

H B

6488-

HB 654

(Tran Backup)

FEB 22 1982

February 18, 1982

Tony Oney  
2631 West 100th  
Anchorage, Ak. 99502

Betty Cato  
Chairman, House Transportation Comm.  
Pouch V  
Juneau, Alaska 99811

Dear Rep. Cato:

I am a strong supporter of your house bills 648 thru 654. The abusive way the Dept. of Transportation has switched funds appropriated and bonded from one project to another must be stopped.

I especially feel H.B. 654 will go a long way in bringing fiscal responsibility to these projects. The Kennicott and Lakina bridges were one casualty of D.O.T.'s gamesmanship.

I would personally like to see the money be returned and these bridges built as promised when the bonding was voted and passed by the people.

Keep up the good work.

Sincerely,

Tony Oney

TO/jp

A handwritten signature in cursive script that reads "Tony Oney". The signature is written in dark ink and is positioned to the right of the typed name "Tony Oney".

Jim Harrower  
SRA BOX 809  
ANCHORAGE, AK 99502  
(907) 344-5697

FEB 22 1982

Feb 19, 1982

Betty Cato  
Chairman, House Transportation Comm.  
Pouch V  
Juneau, Ak 99811

Dear Rep Cato,

Several years ago there were public hearings re bridges across the Kennicott and Lishina Rivers. The public testimony was overwhelmingly in favor of immediate construction. The funds were appropriated and through some mystery ended up to complete a project near Juneau.

I understand that your house bills 649 thru 654 will go a long way toward putting an end to this type of irresponsible activity on the part of D.O.T. I therefore am in full support of them.

I would like to see the above bridges completed in 1982 as they are already two yrs past due.

Sincerely

Jim Harrower

# Report attacks transportation bureaucracy

by Bill White  
Times Journal Bureau

Juneau — The state Department of Transportation is described as plodding, inefficient and unresponsive to the needs of the state in a just-released legislative report.

The department should be decentralized and stripped of some of its authority so that projects that often take years to begin after they are funded can get moving, said the report by the House Transportation Committee, which conducted a year-long examination of the agency.

Since fiscal year 1975, "the Legislature has appropriated approximately \$3.8 billion for capital improvement projects. However, capital expenditures average less than \$300 million" a year from that year through fiscal 1980, the report said. "At June 30, 1980, approximately \$825 million remained unexpended. Status reports list allocations for capital improvement projects that date to 1972. Many projects funded in 1974-75 are still in the design state."

Committee Chairwoman Bette Cato, D-Valdez, has proposed a seven-bill package to revamp the department so it will begin projects faster. Hearings on several of the bills, which are priority legislation for the House ruling coalition, are set for next week.

"The department has become so large that it is inefficient. The new plan would make (it) more responsive in getting projects to the construction phase," Cato has said.

The report recommended removing responsibility for state buildings from the department and giving it to the Department of Administration. It also suggested creating five districts in the state each with authority over its region.

The decentralization proposal has been around for some time. Several years ago the department set up offices of its design and construction unit in Anchorage, Fairbanks and Juneau. And a year ago, Lt. Gov. Terry

Miller recommended in a memo to the governor that the regional manager system be revived.

"Without regional authority and responsibility, the lines of responsibility are unclear," the report said.

"It is often not possible to determine who in the department is responsible for a (construction) project or any portion of a project either by individual or even by region. Further, often there is no one person who has overall authority and responsibility for (the construction programs)," according to the report.

Delays have become a matter of routine, it suggested. In one case, an audit revealed the department took 19 months to notify the Health and Social Services Department that it didn't have enough money to install sprinklers at the Alaska Psychiatric Institute.

The report also questioned the massive size to which the Transportation Department has grown. It's "the largest department in the state with over 3,300 authorized operating and (construction program) employees. Considering that the department is to contract for all professional services over \$5,000, this is an extremely high number of employees."

Other recommendations of the report are:

- Letting local governments run projects within their boundaries.

- Setting up a transportation board to insure public participation. The board would appoint a commissioner to be approved by the governor.

- Changing the fiscal year to start in October, when the federal fiscal year begins. This would let the department get its funding from both the state and federal governments at the same time.

- Severing the planning and construction functions.

- Establishing a Alaska Marine Highway Authority.

INTRODUCTION OF BILLS (House)

Legislators  
(per diem)

HOUSE BILL NO. 647, by Rep. Fanning. Relates to the payment of legislative per diem--prohibits payment of per diem past the 100th day of a regular session. Also prohibits payment of per diem after the seventh day of the session to a member of a house for which a permanent presiding officer has not been chosen--payment to resume after selection of presiding officer. Provides Act takes effect January 1, 1983.

Introduced January 11 and referred to State Affairs, then to Finance.

Department of  
Transportation  
(changes in  
responsibil-  
ities)

HOUSE BILL NO. 648, by the Transportation Committee. Transfers functions of the Public Facilities section of The Department of Transportation and Public Facilities (DOTPF) to the Department of Administration (DOA), and makes "clean-up" changes in statutory references to DOTPF. Creates the Department of Transportation, making the Dept. of Administration responsible for the planning of all public facilities, with the exception of transportation facilities. DOA would also be responsible for acquiring federal funding and for energy conservation measures in public buildings.

Repeals AS 44.42.020(a)(13) - (15), powers and duties of DOTPF relating to public building inventory, energy performance standards, and planning assistance. AS 44.42.055, the State public facilities plan (new section added in bill, giving responsibility for annual submission and revision by Commissioner of Administration). AS 44.-42.065, relating to conservation of energy in public buildings-- (transferred to DOA in bill). AS 44.42.080(a), relating to capital project funds (also transferred to DOA in bill).

Provides Act takes effect July 1, 1982.

Introduced January 11 and referred to Transportation, then to Finance.

Department of  
Transportation  
(regional  
directors)

HOUSE BILL NO. 649, by the Transportation Committee. Establishes five Dept. of Transportation & Public Facilities regions within the state (currently there are established regions, but no certain number is indicated), each with its own director. Outlines qualifications and duties of regional transportation and public facilities director, which include:

Qualifications--six years experience in transportation construction or engineering.

Duties--responsible for planning, design and construction within region; proposal of program plans, budget requests, and performance reports.

Provides Act takes effect July 1, 1982.

Introduced January 11 and referred to Transportation, then to Finance.

INTRODUCTION OF BILLS (House)

Capital  
Improvement  
Projects  
(by the  
legislature)

HOUSE BILL NO. 650, by the Transportation Committee. Relates to capital improvement projects proposed by the Legislature (additions to those proposed by the Governor), providing legislative projects will be funded in two phases: ". . .(1) the first phase is a two-year budget cycle to provide funding to determine the feasibility of the project, prepare accurate cost estimates, identify potential legal problems, and conduct surveys and other necessary planning and pre-design work; (2) the second phase is the project construction funding phase and shall be based on the results of the estimates produced by the first phase." Emergency appropriations do not require detailed planning. Outlines procedures for legislative appropriations by region, and forms to be used. Does not provide for an effective date.

Introduced January 11 and referred to Transportation, then to Finance.

AK Marine  
Highway  
Authority  
(establishing)

HOUSE BILL NO. 651, by the Transportation Committee. Establishes Alaska Marine Highway Authority for the operation, management, and planning and construction of facilities for the Marine Highway System. The Authority is a public corporation of the state within the Dept. of Transportation & Public Facilities. The Authority shall consist of eight directors, appointed by the Governor for a four-year term. Provides for the preparation of a long-range plan for the development and improvement of the Marine Highway System, and under the duties outlined for the Authority the bill states: ". . . the authority may. . .(9) operate, maintain, improve, and extend a system of ferries connecting with the public roads and highways of the state and including the boats, vessels, wharves, docks, approaches, landings and appurtenances the authority determines to be necessary or desirable for safe and efficient operation of the ferry system so as to best serve the public;. . .". Authorizes the Authority to issue revenue bonds to pay the cost of part or all of any capital improvements to the Marine Highway System. Also gives the Authority the power of eminent domain and purchasing for the acquisition of land, rights-of-way, and materials necessary to improve the ferry system. Further sections of the bill relate to the transfer of responsibilities from DOTPF to the Authority. Does not provide for an effective date.

Introduced January 11 and referred to Transportation, then to Finance.

Municipal  
Highway  
Maintenance

HOUSE BILL NO. 652, by the Transportation Committee. Provides for local control of state highway maintenance by a unified municipality or home rule or first class city with a population of more than 1,000. Municipality may request the transfer of responsibility by a resolution of its governing body. Terms and conditions of transfer of responsibility to be determined by negotiations between the Commissioner of Transportation & Public Facilities and municipal officials. If they enter into an agreement, the Commissioner shall pay an annual amount to the municipality which is adjusted annually for inflation. Provides Act takes effect July 1, 1982.

INTRODUCTION OF BILLS (House)

HB 652 (cont'd)

Introduced January 11 and referred to Transportation, then to Finance.

DOTPF Fiscal  
Year Change

HOUSE BILL NO. 653, by the Transportation Committee. Changes the fiscal year of the Dept. of Transportation and Public Facilities to October 1 of each year, ending on the following September 30. Adds new section which provides that unexpended balances of one-year appropriations lapse on September 30, with the exception of valid obligations (encumbrances), which are automatically reappropriated for the FY beginning on the succeeding October 1 if it is recorded with the Dept. of Administration by Nov. 30 of the succeeding FY. Provides the unexpended balance of an appropriation for a capital project to DOTPF does not lapse into the General Fund and shall be carried over to the subsequent FY. Provides Act takes effect June 30, 1982.

Introduced January 11 and referred to Transportation, then to Finance.

Board of  
Transportation  
(establishing)

HOUSE BILL NO. 654, by the Transportation Committee. Establishes the Board of Transportation at the head of the Department of Transportation, and provides it with decision-making functions presently held by the Commissioner of DOTPF. Provides the Board shall appoint the Commissioner, subject to the approval of the Governor, with the Commissioner being the principal executive officer of the Department. The Board is to consist of seven members, appointed by the Governor, and subject to legislative confirmation. Five members are to be appointed from the districts described in HB 649 (page 36), and the other two are to be appointed from the state at large. Outlines qualifications necessary for members. The Board is also given power to adopt regulations, establish regional offices, develop the State transportation plan and the facility procurement plan, and apply for federal funds.

Repeals AS 44.42.010 (DOTPF, Commissioner of Transportation and Public Facilities), and AS 44.42.020 (DOTPF, Powers & Duties). Provides Act takes effect July 1, 1982.

Introduced January 11 and referred to Transportation, then to Finance.

Hydro  
Financing  
Plan

HOUSE BILL NO. 655, by the Rules Committee by Request of the Governor. (See Senate Bill No. 646, page 11, identical).

Introduced January 12 and referred to Resources, then to Finance.

Parental  
Rights  
(relinquish-  
ment)

HOUSE BILL NO. 656, by the Rules Committee by Request of the Governor. Relates to adoption and the relinquishment of parental rights, and was drafted as a result of a State Supreme Court decision (see Governor's letter). Provides Act does not affect the validity of rights executed before the effective date of the Act. Does not provide for an effective date.

JAN 27 1982

# STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION  
POUCH W—ALASKA OFFICE BUILDING

JUNEAU, ALASKA 99811

January 26, 1982

The Honorable Bette M. Cato  
Chairman  
House Transportation Committee  
State Capitol  
Pouch V  
Juneau, Alaska 99811

Dear Ms. Cato:

We have reviewed proposed legislation introduced by your committee making certain changes to the Department of Transportation and Public Facilities.

Our review was made in consideration of recommendations contained in our performance review of the Department's Capital Improvement Program. The following comments are provided on only those bills that relate to issues raised in our series of five reports.

## House Bill No. 650

HB 650 proposes amending Title 37 to require a two-year budget cycle for legislative additions to capital improvements proposed by the Governor and, in addition, requires the use of allocations within appropriations and the use of the capital project budget form.

This bill exactly addresses the recommendations we made for expediting the expenditure of capital project appropriations.

## House Bill No. 649

Sections one and two of HB 649 require the establishment of five specific regions of the Department's organization. Section three details the duties of the five regional transportation and public facilities directors.

The Honorable Bette M. Cato  
January 26, 1982  
Page 2

As you know, we recommended the Department increase regional authority and responsibility to provide for more efficient and effective operations of the capital project program. One area we did not review was the number of regions the Department needed. Therefore, we are not sure if there is a need for five regions for all functions of the Department.

One aspect of this bill that causes us some concern is the degree of authority given to the regional directors, or more specifically, the reduced authority of the Commissioner prescribed in AS 44.42.045(b).

We agree that increased regional planning and program authority is desirable, however, there is also a need for a central office function to provide a coordinated statewide program. We feel the Commissioner should be vested with all necessary authority to ensure regional consistency and coordination.

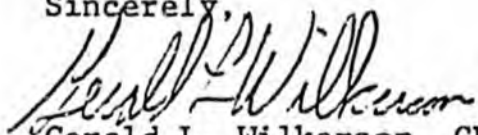
House Bill No. 653

HB 653 proposes changing the Department's fiscal year end to September 30. Although we did not address this issue in our reports, we did closely review the Department's accounting and control of their project system.

The Department could benefit from such a change primarily due to the construction season and the federal fiscal year. However, significant accounting problems would result in the Department of Administration relating to the State's accounting system. Administration's Division of Finance would be in the best position to describe the difficulties of accounting for only one State Department on a different fiscal year.

If you have any questions or would like to discuss the contents of this letter, please feel free to contact me at 465-3830.

Sincerely,



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

# STATE OF ALASKA

AUDIT DIVISION  
POUCH W—ALASKA OFFICE BUILDING

## THE LEGISLATURE

FINANCE DIVISION  
POUCH WF—STATE CAPITOL

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

January 16, 1981

SUMMARY OF: Phase V, A Performance Review of the Department of Transportation and Public Facilities, Capital Improvement Program, December 30, 1980.

### PURPOSE OF THE REVIEW

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we have conducted a multiphase review of the Department of Transportation and Public Facilities' Capital Improvement Program (CIP).

This report, Phase V, summarizes the most crucial recommendations that should be implemented to improve the program and makes further recommendations for improvements to the capital budgeting and appropriation process Statewide.

### FINDINGS AND RECOMMENDATIONS

1. The Department should provide for long-range planning of capital projects.
2. The Department should budget all planning and overhead costs and should prohibit these budgeted units from obtaining additional funding through the reallocation of capital project appropriations.
3. The Department should develop a regional organization structure to improve the efficiency of administering the CIP within each region.
4. The Department should develop an overhead accounting system to equitably allocate costs to CIP projects.
5. The Department should improve project accounting and fiscal controls of their capital project accounting system.
6. DOTPF should develop accurate and timely financial information for use by project managers.

PHASE V  
A PERFORMANCE REVIEW OF  
THE DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES  
CAPITAL IMPROVEMENT PROGRAM

December 30, 1980

Audit Control Number  
25-21-1002-R

Commissioner, Department of Transportation  
and Public Facilities

Robert W. Ward

Deputy Commissioners, Department of  
Transportation and Public Facilities:

Administration and Marine Operations  
Planning and Programming  
Maintenance and Operations  
Design and Construction

Ron B. Lind  
John Bates  
Patrick Ryan  
Ray Shumway

# STATE OF ALASKA

AUDIT DIVISION  
POUCH W—ALASKA OFFICE BUILDING

## THE LEGISLATURE

FINANCE DIVISION  
POUCH WF—STATE CAPITOL

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

January 12, 1981

Members of the  
Legislative Budget and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

PHASE V  
A PERFORMANCE REVIEW OF  
THE DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES  
CAPITAL IMPROVEMENT PROGRAM

December 30, 1980



Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

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## PURPOSE OF THE REVIEW

In accordance with the provisions of Title 24 of the Alaska Statutes and a special request of the Legislative Budget and Audit Committee, we have conducted a multiphase review of the Department of Transportation and Public Facilities' Capital Improvement Program (CIP).

Phase I was conducted to obtain a working knowledge of the various facets of the program and to identify potential problem areas for further detailed review.

Based on the findings of that review, Phase II was then conducted to examine various appropriation compliance and control weaknesses and made recommendations for improvement.

Phase III addressed problems identified in the Department's overhead accounting and recommended an equitable overhead costing system.

Phase IV was conducted to review the Department's project control system and made recommendations to improve project control and provide greater working continuity within the Department's structure.

This report, Phase V, summarizes the most crucial recommendations that should be implemented to improve the Capital Improvement Program and makes further recommendations for improvements to the capital budgeting and appropriation process Statewide.

## ORGANIZATION AND FUNCTION

The Department of Transportation and Public Facilities (DOTPF) was created by Executive Order No. 39, effective July 1, 1977. The new department resulted from the consolidation of the Department of Highways and the Department of Public Works. The reasoning behind the consolidation was that "the state would best be served by the creation of a single department for the planning, study, development, management and operation of integrated, intermodal transportation systems".

The purpose of DOTPF is to evaluate, plan, design, construct, manage, operate, and maintain all State transportation modes, transportation facilities, and buildings. To accomplish this purpose, the Department is organized under the Commissioner into four branches of management responsibility as follows:

Planning and Programming Branch (P&P) is responsible for planning future capital development, preparing a Statewide transportation and facilities plan, and the capital budget. They have also assumed administrative, financial, and management responsibilities paralleling the other branches. P&P has three divisions by region located in Fairbanks, Anchorage, and Juneau.

Design and Construction Branch (D&C) is responsible for designing and constructing the projects. They also assist P&P by providing construction cost estimates, suggestions for future capital projects, and in pre-design work. D&C's divisions are organized by project mode with a Highways director and a Waters and Harbors director located in Juneau, and an Aviation director and Public Facilities director located in Anchorage.

Maintenance and Operations Branch (M&O) is the operating arm of DOTPF but also has CIP responsibility. M&O repairs and constructs small projects, maintains completed projects, and provides P&P with cost estimates and suggestions for future capital projects.

The Administrative Branch is responsible for the Divisions of Support Services, Financial Management, and the State Equipment Fleet. Included with these divisions are the Offices of External Civil Rights and Equal Employment Opportunity for the Department. They provide accounting, personnel, and administrative support for P&P, D&C, and M&O.

## RECENT HISTORY

DOTPF is the largest department in the State with in excess of 3,300 authorized operating and CIP employees with Fiscal Year 1981 operating appropriations in excess of \$175 million.

The increased emphasis on capital appropriations in recent years has greatly impacted DOTPF. Since Fiscal Year 1975, the Legislature has appropriated in excess of \$3.8 billion for capital improvements Statewide, of which approximately 70% was appropriated directly to DOTPF. Much of the remaining 30% ultimately becomes the responsibility of DOTPF through Reimbursable Services Agreements with other State agencies (see Appendix A for a graph of CIP appropriations and expenditures).

In addition to the increased demands placed on the Department through capital appropriations, other problems continue to hinder the Department's progress. Increasing federal requirements and ongoing conflicts with federal agencies frequently delay federal approvals and funding. Personnel problems exist primarily due to strong ties to the old departments and "the way things used to be". This has created conflicts within the relatively new department which have hindered management's efforts towards progress.

The leadership and management of DOTPF are dedicated to resolving these issues and others in order to achieve the Department's goals. In the last year, we have observed significant progress by DOTPF's leadership in addressing these issues, and we believe substantial improvements have been made. We encourage the Department to continue these efforts and offer our assistance if needed.

CAPITAL IMPROVEMENT PROGRAM SUMMARY

The Capital Improvement Program (CIP) for the State of Alaska is a complex system affecting virtually every person in the State. The system involves a logical sequence of events that ultimately results in a finished product, a permanent capital improvement. The following is a summarized illustration of the recommended progression of the CIP which closely resembles the current system. The referenced recommendations are summaries of improvements we feel should be implemented to the CIP system.

Pre-funded Planning	{	See Recommendations No. 1 and 8.
Executive Budget	{	See Recommendation No. 2
Legislative Action	{	See Recommendations No. 8, 9, and 10.
Final Budget Enacted and Approved by Governor		
Project Execution	{	See Recommendation No. 3.
Project Accounting and Fiscal Control	{	See Recommendations No. 4, 5, and 10.
Interim and Final Reporting	{	See Recommendations No. 6, 7, and 10.
Finished Project		

## SUMMARY OF PRIOR FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

The Department should provide for long-range planning of capital projects.

The intent behind the creation of DOTPF was to create efficiencies in the use of State resources by coordinating services of all modes of transportation and public facilities on a Statewide basis. To accomplish this objective, the organizational structure of the Department's CIP process is centered around the Planning and Programming (P&P) branch.

Presently, P&P is involved in virtually all phases of the CIP process, which has limited the long-range planning efforts intended by AS 44.42.959. P&P has assumed administrative and management responsibilities that do not relate to their planning responsibilities, causing inefficiencies in the working continuity of the Department.

AS 37.07.06) requires the preparation of a six-year plan containing executive recommendations for the CIP. Implementation of this plan would greatly improve the long-range planning for the State. Planning would be further enhanced with the following improvements:

- A. P&P should become a staff support section and relinquish their day-to-day administrative and management roles. Once a project has been assigned to the Design and Construction branch, P&P should only become reinvolved when major changes in project scopes or budgets are required (Phase IV, Recommendation No. 2C).
- B. P&P should develop a system within each region to obtain input from both the public and private sectors. This regional information should then be used to form the underlying foundation from which a Statewide capital improvement plan is prepared. P&P should also increase assistance to client agencies in planning their capital project needs. This assistance would improve the accuracy of other State agencies' capital budgets and reduce delays in their projects' construction (Phase IV, Recommendation No. 2A).

- C. Total P&P costs should be budgeted, and corresponding goals and objectives should be established which can be quantified and monitored. Goals and objectives should be established at the individual planner level, then actual performance should periodically be compared to predetermined standards to monitor the efficiency of the planning activity (Phase IV, Recommendation No. 3).
- D. Planning should become a prefunded activity. Presently, the majority of P&P's costs are funded by existing capital project appropriations. Future planning should not be funded out of current projects. Instead, separate appropriations should be made for long-range planning efforts. To the extent feasible, the accounting should be on a project basis to enable reimbursement of the planning costs in the event that the planning results in future capital project appropriations. An acceptable overhead accounting method should be used to equitably distribute general planning costs not associated with a specific project.

Recommendation No. 2

The Department should budget all planning and overhead costs and should prohibit these budgeted units from obtaining additional funding through the reallocation of capital project appropriations.

Presently, there is no executive or legislative oversight as to how much CIP funds are to be spent for planning and overhead. For the past several years, the Department has reallocated certain CIP project appropriations to provide funding for planning and overhead cost incurred in excess of the original appropriations for various planning and overhead units of the Department. It is not possible to determine the total cost of the operation of the CIP (Phase III, Recommendation No. 2).

To provide for the proper oversight of the planning and overhead activities, total expected costs should be budgeted for these units, and they should be limited to the budgeted amounts either by executive direction or legislative action.

Implementation of Recommendation No. 1, specifically eliminating P&P's involvement in the day-to-day management of projects in the control of Design and Construction and prefunding the

long-range planning activity, and Recommendation No. 8, providing funding for the planning stage of the Legislature's additional projects, should eliminate the need for additional funding beyond that which was budgeted for P&P.

Recommendation No. 3

The Department should develop a regional organization structure to improve the efficiency of administering the CIP within each region.

AS 44.42.040 requires that the functions of the Department within each region be performed, to the maximum extent feasible, through a regional office, and that each regional office shall be directed by a "regional transportation and public facilities director" appointed by the Commissioner.

However, the Department's current organizational structure does not provide the intended regional lines of authority and responsibility that a well-defined pyramid structure would provide. Instead, the Department is organized by the functions of Planning and Programming, Design and Construction, Maintenance and Operations, and Administration.

For example, in Anchorage, the central region, the P&P function is headed by a regional director who reports directly to a deputy commissioner in Juneau. The Design and Construction function is administered by a facilities director and an aviation director who report to another deputy commissioner in Juneau. Highway design and construction is led by a regional engineer who reports to a director in Juneau who, in turn, reports to the Design and Construction deputy commissioner in Juneau. The regional director of the Maintenance and Operations function reports to a deputy commissioner in Anchorage.

Each of the central region employees has equal authority and responsibility. However, no one person in Anchorage has overall authority and responsibility for the total CIP process in the central region.

We recommend the Department consider developing a regional management structure and vest the "regional transportation and public facilities director" with the authority and responsibility necessary to efficiently administer the Capital Improvement Program within each region (Phase IV, Recommendation No. 1).

Recommendation No. 4

The Department should develop an overhead accounting system to equitably allocate costs to CIP projects.

A capital project accounting system should, ideally, reflect all costs associated with the construction of each project. Costs chargeable to the projects include direct costs and overhead. Direct costs are those which can be identified to a specific project such as material, labor, and construction contracts. Overhead costs, on the other hand, cannot be traced to a specific project but, instead, benefit several. Overhead costs could include office expenses, clerical and supervisory salaries, and travel and per diem for supervisory personnel.

For the most part, direct costs are properly recorded to the individual projects by DOTPF. However, a system needs to be developed to apply overhead costs to all projects in an equitable and consistent manner. One of the simplest overhead accounting methods, and easily adaptable to DOTPF's current accounting system, is to accumulate overhead costs in suspense accounts by cost centers corresponding to the organizational structure of the Department. On a monthly basis, these costs could then be distributed to projects based on the percentage of total direct labor hours charged to individual projects or some other equitable method or combination of methods.

With the implementation of an acceptable overhead accounting system, DOTPF's project records would more accurately reflect the true costs of each project (Phase III, Recommendation NO. 1).

Recommendation No. 5

The Department should improve project accounting and fiscal controls of their capital project accounting system.

During our review of the CIP, we have made several recommendations for the improvement of DOTPF's project accounting. In the past year, the Department has made significant progress in several of these areas. We encourage the Department to continue this effort and to this we make the following summary recommendations.

- A. The Department should improve the internal controls over CIP funds by establishing the responsibility for determining the availability of CIP funds for revisions and/or adjustments and the propriety of those changes within the Division of Financial Management. This Division is presently relegated to be subordinate to the Planning and Programming branch's direction and does not act as an internal control check to their activities (Phase II, Recommendation No. 3A).
- B. The Division of Financial Management should establish a revenue accounting section sufficient to properly account for and assure collection of all revenues for the Department. Revenue accounting is presently decentralized and not totally controlled by this Division. Establishing a revenue section may require additional positions. However, the benefit to the State would more than offset this cost (Phase II, Recommendation No. 3B).
- C. DOTPF should establish adequate project closeout procedures to ensure remaining balances are lapsed in a timely manner. Closeout procedures should include taking completed projects within an appropriation off the Department's accounting system to ensure subsequent charges are not made and closing completed project appropriations off the Department's system and the State accounting system concurrently, lapsing unused funds. Client agencies should be promptly notified of completed reimbursable projects so that they can make necessary adjustments to their accounting records (Phase II, Recommendation No. 2).

Many of the Department's planned improvements to their project accounting system are dependent upon the implementation of their proposed management information system. At this stage, it is too early for us to evaluate the effectiveness of the new system in improving the Department's accounting and other informational needs. However, if such a system is to be relied upon as an integral part of the Department's accounting system, it will be essential that the project accounts are reconciled to the State's accounting system. In Recommendation No. 10 of this report, we recommend a new Statewide capital project accounting system which would be preferable to the Department maintaining their own accounting systems.

Recommendation No. 6

DOTPF should develop accurate and timely financial information for use by project managers.

A concern expressed by field managers is the need for accurate accounting data summarized by project. In addition, to enable the effective use of this data, it must be received by the managers in a timely manner. Many are presently maintaining their own accounting records. Client agencies have expressed a need to be able to determine the financial and construction status of their projects being built by DOTPF. There is currently no summary information provided on the status of a project, whether sufficient funds are available to complete a project, or whether a project has been delayed.

With the recommended increased responsibility at the regional level, discussed in Recommendation No. 3 of this report, accurate and timely financial information is of the utmost importance. The Department has recognized the need to develop such management information and is in the process of studying their needs (Phase IV, Recommendation No. 5).

Recommendation No. 7

The Department of Administration's Division of Finance should adequately disclose and report the results of operations and financial position of CIP construction funds, in accordance with generally accepted accounting principles.

CIP project financial statements should disclose all funding sources and the utilization of these funds. The Division of Finance is charged with the responsibility to report CIP funds and should include the following statements: 1) Analysis of Changes in Fund Equities, 2) Balance Sheet, 3) Statement of Revenue - Estimated and Actual, and 4) Schedule of Expenditures and Encumbrances Compared with Appropriations.

In recent years, the Division of Finance has made improvements to the financial statements and recently has agreed to implement our recommended statement presentation. Continued efforts are needed in order to provide better presentation and adequate disclosure of CIP funds (Phase II, Recommendation No. 5 and Appendixes C-L).

## CURRENT FINDINGS AND RECOMMENDATIONS

### Recommendation No. 8

A two-year budget cycle should be considered for projects appropriated by the Legislature as additions to the Department's proposed budget.

A two-year budget cycle would be based on a two-stage funding process. The first stage should provide funding for the planning and pre-design work of specified projects. This funding would provide DOTPF adequate resources and time to determine the feasibility of projects and prepare accurate cost estimates, identify potential legal problems, conduct survey work and other necessary tasks.

The following year the Department would be in a position to provide the Governor and the Legislature with this information. This would enable the Legislature to make a more informed funding decision. The second stage of the appropriation process would then provide funds for the construction related costs.

A two-year appropriation process would improve the accuracy of capital appropriations and expedite the expenditure of construction related funds. This two-year system should be implemented for all medium- to large-scale projects. Projects of small scope or emergency situations could remain in a one time appropriation system, since these projects, if well defined, require much less planning and pre-design work. To ensure adequate information is provided on these projects as well as the larger scope projects, we recommend the use of the capital project budget submittal form proposed by the Legislative Finance Division (see Appendix B).

Implementation of this recommendation should improve coordination between the Legislature and DOTPF and provide the interaction necessary for an improved Capital Improvement Program.

### Recommendation No. 9

The Legislature should consider means of expediting the expenditure of capital project appropriations.

Since Fiscal Year 1975 (SLA 74), the Legislature has appropriated approximately \$3.8 billion for capital improvements Statewide. However, capital expenditures from FY 75 to FY 80 average

less than \$300 million per year. As of June 30, 1980, approximately \$825 million of FY 75-80 appropriations remained unexpended. Although it is anticipated that in FY 81 and future years expenditures will increase, at the FY 80 level of Statewide expenditure, these remaining funds and the FY 81 capital appropriations, totalling approximately \$1,655 billion, would not be totally expended until 1986.

The majority of capital appropriations have been made on a project-by-project basis. The progress of projects is directly related to the priorities assigned by the various State agencies, the Governor, and the Legislature. Therefore, many projects of lesser priority included in the above remaining funds will not be constructed for several years. Considering the effects of inflation and other external factors, it is unlikely that these projects can be constructed at the scope originally intended for the funding amount appropriated several years earlier. As a result, many projects will be reduced in scope, require additional funding, or simply not be constructed.

In our opinion, legislative concern should be centered around means of expediting the expenditure of capital appropriations. Methods of accomplishing this goal include:

- A. Implementation of a two-year budget cycle to provide funding for planning and pre-design work prior to the appropriation of construction related funds (see Recommendation No. 8 of this report).
- B. Implementing the use of the capital project budget form proposed by the Legislative Finance Division for all legislative capital project additions to the budget. This form would provide the responsible agencies with improved scope definitions and other information, and improve the efficiency of project progress (see Appendix B).
- C. Allowing a certain degree of controlled flexibility in capital project appropriations, especially those funded through the General Fund. Capital projects in Chapter 50, SLA 80 (HB 60), for example, were virtually all funded at an appropriation level. This prohibits the flexibility sometimes needed to make minor funding adjustments between projects caused by higher than estimated bids, unusual and/or unpredictable costs, and other external factors. As a result, appropriation level projects are often delayed until supplemental funding can be obtained. The use of allocations

within appropriations by region, election district, or other desired levels would provide flexibility between projects, yet control funding.

Recommendation No. 10

A Statewide CIP project accounting system should be established within the State accounting system.

Presently, it is necessary for virtually all departments involved in the State's Capital Improvement Program to maintain separate project accounting systems. These systems range from sophisticated in-house computers to hand prepared records. In DOTPF, for example, it will be necessary for financial data to be entered into three computerized systems:

- A. State Accounting System: All appropriations and expenditures must be entered in the accounting system maintained by the Department of Administration. However, this system does not presently meet DOTPF's needs to account for thousands of projects which span several years and have several funding sources.
- B. Financial Management System: This in-house system provides for DOTPF's individual project accounting. However, it does not provide adequate appropriation controls and has yet to be reconciled to the State accounting system.
- C. Management Information System: This proposed new system is presently in the development stage and will provide summary information by project, but the financial data generated will not necessarily reconcile to either the State accounting system or the Financial Management System and will, therefore, be of limited reliable use.

The Legislature, through the passage of Chapter 168, SLA 78, intended to provide for changes in the accounting and reporting of CIP projects within DOTPF, among other issues. However, the accounting and reporting aspects of this act have not been implemented due to non-standard accounting requirements and an Attorney General's Opinion questioning the legality and contents of the act. In our opinion, both Chapter 168 and the Attorney General's opinion contain accounting and reporting theory weaknesses.

Instead of legislative changes to only DOTPF's accounting and reporting, we recommend a Statewide capital project accounting system be integrated into the State's accounting system. The Department of Administration's Division of Finance is presently planning major revisions to the State system and has agreed to consider the feasibility of such a Statewide system.

To assist in the implementation of this recommendation, we recommend the Legislature consider the following actions:

1. Encourage and lend assistance to the Department of Administration in developing the recommended Statewide system.
2. The repeal of Section 15 of Chapter 168, SLA 78 (AS 44.42.080), which creates seven separate CIP funds within DOTPF. Our recommended Statewide system could be established by these categories, subdivided by department.
3. The repeal of Section 8, Chapter 168, SLA 78 (AS 37.07.062), which specifies various accounting and reporting requirements for the seven DOTPF funds in (2.) above. Recommendation No. 5 of our Phase II report addressed the required financial statements and their content for proper disclosure of financial activity.
4. Specify through legislation, resolution, intent, or other appropriate action, the informational needs of the Legislature in order that the necessary information retainage and retrieval features can be incorporated into the development of the new system. This should include the ability to report total historic project costs from all funding sources on an individual project basis.
5. Critically review any agency requests for major additions or revisions to current in-house project accounting systems since these systems will likely be replaced by the recommended Statewide system.

Implementation of a new Statewide system will be no easy task. It will require a great deal of planning, forethought, and coordination with all departments in the State. However, in our opinion, this long-range approach to improving the accounting and reporting of the State's Capital Improvement Program is a much more desirable solution than the "band-aid" approach currently applied by many agencies.

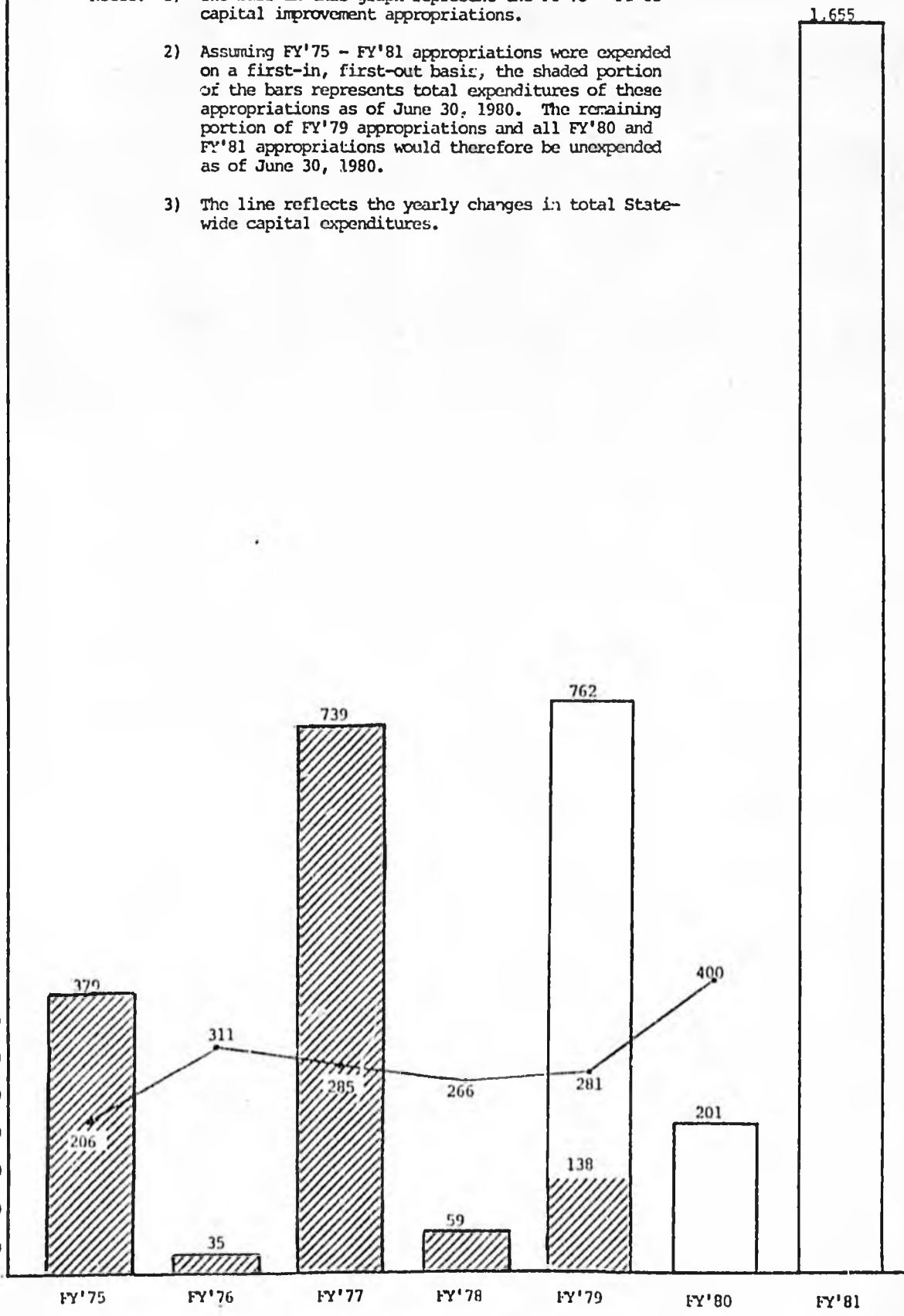
APPENDIX A

STATEWIDE CAPITAL PROJECT  
APPROPRIATIONS AND EXPENDITURES

In Millions

\$1700  
1650  
1600  
1550  
1500  
1450  
1400  
1350  
1300  
1250  
1200  
1150  
1100  
1050  
1000  
950  
900  
850  
800  
750  
700  
650  
600  
550  
500  
450  
400  
350  
300  
250  
200  
150  
100  
50

- Notes: 1) The bars in this graph represent the FY'75 - FY'81 capital improvement appropriations.
- 2) Assuming FY'75 - FY'81 appropriations were expended on a first-in, first-out basis, the shaded portion of the bars represents total expenditures of these appropriations as of June 30, 1980. The remaining portion of FY'79 appropriations and all FY'80 and FY'81 appropriations would therefore be unexpended as of June 30, 1980.
- 3) The line reflects the yearly changes in total State-wide capital expenditures.



① Project Title		② Location (s)		③ Election Districts Served		④ Start Date		⑤ Completion Date	
⑥ AGENCY REQUEST			⑦ Operational Cost & No. Personnel Increase -- (Decrease)		First Operating Year _____	Ultimate Annual Year _____	GOVERNOR'S REQUEST		
							Approved <input type="text"/>	Deferred <input type="text"/>	Disapproved <input type="text"/>
1002	Federal Receipts		Funding Source	Federal Receipts			1002	Federal Receipts	
1003	G/F Match			General Fund			1003	G/F Match	
1004	General Fund						1004	General Fund	
1005	I/A Receipts						1005	I/A Receipts	
	G.O. Bonds							G.O. Bonds	
			Total Annual Operational Cost						
			Position (FTE)						
			Previous Year Priority		Agency Priority	Governor's Priority			
Total							Total		

PROJECT DESCRIPTION ⑧

PROPOSED CAPITAL PROJECT BUDGET FORM

APPENDIX B

LEGISLATIVE MEMBER'S SIGNATURE:

CATEGORY ⑨ \_\_\_\_\_

AGENCY \_\_\_\_\_

PROGRAM \_\_\_\_\_

Page	of
Revised Date	

FY 82

25 LEGISLATIVE REQUEST PROPOSED CAPITAL PROJECT

FORM 35 - LEGISLATIVE REQUEST - PROPOSED CAPITAL PROJECT

INSTRUCTIONS:

1. Project Title - Use the same project title on all correspondence when referring to this project.
2. Location(s) - Enter the name of the location on this project. A "statewide" indicator should be used for projects having statewide impact.
3. Election District(s) - Enter the number of the election district in which this project is located. For Anchorage districts, unless the project is specifically for the benefit of one Anchorage district (such as a road project) as opposed to benefiting all Anchorage districts (such as an airport or campus improvement) you should enter "7-12".
4. Start Date - Enter the month and year that the first major expenditure on this project should be made.
5. Completion Date - Enter the date the activities associated with this capital appropriation should be completed.
6. Agency Request - This table is used to display the funding source(s) for the proposed project. Enter the dollar amount (in thousands) on the applicable line. Entries should be in inflated dollars appropriate to the fiscal year of the funding request. (Contact the Life Cycle Cost office of the Department of Transportation and Public Facilities for the current inflation rate.) Entries on unlabelled lines should indicate the name of the funding source. Where the project is one phase of a multi-phase project the total should show the cost of this phase only.
7. Operational Cost and No. Personnel - Two columns of numbers are requested in this area of the form. The "First Operating" column denotes the first year that the project will have an effect on the operating budget. The "Ultimate Annual" column denotes the steady state condition which is expected to repeat itself from year to year. Before filling in the row entries for these columns be sure to fill in the fiscal years in which these conditions are expected to occur.
8. Project Description - This narrative should tell the reader what the request (including state and federal dollars) is buying in terms of the physical product and operational activities related to the project. Describe the project clearly and completely, as if to someone with no knowledge of what you propose to do. The description should include a discussion of Project Characteristics and, if appropriate, Site Features or other physical factors affecting the general planning and siting of facilities. Where applicable, submit a map showing where the requested project, i.e., power facility, hatchery, is located.

If this project is one phase of a multiphase project, the other phases should be described briefly. If a second or third phase of a project is being requested, submit a history of prior appropriations, project status, and any changes to original project. Likewise, indicate any future projects which are dependent on this project and any prior projects which gave rise to this project. If this is a joint project with some external entity, briefly describe the entire project.

In your description of the project include a discussion of the major factors which will influence project scheduling. The lead time required to obtain reviews and approvals of plans and studies, the time required for coordination of the projects with other governmental bodies, and the target date by which the project must be fully functional are examples of these factors.

If possible, limit your project description to the space provided.

9. Enter the appropriate category, agency, and program name.

APPENDIX C

AGENCY RECOMMENDATIONS ON IMPROVEMENTS  
TO THE CIP APPROPRIATION PROCESS

We requested written responses from all agencies involved in the State's CIP on recommendations they feel would improve the capital project appropriation process. Instead of summarizing the responses, we have included on the following pages all responses as received from the following agencies:

1. Legislative Finance Division
2. Department of Transportation and Public Facilities
3. Department of Health and Social Services
4. Department of Environmental Conservation
5. Department of Education
6. Department of Administration
7. Department of Community and Regional Affairs

RECEIVED

## STATE OF ALASKA

DEC 19 1980

LEGISLATIVE  
AUDIT

## THE LEGISLATURE

FINANCE DIVISION  
POUCH WP-STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-3795

BUDGET AND AUDIT COMMITTEE

December 19, 1980

Mr. Gerald Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit  
Pouch W  
Juneau, Alaska 99811

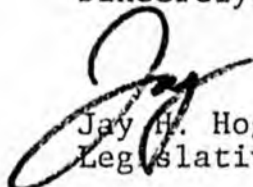
RE: CIP Process Improvements

Dear Mr. Wilkerson:

Your letter of December 19 (attached) requests our thoughts and recommendations on improvements to the CIP appropriation process. Aside from a Christmas wish that the Department of Transportation and Public Facilities follow rigorously the recommendations of your recent audits, we have proposed/ supported the following changes to the capital project appropriation process:

1. CIP PROJECT EXPENDITURE REPORTS - The enclosed memo to Warren Sparks sets out our informational requirements for two basic reports designed to follow the process of expenditures against specific capital projects. We have been working with the department over the past interim to have this type of information available on call for the upcoming legislative session. Hopefully, these reports in their requested format will be available from January 1981 on.
2. PROPOSED CAPITAL PROJECT FORM - Enclosed is a copy of our "newly designed" legislative request proposed capital project form (the form is the Governor's capital project form with the addition of specific instructions on the back and a somewhat reduced requirement to fill in the blanks). Hopefully, the new finance chairmen and their respective committees will support the effort to better document all legislative capital project additions to the budget. If so, we will be in a better position to fully understand proposed legislative projects; fully explain legislative projects; and finally, achieve more realistic cost estimates for eventual appropriation based on clear understanding and full discussion of any project.

Sincerely,



Jay H. Hogan, Director  
Legislative Finance Division

Enclosures  
JHH:dh

JAY S. HAMMOND, GOVERNOR  
(907) 485-3900

**Department of Transportation and Public Facilities**

OFFICE OF THE COMMISSIONER

Pouch Z  
Juneau, Alaska, 99811  
(Telex 45-328)

December 30, 1980 000H

Gerald L. Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

**RECEIVED**

**DEC 30 1980**

Dear Mr. Wilkerson:

**LEGISLATIVE  
AUDIT**

In reference to your letter of December 10, 1980 concerning the appropriation process for capital projects, I offer the following information and suggestions.

The Executive Branch is in the process of implementing the facility planning process for project development as established in Chapter 168, SLA 78. This process will be enhanced to the extent possible by the use of Public Facility Planning Funds to develop project plans, specification estimates and land status prior to the request for project funding for construction.

We believe that once the process is fully implemented, the accuracy of the estimates and time schedules for facilities will improve greatly.

This Department has experienced considerable difficulty with some of the legislative "add on" capital projects. These problems relate to funding, scope, and schedule as follows.

Funding: Many Legislators contact this Department to provide estimates of cost for their special project. If this project is selected from an early year in our six year plan, we have had the opportunity to already review the land status and construction costs of the project and feel more confident with the estimates we provide. If the project is new and if the request is received during the winter months, it is difficult to adequately assess the conditions which may be encountered during development and construction of the project. As a consequence, these estimates may not be realistic. Some Legislators provide their own estimates based on information from consultants or other "knowledgeable" persons. Such estimates often prove to be inadequate.

Secondly, most all legislative "add on" projects are line item appropriations. This leaves no flexibility to accommodate minor funding shifts between projects even in the same area or region. The Executive Branch requests appropriations by region and allocation by mode. By this process, if one project is delayed or a higher priority project requires additional funds, the adjustments can be made and a contract awarded for construction. We strongly recommend that the legislative "add on" projects be grouped as regional allocations and not made as specific project appropriations or establish an adequate contingency for each region.

We also recommend revision of the fiscal note forms to better reflect the costs in terms of project phases i.e. design, land, utilities, construction, etc.

Scope: Some projects in Chapter 50, SLA 80 are excellent examples of this Department finding that it has an appropriation for a capital project with no idea of the project scope. Considerable time is lost in identifying the author of the project and securing a definition of what the appropriation should accomplish. In some cases, the desired end result is not consistent with the legislative language and time is again lost in resolving the conflict. We recommend that any legislative "add on" project be required to provide the same project information as the Executive Branch. We recently received a proposed budget submittal form from Legislative Finance that, if utilized, would greatly reduce the question of project scope.

Schedule: Projects of a complex nature should not be anticipated for construction in the same calendar year as the authorizations. Complex projects are defined as projects requiring major design, land acquisition or federal and state use permits. In many cases, even simple projects are precluded from going to contract in the same year as the appropriation when the authorization is not effective until late June or July 1 of each year. Also, projects funded with G.O. bonds require an additional six months delay awaiting voter approval.

As a possible cure for some of these problems, I would recommend that the "add on" projects be funded through design development during one legislative session and the construction phase be funded after this Department has completed project development and is confident of the actual land and construction costs.

Consideration of passing an appropriation for capital projects early in the session for projects that have completed project development or have minimal development requirements would enhance this Department's ability to construct the project in the same calendar year.

We appreciate the opportunity to provide our perspective on this process and welcome any discussion on the content of this letter.


Sincerely,

  
Robert W. Ward  
Commissioner

## MEMORANDUM

State of Alaska

TO: Gerald Wilkerson, CPA  
Legislative Auditor  
Division of Legislative Audit

FROM:   
Helen D. Beirne  
Commissioner  
Dept. of Health & Social Services

DATE: DEC 30 1980

FILE NO: K-8 (MA)

TELEPHONE NO: 465-3030

SUBJECT: Legislative Appropriation  
Process for Capital  
Improvement Projects

RECEIVED

JAN 2 1981

LEGISLATIVE  
AUDIT

In response to your request, dated December 10, 1980, there are three recommendations that I wish to make for your consideration. Each year the Department of Health and Social Services includes many relatively small maintenance and repair projects for various purposes. The first recommendation is that these be grouped. For example, the Division of Corrections would have one appropriation for correctional facilities for "Minor Capital Outlay". All repair, maintenance and construction projects under \$100,000 would be included. The justification for each project would be prepared in the same manner as is currently the practice. During the period the appropriation is available for expenditure it would be possible to use funds as required. In the majority of cases, expenditure will follow the list submitted with the budget. Where necessary for valid reasons, such as emergencies or because of costs adjustments, it would be possible to use these funds as required.

There are times when unforeseen circumstances arise and expenditures are mandatory. The current practice of individually specifying in the Budget and the Budget Act each maintenance and repair project unduly restrains the use of these funds. I want to emphasize that we are not proposing unrestrained use of funds, but to provide flexibility to handle the unforeseen circumstances that occur in buildings that are aging and where emergency repairs are necessary.

The second recommendation is that a contingency appropriation be made to the Department of Health and Social Services or to the Department of Transportation for projects of the former. Experience has demonstrated that capital projects often require augmentation because the bids exceed the available appropriation. Alaska's economy is characterized with inflationary features. From the time cost estimates are made until bids are let is often a period of one or two years. The appropriation language would limit allocations for reason of increases due to cost increase. If the scope of a project is changed and a resultant cost increase results, then that project should go back for specific legislative approval.

Without the above contingency fund, projects are delayed until the subsequent fiscal year and an additional legislative appropriation. This means even higher costs will accrue because of passage of time and further inflation.

DEC 30 1980

An additional factor is that the already incurred expenses of bid preparation, advertising for bids, and other costs are incurred and without a contingency fund, a portion of these expenses are unrecoverable and repeated at some future date.

The third recommendation is that appropriations for projects for the Department of Health and Social Services should be made to this department. On occasion, appropriations for projects for this department have been made to the Department of Transportation.

Your inquiry is appreciated. The capital outlay program of this department is important and we are interested in any effort to improve the process including the appropriations procedure.

If you have questions, please call Mason Anderson, the Division of Management and Budget (465-3331), who will work with you on this matter.

## STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPT. OF ENVIRONMENTAL CONSERVATION

465-2600

POUCH 0 - JUNEAU 99811

December 23, 1980

RECEIVED

DEC 26 1980

LEGISLATIVE  
AUDIT

Mr. Gerald L. Wilkerson, CPA  
 Legislative Auditor  
 Division of Legislative Audit  
 Pouch W--Alaska Office Building  
 Juneau, Alaska 99811

Dear Mr. Wilkerson:

Thank you for your letter of December 10 relating to the State's current process of identifying and budgeting capital improvement programs. The study being conducted by your agency is particularly timely, as the State is moving from a position of projects being funded largely by general obligation bonds to one in which many, if not most, are funded by general funds. This change results in a different relationship between the Alaska Legislature, the administration, and the voters. Although bond issues must be approved by all three, general fund capital appropriations are approved only by the Legislature and the Governor. As a result, I feel, many capital appropriations are made from general funds that would have been defeated at the polls if the voters were given the opportunity to address them as a bond issue. Additionally, many projects are funded in the capital budget which are ordinarily considered on-going, operating in nature.

The current status of State revenues does provide much more flexibility than was present earlier. The State can inject large amounts of general funds quite rapidly into the capital improvement budget, thus meeting an immediate need the general obligation bond program is simply unable to address. These projects might range from an emergency or disaster situation, to a general need to help reverse a down turn in the Alaskan economy.

However, the current general fund capital budget process does not always allow the degree of analysis and deliberation necessary for complete understanding of long-term project costs before a project is funded, and does not always allow for development of a rational basis for priority setting. This

problem can exist with bond issues, as well as general fund capital projects, but bond issues are reviewed and decided by a third body--the electorate. For example, the 1978 Water, Sewer and Village Safe Water bond issue listed a number of rural villages for specific line item funding. In some cases, there was no identifiable project that could be funded for that village under the Village Safe Water Act, or the project was substantially more costly than the funds available from the bond issue. As a result, a number of needed projects could not be constructed while funds allocated to other villages will never be spent. These projects were identified by the Legislature often without an in-depth analysis of the villages' needs, or how they could be handled under the Village Safe Water Act.

In order to preclude this from happening in the future, we have developed a Statewide Village Safe Water priority setting system. Although we may not introduce this system through the Governor's capital budget for any one budget year, we do use it in developing bond propositions and it does provide some degree of detailed information to the Legislature when it considers rural village water, sewer and solid waste projects, whether these projects are considered for bond issue or for general fund capital funding. In this way, we have, to some extent, successfully worked as staff to the Legislature. However, we cannot always respond to the emergency needs of rural communities. Often the affected legislator hears of the problem before we do--in those cases, we can help provide engineering and technical assistance to the legislator, as well as the village. I would strongly suggest that the Legislature expand the use of this informal process, especially for rural communities which do not have the resources to provide engineering support or design and cost estimate information. This type of information would be, in my opinion, most valuable in developing special capital budget programs, such as those contained in HB 60.

The regular capital budget program that leads to either bond propositions or to general fund capital appropriations does not always lend itself well to the construction grant program as administered under AS 46.03.030. This program provides grant funds directly to municipalities for the costs of construction of water supplies, wastewater collection and disposal, and solid waste disposal facilities. These projects are identified by municipalities, and proceed on their schedules. Many of these projects are relatively small, lateral improvement districts for water supply and sewerage systems, for example. Therefore, we do not always know what projects will be funded by a particular appropriation when we make the request to the Legislature--the amount we request is a projection based upon historical outlays, corrected somewhat for inflation. The capital budget system,

Mr. Gerald L. Wilkerson

3

December 23, 1980

however, is designed to fund specific projects, not a broad fund. It would be helpful to us if the system were changed to allow for a continuous flow of funds to communities on an as-needed basis, rather than on a project-by-project basis.

My staff and I are available to discuss this matter in detail. Please contact my office at 456-2600, or Keith Kelton at 465-2610.

Sincerely,



Ernst W. Mueller  
Commissioner

STATE OF ALASKA

JAY S. HAMMOND  
GOVERNOR

**DEPARTMENT OF EDUCATION**

OFFICE OF THE COMMISSIONER

POUCH F  
STATE OFFICE BUILDING  
JUNEAU, ALASKA 99811  
PHONE: 465-2800

December 22, 1980

**RECEIVED**

**DEC 24 1980**

**LEGISLATIVE  
AUDIT**

Gerald L. Wilkerson, CPA  
Legislative Auditor  
Audit Division  
Pouch W  
Juneau, Alaska 99811

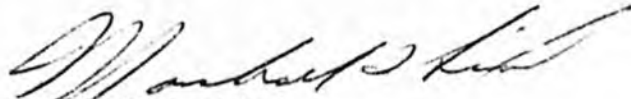
Dear Mr. Wilkerson:

The Department of Education has had the opportunity to examine the appropriation process for capital improvement projects each year when the budget is prepared for submission to the Governor's Office.

A change in this process that could result in improvement to the total program would be the inclusion of cities and boroughs in the department's budget by establishing a separate BRU for this purpose.

Should the cities and boroughs choose to bond themselves for projects and claim reimbursement under the debt retirement program, we would recommend the requirement of L.C.C. information to the voters.

Sincerely,



Marshall L. Lind  
Commissioner

JAY S. HAMMOND, GOVERNOR

**DEPARTMENT OF ADMINISTRATION**

OFFICE OF THE COMMISSIONER

POUCH C

JUNEAU, ALASKA 99811

465-2200

December 29, 1980

**RECEIVED**

DEC 30 1980

LEGISLATIVE  
AUDIT

Mr. Gerald L. Wilkerson, C.P.A.  
Legislative Auditor  
Division of Legislative Audit  
Pouch W  
Juneau, Alaska 99811

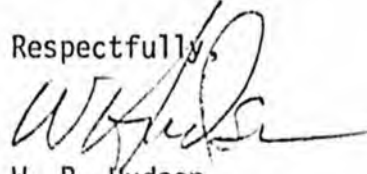
Dear Mr. Wilkerson:

This will respond to your request for input to the capital budget process.

The Department of Administration has found the need for a greater degree of professional involvement in planning for capital improvements, repairs and remodeling. A thorough inspection of facilities by skilled building engineers or architects would no doubt result in improved planning. Life cycle cost analyses on such items as heating, lighting, insulation and remodeling would be beneficial and should be done on all State facilities in an effort to reduce consumption of fossil fuels.

This department depends upon the services of the Department of Transportation and Public Facilities to the greatest extent possible. However, due to lack of available personnel, this assistance has not been available at all locations except in a final review mode.

Respectfully,



W. R. Hudson  
Commissioner

WRH/mjc

cc: Vernon L. Perry, Director  
Division of Retirement Benefits

Judy Crondahl, Director  
Division of Administrative  
Services

JAY S. HAMMOND, Governor

**DEPT. OF COMMUNITY & REGIONAL AFFAIRS**

OFFICE OF THE COMMISSIONER

POUCH B  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-4700

January 6, 1980

**RECEIVED**

JAN 6 1981

**LEGISLATIVE  
AUDIT**

Gerald L. Wilkerson, CPA  
Division of Legislative Audit  
Pouch W  
Juneau, Alaska 99811

Dear Mr. Wilkerson:

Thank you for the opportunity to comment on the Legislative Appropriation Process for Capital Improvement Projects. There are two areas in which we would like to offer comments for your consideration.

The primary problem the Department has encountered is caused by the lack of back-up material or other indication of Legislative intent on many of the appropriations we administer. Each year, a substantial amount of time by Departmental staff is expended with Legislative Finance staff, committee aides, individual legislators and community representatives attempting to determine the intended use of appropriations. It is understandably difficult for the Department to administer a grant which legislative intent has not been clearly outlined. If back-up materials could be provided to the Department on capital appropriations, it would speed the flow of funds to the recipient, increase accountability of the projects and make the grants easier to administer.

A second problem is one that was addressed to a limited extent in fiscal year 1981. Many of the Departmental projects appropriated are with small second class and often unincorporated communities. These communities, while eager to do a good job in administering a project, often lack the administrative experience to ensure successful completion of a grant. During fiscal year 1981, minimal funds were appropriated to provide such communities with technical assistance and coordinate grant administrations for the Department. Such funding for administration is required to ensure the intent of the legislature is complied with and the projects are successfully completed.

We appreciate the opportunity to comment and will provide additional information if requested.

Sincerely,

*Lee McAnerney*

Lee McAnerney  
Commissioner

JAY S. HAMMOND, GOVERNOR  
(907) 466-3900

Department of Transportation and Public Facilities  
OFFICE OF THE COMMISSIONER

Pouch Z  
Juneau, Alaska, 99811  
(Telex 45-328)

February 23, 1981

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LEGISLATIVE  
AUDIT

Mr. Gerald Wilkerson, Auditor  
Division of Legislative Audit  
Budget and Audit Committee  
The Legislature  
Pouch W  
Juneau, Alaska 99811

Dear Mr. Wilkerson:

The following answers to your preliminary audit, "Phase V. A Performance Review of the Department of Transportation and Public Facilities Capital Improvement Program," should be viewed as only summaries, since more detailed answers may be found in the previous reports. I have chosen to only make a brief response mainly due to the very short time available to prepare this answer. I would also like to point out that recommendations No. 7 through No. 10 are not directed at this department but, in fact, address the total capital construction program of the State of Alaska; and action on these recommendations must be taken by the Department of Administration and the Legislature.

Recommendation No. 1

The Department should provide for long-range planning of capital projects

Response: The Department is actively pursuing long-range capital planning. Executive Order 39 also requires a statewide transportation plan updated annually to drive the capital improvement program development. We currently have regional multimodal transportation plans under development in many areas of the State. Eventually these studies will be incorporated in a statewide plan.

Planning and Programming should no more be a staff support section than Design and Construction or Maintenance and Operations. Planning and Programming and Design and Construction have been improving their program relationships and will soon be at the stage where, after initial funding, the only time Design and Construction will have to come back to Planning and Programming is for a change in project funding and/or scope.

We are working hard to improve our cost estimates, recognizing that with the incredible volatility in the Nation's economy, it is very difficult to be accurate.

Recommendation No. 2

The Department should budget all planning and overhead costs and should prohibit these budgeted units from obtaining additional funding through the reallocation of capital project appropriations.

Response: We agree that overhead and indirect planning costs for capital improvement programs should be budgeted. In fact, our 1982 operating budget request contains State General Fund requests for these purposes. This does not mean that time, travel or other directly related costs incurred by individuals or units would not be charged to CIP appropriations. In the future, these costs will be limited to direct charges and not be made through a method of allocation of costs.

This means that overhead costs, those not directly attributable to a project, will be charged to fixed operating budgets. This assumes, of course, that the legislature approves these expenditures from the general fund.

Recommendation No. 3

The Department should develop a regional organization structure to improve the efficiency of administering the CIP within each region.

Response: The statutes as well as efficient management practices dictate a strong regional presence, and we are shaping the Department accordingly. Coordination between units in the regions has improved dramatically and will continue to improve.

I do not believe that 5 "regional transportation and public facilities directors" reporting to the Commissioner would provide efficient management. Laws currently in effect governing management of state agencies are somewhat complex and must be applied consistently statewide. Therefore, a substantial headquarters effort will always be required, but we do believe in as strong a regional presence as possible.

Recommendation No. 4

The Department should develop an overhead accounting system to equitably allocate costs to CIP projects.

Response: Allocation of costs to projects is a desirable goal for purposes of cost accounting, recording of asset values, evaluation of alternatives, and budgetary control. As you stated, we charge direct costs to projects and are currently charging certain overhead costs. Our budget requests for FY 82 envision charging only direct costs to the project budgets.

Any accounting information should be evaluated in terms of the value of the information. We would not propose that any changes be made to our current system to systematically accumulate all overhead and indirect costs applicable to capital projects. We will investigate this possibility as we develop our new management information system; however, at this point, we feel that the additional complications which this would cause would outweigh the advantages of the information.

Recommendation No. 5

The Department should improve project accounting and fiscal controls of their capital project accounting system.

Response: We agree with this recommendation; however, we do not agree with the subpart labeled 5A which in part states, "The Department should...by establishing the responsibility for determining the availability of CIP funds for revisions and/or adjustments and the propriety of those changes within the Division of Financial Management." The Planning and Programming Unit is properly the unit to make these evaluations. It is responsible for the programming of capital funds and as such must keep up-to-date on the project fund status to assure that sufficient balances are remaining to complete projects as envisioned. Only knowing that the financial records indicate that there is a balance available, as Financial Management would know, is not enough. Financial Management does verify the transfers proposed by the Planning and Programming Unit to assure that there are available funds in the accounts to allow the transfers.

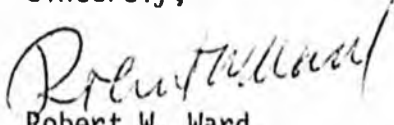
Recommendation No. 6

DOTPF should develop accurate and timely financial information for use by project managers.

Response: We have recognized this need, and it is our highest administrative priority.

I thank you for the opportunity to provide you with my written thoughts on these recommendations and I, as well as other members of my staff, are ready to meet with you and the Legislative Budget and Audit Committee to discuss them in more detail if you should desire.

Sincerely,

  
Robert W. Ward  
Commissioner