution activities, provide an overall assessment of performance, and highlight good practices and areas of concern. We then describe the evaluation criteria used to assess executive branch oversight activities, and provide an overall assessment of performance and areas of concern.

Background

Washington pays for its long-term investments in public lands and facilities through the state Capital Budget. This budget, presently \$2.8 billion in the 2003-05 Biennium, funds over 500 capital projects and programs administered by 36 different state agencies for purposes that range from the construction and repair of state prisons and universities to the distribution of grants, loans, and other pass-through capital for local infrastructure and environmental projects. Nearly \$12 billion was spent for these purposes between 1995 and 2004. Major state facility projects comprise just under one-third of this cumulative investment to date.

Study Method

JLARC selected eight state agencies that make up 82 percent of authorized state facility spending to participate in this performance audit: the State Board for Community & Technical Colleges (SBCTC), University of Washington, Washington State University, Western Washington University, Department of Corrections (DOC), Department of Social & Health Services (DSHS), Department of General Administration (GA), and the Military Department. This study also includes a review of the oversight responsibilities of the Office of Financial Management (OFM), GA, and SBCTC, as well as the advisory role of the Higher Education and Coordination Board. The review of these agencies included:

- Conducting **interviews** with capital staff using best practices for planning and execution.
- Evaluating **17 project case studies** to evidence these practices at work in agencies and to test a cross-cutting set of performance indicators.
- Compiling a **project portfolio** of 200 major facility projects that, in one place, includes all relevant data for each project.

STUDY CONCLUSIONS

The study presents findings in three areas of capital process performance:

Agency Planning for Major Facility Projects

JLARC's overall assessment of agency planning practices is that agencies are planning for major facility construction using a comprehensive, data-driven process. We identify examples of good practices, which are highlighted within this report. We also identify concerns related to strategic planning and the timing of agencies' revalidation of assumptions before construction.

Agency Execution of Major Facility Projects

JLARC's overall assessment of agency construction management is that agencies are generally successful in managing construction of major facility projects. We identify and highlight in the report good practices. We also discuss concerns related to early establishment of dispute resolution mechanisms and control of project definition.

Executive Oversight for Agencies' Major Capital Facility Programs

JLARC concludes that executive oversight of facility projects is not being accomplished in the manner required by statute and OFM's own process as outlined in the Capital Budget Instructions. We discuss the importance of early intervention in the capital process to affect costs. JLARC looked at where in the process most of OFM's effort occurs, and the factors affecting the ability of OFM to fulfill its oversight responsibilities.

RECOMMENDATION

This study was an evaluation of the state capital process. The greatest weakness we found centered on resources and priorities for OFM. Therefore, our recommendation that follows addresses issues only at this level.

Recommendation

The Office of Financial Management should develop a plan in consultation with fiscal committees and agency capital officers to address weaknesses in oversight that are outlined in this report. The plan should address the following issues:

- **Aligning resources to program workload;**
- **Identifying and institutionalizing procedures and best practices;**
- **Creating easily accessible, reliable information systems;**
- **Developing statewide performance measures for all capital projects; and**
- **Evaluating projects earlier in the planning phases.**

The intent is to strengthen and refine OFM activities and information in ways that benefit all the participants in the state capital process.