

CAPITOL

PROTECTS

CLEANUP

OVERVIEW

JIM MERRILL HAS BEEN WITH THE CAPITAL PROJECTS
CLEANUP PROGRAM SINCE ITS BEGINNING. TODAY'S
PRESENTATION IS TO BE THE "ABC'S" OF CPC IN
ORDER TO BRING THE COMMITTEE UP TO SPEED ON
ITS PROGRESSION.

JIM IS ALWAYS WILLING TO MEET WITH ANY
LEGISLATOR AND/OR STAFF ON A ONE ON ONE
BASIS TO ANSWER ^{IN} MORE DETAIL OUR CONCERNS.

HIS DIRECTIVES HAVE ALWAYS BEEN TO HAVE
AN "OPEN" POLICY

C.P.C.
CAPITAL PROJECTS CLEANUP
OVERVIEW & STATUS

DECEMBER 1984

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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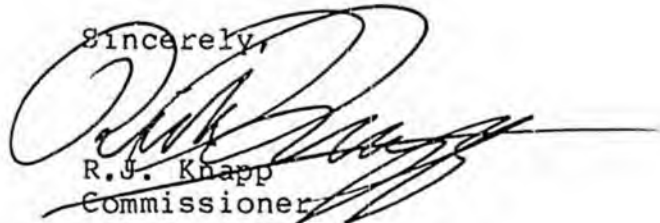
OFFICE OF THE COMMISSIONER

December 21, 1984

The Capital Projects Cleanup effort (CPC) by the Department of Transportation and Public Facilities is now one year old. In that one year, significant advancements have been made in bringing the entire Capital Improvement Program under management. This overview and status report will provide a description of the CPC effort and its status. I want to assure you that the CPC effort has the highest priority with both Governor Sheffield and myself. We are equally determined to institute policy, procedures and the organizational philosophy which will prevent a reoccurrence of these problems.

The long and sometimes frustrating CPC effort is near completion. The knowledge and experience gained in the effort will serve the Department well and be the best guarantee that we will "not do it again."

Sincerely,



R.J. Knapp
Commissioner

Capital Projects Cleanup
CPC

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Capital Project Cleanup CPC

INTRODUCTION

The State of Alaska Department of Transportation and Public Facilities engaged the firm of Arthur Young and Company to perform an Assumptive Audit on the Capital Improvement Program (C.I.P.) as administered by the Department. This Assumptive Audit began in June of 1983 for the purpose of assessing the condition of C.I.P. management and reviewing existing operational processes and internal controls. The Arthur Young and Company Final Report was given to the Department in October 1983. The Department formally adopted this report on November 25, 1983 and appointed an Ad Hoc Steering Committee to oversee the implementation of the report findings. This effort was named the Capital Projects Cleanup (CPC).

The Arthur Young and Company report identified key factors which have impacted effective capital project management. These key findings were:

1. Dispersed responsibility throughout the organization for project and financial management.
2. Low priority placed on effective project and financial management.
3. Inability of Departmental information systems to support effective project management.
4. General tendency to defer action awaiting a "new system."

CPC PROBLEM STATEMENT

Although the State accounting system (PBA) serves as the official record of expenditures at the appropriation level, only DOT&PF's project cost accounting system (FMS) provides the information on specific projects funded within an appropriation. FMS was developed in the early 1970's for the old Department of Highways to meet the requirements of the Federal Aid projects. At that time it was state of the art and served quite well within the operating philosophies prevalent in the Department. With the greatly increased capital projects appropriations and the formation of the Department of Transportation and Public Facilities, the system soon became overloaded. Its' ability to provide accurate, timely and meaningful reports to project management deteriorated. Eventually, disbelief in the integrity of the FMS project reports apparently carried over into other areas of the Department's project management. This, coupled with dispersed responsibility and the lack of an effective control system, created confusion relative to the understanding of and accountability for the Department's Capital Improvement Program.

Not only was the Department unsure of the financial aspects of the projects, it could not provide meaningful information for decision making and project control. Nowhere in the Department was there a unified overall display of the projects, projected schedules, commitments, appropriations, type of funding appropriated and project expenditures; nor were the projects or the related information organized to match the Department's management structure and assignment of responsibility.

This was the condition when the Department undertook the CPC effort.

OBJECTIVES

The Capital Project Cleanup (CPC) effort identified five measurable objectives which defined the goal of "placing all capital projects and authorizations under management." These five objectives are:

1. Restore confidence in Department of Transportation and Public Facilities' (DOT&PF) ability to effectively manage Capital projects.
2. Account for Departmental responsibilities in the Capital Improvement Program.
3. Develop a System for managing the Department's Capital Improvement Program responsibility.
4. Provide accurate accounting data on all projects in the Department's Capital Improvement Program for transfer to a new accounting system.
5. Identify and develop criteria, policy, procedures and training needed for management of the Department's Capital Improvement Program and the individual projects.

SCOPE

The scope of the Capital Projects Cleanup (CPC) effort consists of all projects or authorizations including Reimbursable Service Agreements (RSA) which are in the Capital Improvement Program (C.I.P.) and are the Department's responsibility for management. Projects or activities which are authorized in the Operating Budget and are carried in other than the C.I.P. are not included. However, these projects and activities will benefit from the knowledge gained and the new systems put in place by the CPC effort. CPC includes the following activities:

1. Development of a Department Capital Improvement Program consisting of all projects or other authorizations for which the Department has responsibility.
2. Review and establish compatibility of the various records and information systems.
3. Determination of funding source, type, and status for all projects in the Department's Capital Improvement Program.
4. Preparation, documentation, and presentation of CPC activities and reports in order to restore confidence in the Department's C.I.P. management tools.
5. Assist in developing, training and oversight of Departmental Capital Project Control systems.

Capital Project Cleanup
CPC

PROCESS AND PROCEDURES

The organization of the CPC effort uses a simplified "systems" approach. In order to reduce manpower requirements at Headquarters and provide a learning experience for Regional personnel, the CPC effort has involved all levels and organizations of the Department in a concerted effort to cleanup the Capital Projects management system. Extensive use of computer auditing and analysis techniques has enhanced the capability and knowledge of the Department. Department-wide involvement and support enhances our ability to "not do it again."

Guiding Principles

Recognizing that there is a vast amount of information residing in various Departmental and State records and documents, and that it is not practical in terms of time or cost to provide a complete "accounting" type reconciliation, CPC adopted guiding principles which have been presented to the Administration and various Legislative committees. The agreement to use these guidelines has significantly helped in the CPC effort.

The basic principles guiding the CPC effort are:

1. All expenditures which have been processed through PBA (the State Accounting System) underwent a creditable test at that time and are considered legitimate. This precludes extensive research for miscodings, expenditures in the wrong project, etc. This is particularly important in the PRE - SLA 80 projects where the records, while probably available, are not readily available in the forms needed for computer analysis. If a project is in the closed status, no further review of that project will be made.
2. The primary emphasis of the CPC effort will be the identification of projects which still have unliquidated liabilities, placing them in the Department's Capital Improvement Program management, and determining if the available funding is adequate to complete the project. Projects with inadequate funding will be given to management for resolution. Excess funding will be identified and processed through the Departmental review process for resolution and disposition.
3. The final report will provide a full listing of the Department's Capital Project commitments, their status and resources. Due to the inadequacies of various records and historical information, Program Accountability will be met by an analysis of summary type data. This analysis will provide understanding of the problems, the procedures and the degree to which Legislative intent of the C.I.P. is met.

4. Full and open discussions and information about the CPC, its methods and results are part of the total CPC effort. It is vital that all levels of State government, the Legislature and in-house personnel be included in the process. Overview briefings and periodic status reports have and will be given. Involvement and support by the Commissioner, Deputies, Directors and others has been essential to keep the effort moving.
5. The CPC effort must involve development of the necessary organization, policy, and procedures to prevent reoccurrence of the C.I.P. management problem. This has been referred to as the "...not to do it again..." agreement.

Development of CPC Methodology

The broad findings of the Arthur Young and Company report outlining the C.I.P. operating conditions within the Department were used as the basis for developing the Capital Project Cleanup (CPC) methodology and processes. The goal of the CPC effort was to "place all capital projects and authorizations under management."

The methodology developed to place the C.I.P. under management involved three broad segments of effort. As the name "Capital Projects Cleanup" implies, there was a need to "cleanup" our project management systems and the data therein, before the rebuilding process could begin. Recognizing that it was not possible to just "stop everything," CPC has been using methodology similar to that used in hitting a moving target,--in other words, the targeting has been task orientated which allows day to day operations to continue while specific tasks are accomplished and the results consolidated.

These three broad segments of the CPC effort are:

Segment A Consolidation of DOT&PF C.I.P. Responsibilities

Segment A is the consolidation segment of the CPC effort. In this segment, every project or project phase in the Department's Financial Management System (FMS) was reviewed and classified as either active or closed. The closed projects or project phases and their accompanying accounting records were then removed from the active system. The remaining active phases or projects were used as the basis for tasks 1 through 5. These tasks were designed to "cleanup" the project accounting and status records and form the basis for rebuilding the Department's C.I.P. Identification of projects and project phases that were truly active was the main thrust of Segment A.

Segment B Capital Improvement Program Development

Segment B is the building process which started bringing the entire C.I.P. under management. Tasks #6, #7, and #8 in this segment will identify the funding required for completion of previously funded projects. During this segment, projects will be integrated into the Department's Capital Improvement Program and a determination made of additional funding needs for project completion. This segment starts the process of resolving the \$859,000,000 of restricted authorizations not included in the Department's Capital Improvement Program Segment A. When tasks #6 and #7 are complete and all the viable and funded projects are in the C.I.P., any remaining projects or authorizations will enter task #8. Task #8 will develop recommendations for action on projects which may not be appropriate, adequately funded or valid at this time. Information and training in segment B will serve as the base line for the Department's Management Control Systems.

Segment C Operational Capital Improvement Program

Segment C is the operational phase of CPC. When this Segment starts, the Department will have already developed and in place the following elements:

- Capital Improvement Program which identifies the entire project responsibility of the Department.
- Department Management Control Systems
- Operational policy and procedures
- Identification of additional training needs
- Organizational aspects and staffing requirements necessary to assign responsibility for control over the Department's Capital Improvement Program.

During segment C, CPC will monitor the effectiveness and efficiency of the Department's Capital Improvement Program and Management Control Systems. Adjustments in policy, procedures etc. will be made as identified and needed. Analysis will provide the Commissioner with management overviews of the C.I.P. and its support systems.

DETAILED CPC PROCESS AND PROCEDURES OUTLINE

The CPC processes for cleaning up the C.I.P. project and accounting records while developing a Departmental Capital Improvement Program are separated into three segments as defined in the Introduction. Within these segments are specific steps and tasks designed to accomplish the intent of that segment. These tasks have limited scope which allows rapid gathering and analysis of the data while leading logically into the next task. A summary of these steps and tasks are as follows:

Segment A Consolidation of DOT&PF C.I.P. Responsibilities

Step 1 Project Classification and CPC Methodology development

This step initially reviewed all 11,300 "open" project phases in the system to determine their status and close those project phases which were either completed or no longer active. An estimated completion cost on active projects was obtained. From this information, CPC methodology was developed for further C.I.P. analysis.

Step 2 Project Data File cleanup

This step was designed using five tasks to cleanup the data files and accounting records of all active project phases remaining in the system after Step #1 activities were completed.

Task #1 Master File Cleanup

This task provided a 100 percent review of the Departmental programmatic records and the relationship of this information to the financial records. Corrections of the project and accounting records were made. As a result, active project phases in the system as of 9/30/84 had more reliable data on the funding side.

Task #2 Correct Project Overexpenditures Conditions

The Department's FMS records authorized funding based upon project budgets. As a result, over-expenditure conditions may occur in the project (programmatic) records without actual over-expenditures at the appropriation level. Task #2 was a concentrated effort to focus the Department's attention on these project overexpenditures (negative balances). When task #2 started, nearly 800 separate project phases contained negative balances totaling over \$17,000,000.

Task #3 Resolve Unclassified Projects

The initial Step 1 effort identified 552 separate project phases with unknown or questioned status. Task #3 provided further review and analysis of these project phases. As a result, all project phases were identified and placed into an active or closed classification.

Task #4 Error Cleanup

The objective of this task was the reduction of accounting, payroll, and equipment usage errors contained in the FMS records. These errors represent an unrecognized liability against project funding as the activity cost has not been charged to a specific project account. Task #4, while identified as a one time item, is in fact an ongoing operation involving training, monitoring, and correction of procedures and practices contributing to errors in the DOT&PF-FMS system.

Task #5 Federal Aid Unbilled Reduction

This task was designed to significantly reduce the backlog of Federal Aid accounts receivable. As of January 1, 1984, there was \$38,775,000 in unbilled accounts receivable. Task #5 set as an objective the reduction of this backlog to an operational level of approximately \$10,000,000.

At the completion of Step #2 on September 30, 1984, the data files of both PBA (State Accounting System) and FMS (DOT&PF Financial Management System) were adjusted to reflect the closure of 8,582 projects or phases. These system adjustments required two months to complete. The effect of these adjustments was reflected in the 11/30/84 reports.

CPC continues to monitor problems which tasks 1 through 5 were designed to correct. This monitoring has been titled the CPC DETECT-CORRECT PROGRAM

Segment B Capital Improvement Program Development

Step 3 This step of Segment B is designed to change the "phase concept" of project management to a "project management concept". Tasks #6 and #7 will program and fully fund all active projects, or if not possible to fully fund, will identify additional funding needs so the Department will have a C.I.P. which identifies all projects, their funding and status.

The actions in Task #6 and #7 will

significantly reduce the unprogrammed (or restricted) portions of the various appropriations.

Task #6 Detailed Costs to Complete

This task will program the necessary funding to project phases which have been identified as active in Segment A. When Task #6 is complete, all phases of projects which were active as of 10/01/84 will be fully funded or their additional funding needs identified.

Task #7 Unprogrammed projects or phases

This task will place into the Department's Capital Improvement Program the unprogrammed phases of active projects and other projects which are fully funded but which have not been programmed into the Program of Work. This will require a detailed review of unprogrammed funding and the intent of the Legislation in that appropriation. Task #7A is the procedure which is used for valid projects or phases while Task #7B is the procedure to handle projects or phases which require additional Departmental review (Step 4, Task #8). Task #7B will also identify projects or phases which are not fully funded. Task #7C will determine and verify the amount and fund type for the unprogrammed appropriations. Task #7C will be coordinated with the State Annual Financial statement.

Step 4 Working Departmental C.I.P. Program of Work

This is the step which finally puts in place a fully operational Departmental Capital Improvement Program. Involved in this step is the Department's review process, policy, procedure development, training, and installation of Project Management Control Systems. (not to do it again).

Task #8 DOT&PF Review Process

The task provides the procedure and direction to fully review any unresolved appropriations and projects not placed in the Department's Capital Improvement Program. As a result of this task, all project responsibility will be defined and recommendations made for the disposition of all appropriations or projects which cannot or should not proceed.

Segment C Operational Departmental Capital Improvement Program

This segment is the operational segment of the Departmental C.I.P. In Segment C, the policy, procedures, Project Management Control Systems, and necessary organizational changes will be in place and operating. CPC will monitor Segment C during its startup period to assure that all support elements are operating properly and that the Control System is functioning.

Task #9 Expenditure Control

Task #9 is an ongoing task which will strengthen the "human element" of the Department's systems. (Tasks #1-#8 concentrated basically on the Program or funding side of the C.I.P. while Task #9 is designed to strengthen the human element involved in the operational C.I.P.) Issues such as motivation, stewardship, accountability, teamwork, and acceptance of responsibility are key to the operational aspects of the Departmental Capital Improvement Program. This task is an important part of the "not do it again" effort.

Capital Project Cleanup
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STATUS AND ACHIEVEMENTS

The CPC effort has been underway one year. During that year, significant advancements have been made in the Department's goal to "place all Capital projects and authorizations under management."

The CPC effort during December 1984 is concentrating on Tasks #6, #7, and #8. The unprogrammed restricted balances of Authorizations as of September 30, 1984 totaled \$859,000,000. During task #6, #7, and #8 to date, \$387,000,000 has already been programmed to specific projects and placed in the developing C.I.P. There remains \$472,000,000 in restricted authorizations still to be programmed or analyzed in CPC Tasks #7A and the review process in CPC Task #8.

IMPORTANT ACHIEVEMENTS

- The Department has reduced the number of active projects to 2022 with 2718 active phases as of December 1984. When the CPC started, there were 11,300 projects or project phases in the system with the capability to incur expenditures. The CPC effort has closed 8582 of these project or project phases.
- The knowledge and understanding of the whole DOT&PF Project Management System including FMS has greatly increased. By involving project personnel in the cleanup effort, the learning experience and the emphasis placed on project and financial accountability will greatly aid in the future management of the C.I.P. This is a keystone in the "not to do it again" effort.
- The CPC effort has developed a number of project management reports which will aid in the management of the C.I.P. By the use of exception type reporting, the Department's project Management Control Systems can monitor the C.I.P. operations to prevent problem reoccurrence. One major achievement, although it may seem to be logical and basic, was the ability to produce project reports for an individual region. This achievement provides reporting capability to the individual region which has the responsibility for the specific project.
- The data validation efforts has been a great learning experience as well as providing reliable data. Data validation has allowed the Department for the first time to monitor not only the total appropriation but funding sources and expenditures for that appropriation. This achievement will virtually eliminate the "funny money" problem while providing real appropriation integrity.

- The CPC effort has enhanced the Department's ability to reconcile the three "systems" which are used in C.I.P. and project management. These systems are:

PBA: State Accounting System
FMS: DOT&PF Financial Management System
PDS/SRA: DOT&PF Project Management Systems

By developing and instituting monthly reconciliation procedures between Departmental and State Accounting Systems, monitoring and control of the C.I.P. possible.

- The Department has established in each Region a Capital Project Control unit which provides the project control aspects of the C.I.P. While this is a new concept to DOT&PF, the enthusiasm and response from Project Managers has been encouraging and speaks well for the future. CPC will monitor the effectiveness of these Capital Project Control units.
- CPC has brought together many individuals, Departments and Legislative Committees in the effort to "cleanup" the records and develop the Departmental Capital Improvement Program. Within the Department, this effort has fostered a new understanding and teamwork which will reduce internal organizational friction. The joint effort is successful because so many people want it to be successful. This new sense of understanding, assistance, and cooperation is an important ingredient in the "not to do it again" efforts of the Department.

TRANSPORTATION COMMITTEE DAILY AGENDA

- 1) CALL MEETING TO ORDER
- 2) NOTE MONTH/DAY/YEAR January 23, 1985
- 3) NOTE TIME: (i.e., 7:00 a.m.)
- 4) NOTE MEMBERS PRESENT AND EXCUSED
--Note: For the record, also note any late arrivals
to the meeting.
- 5) RECOGNIZE VIP's
- 6) REMIND PARTICIPANTS TO SIGN THE WITNESS REGISTER

Today's participants:

Jim Merrill, Project Coordinator
Capital Projects Clean-Up
Department of Transportation and Public Facilities

PROCESSION OF MEETING

- 7) INTRODUCE Jim Merrill. He shall provide us with an overview of the Capital Projects Clean-Up (CPC)

Note to committee members:

Inside their file folders are:

- ° The December 1984 Report: "C.P.C.
Capital Projects Clean-Up Overview &
Status"
- ° Report on the CPC from the 1984 Interim Report,
Number Two, written by the House Transpor-
tation Committee (Rhonda Cargill)

- 8) ANNOUNCE TIME OF ADJOURNMENT

Senate Transportation Committee
Committee Work Session

Anchorage Legislative Information Office
October 2, 1984
3:00 p.m.

Capital Projects Clean-Up Report

Present: Senator Moss, Chairman
Senator Fahrenkamp
Senator Faiks

Absent: Senator Kerttula
Senator Gilman

Other legislators participating: Representative Abocd

Witness:

Jim Merrill
Capital Projects Clean-Up Group
Office of the Commissioner
Department of Transportation & Public Facilities
Pouch Z
Juneau, AK 99811

ACTION NARRATIVE -VERBATIM TRANSCRIPT

Interim tape #4, Side A

No tape log numbers are recorded as no tape counter was available.

Moss: We have Jim Merrill here. Jim, if you will give us your name, etcetera, for the record, we'll get started on this.

Merrill: My name is Jim Merrill, and I am the Special Projects Engineer for the Department of Transportation. Specifically have been for one year assigned to the capital projects clean-up effort which was really a result of the question from the senators and this committee previously on problems with managing our capital projects. You have a handout there basically of the status of our project as of the 27th of September. I have a kind of a flip-chart presentation here. I have two things today, two emphases. One is to bring you up to date where we are, what we have done so far and the second is to once again like we have in the past, come to the committee and ask for some help in the approach that we doing, we are not asking for money to do that, but we are at a crossroads where we need to know if the type of solution is basically the type of thing that the senators,

this committee can at least understand and endorse. And so if there's no other questions I can go right into my presentation.

Moss: I appreciate it very much if you would Jim.

Merrill: I'm not much of an artist but...in honor of the railroad, you see that we have a problem here. We have come here, but the other track is down here, and you might say that this side is where we have the information and now we have to...

Faiks: I wish you wouldn't have used the railroad for this little example of your accounting problems.

Merrill: I really didn't realize it until I sat back there...

Faiks: You see how sensitive we are on this!

Merrill: When I heard about moving money from one account to the other, you need CPC, you need the Capital Projects Clean-Up Committee and I'm not volunteering though, remember that.

Faiks: Listen you guys are going to go department to department, you know Fish & Game has the same problem, doesn't it, Bettye?

Merrill: Health & Social Services

Fahrenkamp: Oh God, don't ever volunteer for HESS, you'll be there the rest of your life.

Merrill: But we do have the problem that you're well aware of, and we do have to thank you from the Department for the help that you've given. You have been a big help and we'd like to bring you up to date on what we're planning now to kind of wind it up. The problem is we're here, we've got to get through there, and that's the problem as we're well aware. We have the information, how do we understand what we have and how do you understand what we have. The approach, you see, and the light is red here (referring to flip chart). The first thing I want to tell you that we have discovered, without a hundred years and a hundred accountants, and I saved the little newspaper article, I wish I had it with me, it came from Argentina, where right now there is a hundred civil servants pawing through six foot stacks of papers trying to figure out how much they owe. They don't know whether they own \$20 billion or \$48 billion.

Faiks: You're not comparing us to the Argentines, are you?

Merrill: No! But I do want to make the point to the committee that there is no practical way, both timewise and cost-effectiveness-wise, to make a strictly accounting reconciliation.

Fahrenkamp: You couldn't make an accounting reconciliation if you were here for the next hundred years.

Merrill: That's right. And that's, that is the first emphasis that I'd like to have understanding on, that we cannot make, practically, an accounting reconciliation.

Moss: That's all past the bench now.

Faiks: How much money are you short in making that reconciliation, are you going to tell us that or is that three pages down after...?

Merrill: Well I'm going to tell you how we're going to get there. We have the information, it will be coming to you in report form, in maybe less than three months. Okay? But you be aware of that.

Faiks: Now what's the bottom line? How much, what's the gap there in your tracks?

Merrill: One thing I can tell you is that we had when we started \$45 million dollars worth of projects overexpended. We have reduced that, without extra money, down to \$10 million by requiring them to straighten up their records. We feel we can get a lot closer than that. We do know we have a stack of bills on the table that can't be paid, and those will be _____ to the legislature in form over a couple months.

Faiks: How much is that? Now we're talking hard politics.

Merrill: It's more than a million.

Faiks: Is it more than ten?

Merrill: My guess it's in between

Fahrenkamp: Is it bigger than a breadbasket?

Merrill: The second thing is you can't make an accounting reconciliation, that our reconciliation that we're proposing to the committee and asking for guidance on too, requires some understanding of the problem and informed judgment and the use of summary type data...

Fahrenkamp: Wait a minute. Draw me a picture.

Merrill: Okay. Summary type data is something like this. Take the 1980 bond issue. It has right now 497 active projects yet in it. Each one of them could be considered a line item appropriation. We may not be able to do an accounting reconciliation on each one but in summary we can say this is how much money was in the bond issue, and this is how much we've spent, we've closed these projects, this is what it

will take to complete the rest. That is summary type data that we've been able to get. We can't in many cases pin it down to the individual project. We are looking into every project to whether we have met the legislative intent of the project, and this is quite revealing to us, and in our statement that we have there we've used something called conformity factors, where we will state that we in fact met legislative intent or we did not meet it in this area. Conformity factors is part of the report that will be coming to you, taken in what you as a legislator intended that project to do.

Abood: Mr. Chairman, if I may. It's very startling to you when you find out what you're talking about in the legislative intent when there have been very few pieces of legislation or very few appropriations that hasn't violated the legislative intent, so how do you know what that legislative intent is if it's been changed so many times...to conform to what they wanted to do regardless of legislative intent.

Merrill: We're going back to the commission to which is commonly called in our language the form 35, 35 _____...

Abood: That's where the startling part is coming in.

Merrill: I know that, but it's only in many cases the only intent that was originally put down and we know that legislative intent is sometimes not very clear for us to determine. And the last thing on our approach is to put in place procedures not to do it again, and that I think is important for you to know. One of the questions that you might is why can't we make an accounting solution. As you can see the railroad here, there's only one common rail on this track, and the other two tracks don't meet.

Fahrenkamp: That's due to the differences in the accounting system, the differences in practices and changes down the line in government, right?

Merrill: Right. One of them is that in the state accounting system, in PBA, it's only balanced forward ever year. We run from inception to date, and so we're always in a problem of trying to make things match, and we don't match and we didn't match significantly on June 30th and we're now trying to find out why.

Fahrenkamp: Did you find that account that things used to be stuck into when they didn't know where to put them and wanted to hold it over, has that been straightened out?

Merrill: The "M" account, that you are well aware of. They will be addressed what they are and maybe not totally accounted for but they will be addressed the best we can on that. The reason here that the funding side, the state accounting

system, only carries total dollars regardless of what the legislation. The legislation says you have total dollars made up of so many dollars of general fund and so many dollars of other. The state accounting system only takes a total and tracks that, regardless of what kind of money it is. Our own accounting system...

Moss: Does that include the funny money?

Merrill: This is where the funny money comes from. Because our own accounting system then takes this general fund here and breaks it down into whether it's match money to go with the federal money, and that looks really good, and that becomes into what we called non-participating or participating. Now, when we go out to spend it in the operations, we collect cost by project and it has more than one appropriation in it, it loses it's identity of where the money, of what appropriation the money came out of. It goes up to our accounting and we have something called the "ML", the missing link that allow us to track through and say we didn't spend all of the general fund portion here, or we spent more general fund and less of this. That's your funny money. We have a solution for that which is, which will bring materiality, if you're an accountant you know what that term means. It means they can't reconcile exactly, but they can get it close enough to where it's not material anymore. We feel that we can bring it within the limits of materiality by the process that I'll explain to you. Now the solution. Remember...

Moss: Can I ask you a question Jim? If this thing works out it could be applied to not only DOT but to other departments as well, couldn't it?

Merrill: The same types of problems exist because of being with the same accounting problems.

Abcod: If I may. Isn't there some. is it the legislator's position or job to set forth regulations or statutes that prevent the different agencies from doing this or is this strictly an in-house, DOT if you will, using that as an example, can they do anything they want to do with these funds? Is there anything legislatively that we could do to prevent that. As an example, appropriations within appropriations, moving those funds around which is against the statute to start with. But they do it. Now what's going to prevent that?

Merrill: The only thing that's going to prevent anything like that is basically a control system that we have, I'll be talking in a minute about that, putting in place and _____. I can tell you this our commissioner is very concerned about this himself, and I'm sure the Administration is. One of the things is you as a legislature have recognized this by line item appropriating so we can't theoretically put more than

one appropriation in a project. The matter of fact is that we have put other appropriations in projects and that's the problem because we lose the identity of which one of the appropriations it went to. As an example, in one of the bond issues there is a project right here in Anchorage that the bills that we paid were \$5.2 million dollars, this is just last spring, May, the bills were \$5.2 million dollars paid out of the bond issue. When the federal receipt came back, the federal money, the check, it was deposited to the general fund, which means now when you get the general fund, and you get back in session, you say we have a surplus in the general fund this year, you're really reappropriating the money that belongs in the bond issue.

Moss: It's already been appropriated.

Merrill: It's a bond issue appropriated, what it's going to do is, and the thing that we're determining is, what's the effect on the bond balance, the cash balance in the bond. It could mean that some of the projects started in that bond issue will in fact be short of money. So there is something that is not controlled anywhere in the legislation, anywhere in DOT, anywhere in the Dept. of Revenue, anywhere in the Department _____. There is a major flaw that was uncovered in our own system and we're taking action on that. Anyway, our solution.

Fahrenkamp: There was a project in Fairbanks, maybe six years ago, maybe more. Okay. It was funded by the legislature through DOT. DOT in its wisdom decided it shouldn't be done so they did something else with it. It was funded again, DOT in its wisdom decided it shouldn't be done, they did it again. To this date it hasn't been done, at this time if it were done it would cost eight times what it would have, in fact it's prohibitive now. What recourse if any do we have on that, and is that kind of thing still going to be able to go on.

Merrill: One of the things to answer your first part is that we have identified, as of the 31st of August, some \$897 million dollars worth of authorization - could be general fund, or federal authorization that you have given us for projects that we have not yet started, or in other words started by putting the project in our own accounting system, or that we're never going to start, we just have never programmed them to start. There's \$897 million dollars. What we are doing in the report is that we are right now accounting for that - the projects that haven't been started, the projects that we are never going to start and give a reason why. That will be in the report, and that should be interesting in some projects.

Fahrenkamp: It should be in the interest of some legislators who

sweated blood to get some of those projects that are not going to start.

Merrill: Representative Cato, everytime I see her, asks about her Lackinaw Bridge. That is in that category, that it was funded, properly funded again, and the money was moved, in this case to the Juneau-Douglas bridge. So all that money's gone. The authorization's still there, we have just never programmed it into our own accounting system to start work on.

Abcod: Where's the money then?

Merrill: It's sitting restricted in the state accounting system. Now whather it, tne thing is...

Moss: What you're saying is we've got \$800 and something million bucks laying somewhere we ain't spent?

Merrill: Of authorizations, no money. Well that's the thing that we are determining, how much of it is actually general fund, how much of it is federal authorization.

Fahrenkamp: You'll find that there's a hell of a bunch in the general fund and a hell of a bunch of it that was never collected from the federal government, simply because we didn't do our damn paperwork.

Abcod: Two years ago, three years ago, there was over a billion dollars in DOT that was unaccounted for, that they had money that was appropriated, and there it sat.

Merrill: That figure is now \$897 as of the end of August. Since I surfaced this issue and got people working on it to try to account for that, what projects did the legislature authorize for that authorization. We have programmed an additional 105 million of them so this figures down right now, because we've started to put some emphasis on that. In our report we will be accounting for all of the funding that's been restricted in there and never put to a project...that I can find.

Moss: \$897 million.

Faiks: \$897 million. You're kidding!

Merrill: Don't panic on that, Senator. Make them give you the facts first. We are identifying, within that is \$50 million dollars for a...

Faiks: No wonder you have time to make little colored pictures.

Merrill: Within that money is \$50 million dollars that was

appropriated for a replacement for the TUSTUMENA, and it was basically all federal money. It's highly unlikely that the Department is going to put a third of its federal money into one project in one year but those are the kinds of projects...

Fahrenkamp: That kind of depends on whether Bill [redacted]'s finance chairman or not.

Merrill: You can comment on that, I can't.

Faiks: Somebody ought to.

Moss: In other words what you're saying we've been allocated \$50 million for the TUSTUMENA already.

Merrill: The authorization is there, if it was set up and the feds approved it now, there's nothing says we couldn't start working on it.

Faiks: And the TUSTUMENA, that's our highway dollars, isn't it, I mean that's part of our interstate highway system, so in the southern region, they don't get \$50 million dollars a year, do they?

Merrill: No, about ten.

Faiks: That's right, because we get \$50 million right here in River City for all of southcentral Alaska.

Merrill: Let me tell you one of the benefits of surfacing this and trying to account what were the projects that the legislature intended to be done with that. It allows you to come back and reprioritize that and that will...

Moss: In other words, what you're saying Jim, out of that \$857 million, the TUSTUMENA is one of them, do we want to keep that up there as a number one, two, three or four priority? That's what we need to tell you all again, right?

Merrill: I'd like to get it out of our books, because you know, every year we have to look at \$800 million dollars.

Faiks: I bet those legislators that aren't there anymore that have the projects in are the first one to go.

Merrill: Anyway. But we are accounting that will be in the report, as best as we can identify what the project, legislative intent it, what our status on those projects are.

Fahrenkamp: One question. Now that \$800 million that's somewhere, that's at least appropriated, how much is that under what it would take to do all the jobs that have been appropriated and don't have enough money to do.

Merrill: I don't know that figure but I can tell you know that you can't buy a TUSTUMENA for \$50 million bucks.

Fahrenkamp: Well, I know that but...

Merrill: And I am not a naval architect but I...

Fahrenkamp: ...it sounds like you've got a whole heap of money, and yet, there might be, we'll pick up a round figure, \$11, \$12, \$15 million, \$100 million, \$1 billion, oh give or take a 0 or two, that had been authorized, but there's not enough money yet to do, huh?

Merrill: My own person opinion is that the bulk of that is excess federal authorization. We may be looking at maybe \$100 million dollars worth of general fund. don't hold me to those figures, but I have a feeling it's about that amount. The rest of it is excess federal authorization that we've asked for, and you've given us.

Faiks: Excuse me for having to run out for a phone call, maybe somebody's already asked this question, are you going to be able to give us the project that was authorized, what year it was authorized, how much it was supposed to be...

Merrill: We are accounting back, I used summary type data, I can't, maybe not be able to get back to the very line item in the appropriation. Some of them are just allocations where it says go build highways, but I will take it back to the legislation, session law, chapter and year.

Faiks: I guess if it says it's a block grant to go build highways, then that would be fairly easy to take care of. What we're having trouble with is go put \$5 million dollars into the Steese Highway...

Merrill: Or LaTouche.

Faiks: Right, or LaTouche, okay. So then we'll have to...but that might have been ten years ago, or seven years ago or whatever and maybe the Steese Highway has already had it's upgrade in that spot. We have to have the tools to be able to decide what gets dropped off and what doesn't.

Merrill: We are going to, the best we can, give that, and what the present, current status of it is...we hope to surface some kind of an add/delete bill to you.

Fahrenkamp: I tell you one thing - we know a hell of a lot more than we did when you started this.

Merrill: So do I, and if I knew it, I don't think I'd have done it, accepted the challenge.

Fahrenkamp: Scared you half to death, wouldn't it?

Merrill: Yeah...our approach, you know I said couldn't do an accounting approach, I can account for all the projects, and we're going to try to account for the scope, the legislative intent, the intent of the bill, interchange, I can account for that. Going to the appropriations, and we can account for the dollars spent on appropriations. Then we come over to the funds...here we have the revenue problem, is that we are trying to determine in the factor the revenue shortfall which will point out the funny money. We're going to do that in summary, because I can't, there's nowhere in our records get back to the individual project.

Abood: Will you be able to tell why the shortfall?

Merrill: I will be able to tell you generally what the main reason is for shortfall, that the project was programmed to spend \$10 million dollars state money and \$100 million dollars federal money and when it all ended up we spend \$20 million dollars of state money, \$80 million dollars of federal money and we still hadn't overspent the appropriation. We changed the funding mix of the appropriation just from our spending patterns. This is going to be revealing to the Department how widespread that is too and it is reasonably widespread. And that's why going back to our legislation you always have a total appropriation and you have a funding source. Nowhere have we overspent the total out there, but what we don't know is what have we done to the mix.

Faiks: Why do you need a supplemental if you haven't overspent the total?

Merrill: Because it maybe...

Faiks: Because you have unpaid bills sitting on the...

Merrill: And one other reason, that we may never get the federal money, the feds won't ever participate.

Moss: For what reasons?

Merrill: One of the things is that the work that was done was declared non-participating, or it might have been like the right-of-way on a project here that they said wait a minute, you didn't do it right, and that was \$9 million dollars. And if they come back and say they're never going to pay you, the state's going to eat the \$9 million dollars, and we have found a lot of that, and we're going to...right in the report so you know exactly where that is. The approach is, and this is where I need some feedback within the next three or four weeks if I can get it. Is this approach, I can't hard-wire between the...in the accounting practices, but I can take all the information in the project, the information

of the appropriation, the summary, and the funds and I can do a threshold analysis and give you what I believe has occurred and the ranges of problems, and like I say we may have spent \$10 million dollars more general fund here than was in the mix appropriated on top. That we feel we can do it, and do it in time for when you come back to the next session, that you will have that report in your hand so you can look at it. That is what I need to know, if that kind of approach would answer your questions. You probably wouldn't be happy with it, I don't expect you to be happy, but at least you would understand why I feel I have to go that way.

Fahrenkamp: Now you and I both know, or let's say suppose, that there's been a project here DOT's doing, oh well, they just lack \$13 million of having enough, or \$20 million of having enough, or whatever, and we've got this kiddy over here to do this little jobby, so let's just take \$13 million of it and cash it...

Merrill: From what I heard from the railroad this afternoon I would go ask them how they do it. It's about the same. It has happened in the past, traditionally, that you've just gone down to the next fund source. However that is not a practice now.

Fahrenkamp: Hopefully not.

Merrill: One of the reasons is that your line item appropriation, however, mistakes are made, I just saw one the other day where there was on the same page as Chapter 24 which was just last year's session was a totally state funded project and right below it was a federal aid project. Guess where the federal aid expenditure was on the state project. In this case it was \$124 thousand dollars. The feds will never get billed for that. Now if that had gone undetected through next June 30th, we could not have corrected it, and that's what's happened in the past, that nobody ever looked, and corrected those. We're putting into place now an effort to make sure that that does not...

Moss: Would the FIS do this?

Merrill: FIS will, FIS is only the computer part of it, but it would help.

Moss: How come they aren't proceeding on with FIS?

Merrill: FIS has had some implementation problems that has delayed it.

Moss: Is it true they spent \$4 million dollars?

Merrill: I'm unsure of that.

Moss: I just want to get that on record.

Merrill: I'm unsure of that. We have accomplished some firsts in this effort that I'm proud of, and I think that you as a committee ought to be proud of too because you were involved too. We have closed 8351 projects that were always there open...and involved in doing this has become an increased knowledge and emphasis in the department that the old days are gone, that accountability is now part of the game. As I said before we have reduced the dollars of overexpended project budgets - from \$45 million to below \$10 right now, and we're going to get that even more. We have developed new report capability to allow us to pinpoint our problems before they get where we can't do anything about them. We call the annunciators. Pappy, you're an old airplane driver like I am. Annunciators always is a little light that says you've got some problems, and hopefully in time that you can correct. One of the annunciators was the three red lights and three white lights that says red over white, airman delight, white over red, airman dead. Anyway, we have done this in depth study, and one of the things that I'm very pleased about is the teamwork and the understanding that we have developed with the legislature and other departments over this, it's no longer a hush-hush subject, we are starting to level with each other and there's becoming solutions to problems, There has been an agreement which has not happened in the department before, the agreement there is a problem and that we can do something about, and I think that's an important one, recognizing that we had the problem, and that we can do something about it. Now, we feel that we've gone over this piece right up here right now because we're in the process of writing a file report right now to the administration of which you will get a copy. We have one more little hole to go across here, and I hope that we don't fall into that, and that is, that we're going to have to be able to maintain our data until we have a new system in place to out it in for caretaking. That system is not there yet. It was originally scheduled for October 1 and it's somewhere down the future yet.

Moss: What do you call that?

Merrill: That's FIS. What we have done as CPC and we are going to be incorporated in the department and it will be an ongoing affair.

Moss: Let me get this straight before you go any further past that little hole there. FIS has got to be online to make sure it's corrected.

Merrill: There is really no pure way to spit out whether the money is general fund or other that you spend without having that capability. We are starting to keep records on mini-computers that allow us to keep track...that's part of our

effort here. You can see up here, the little man here he's looking here and there's been a break in the hitch between the system and integrity and we up here, we didn't do it in the first place, we're not admitting anything but we promise not to do it again. This is what we're going to what we have in place now as control feature. We have our reports that are much more accurate and more timely and point out the problem areas to us quickly. We are now put in what we call alpha-control. For instance if a charge is charged, if a bill is charged to the wrong project, we have a way to catch it, and the reason I caught this other one... is because I was reviewing one of these alpha-control and there it was, it stands out. We have established in each region what we call the project control groups comprised of five to seven people, who watch the projects, their funding, and their expenditure, whether they're in scope or out of scope, and those kind of things. These are all human type controls because we do not have any really computer control available to us at this time. Training, quality assurance, we are assigning responsibility now to where we know who has the responsibility, this isn't everybody's job now, it is an assigned responsibility and we have, by using these, we have the ability now to validate the information that flows within our system. Now in closing you see the little train. It is just starting over the hump, and we not only think we can we know we can accomplish it if we can use the approach that we have of being able to take the three areas - the projects, the appropriation and the funds and do a real professional analysis job and then present summary type data too.

Fahrenkamp: This time it's summary type data. Now if we get this...but if after all this work that you've done, which has been very encouraging to me, we have this system in place, will we from now on have to go to analysis type or can we have absolute control that will check project against project, funds against funds, or is that a dream that will never happen?

Merrill: The state has a new accounting system that is scheduled to go on-line the first of July. Within that accounting system is the ability to track other than total practice fund mix that you have in the legislature. That would be the single biggest help that we have, to be able to know whether we've spent the general fund portion of that appropriation. Right now there's nothing controls that, other than humans looking at that. We also feel that these human controls that I have just been over will have to continue on. We still have haven't replaced the human overlooking what the machine does, because the machine will accept anything. So we will continue these human elements in our controls which is new to our department and I feel that you will see a progressively better accuracy where we can do an accounting reconciliation whenever you need it. Hopefully to the point that

the Legislature would then have enough confidence in our project management ability to where we would once again be able to have a little more leeway than we now have with line-item appropriations. This is causing us some problems, but it's very understandable why the Legislature has done that.

Fahrenkamp: If we hadn't done that we'd never get there. Can we tell now from your work, excuse me Mr. Chairman, can we tell now from what's in this report that's coming up, would we be able to say okay, what's done and gone, I hope it doesn't happen anymore, but there's been \$3 million dollars worth of federal funding that should have been applied for that was never applied for by the state and received?

Merrill: Yes. We have that ability now and in fact it's on track. We run anywhere from \$25 to \$35 million dollars of unbilled federal receipts that's in the process. We're reasonably sure, I've checked back to 1972 which is the last records I could find available, and it looks that we have received all the federal money we've billed them for.

Fahrenkamp: Yeah, but did we bill them for all we were supposed to bill them for.

Merrill: That's the problem that I can't address, only in summary type data, and I have to do it on the revenue side. I have to say okay, in this fund, Fund 474 for instance, we spent money, so many million dollars that should have been federal aid. How much did we receive? And we're not going to get data out of that because of the problem I just told you about where they deposited the money to the wrong fund, but at least we'll have some summary data. One of the other things that we will have as of October 1, a very accurate count of the dollars it's going to take to complete every active project we have, and the type of money, whether it's general fund or federal money. We'll have a very accurate account and we will keep that up, obtaining that every three months, until we have FIS up to where we don't need to do that anymore.

Moss: Now will that carry us back through all of our previous projects that we know of in history?

Merrill: I'm going back as far as there's records. I know now that records in many areas are incomplete, because there has been lapses...

Moss: I know that at times when Casey was over there he was wanting to go back to '82, '83, as far as he'd want to go back to bring this data up to date.

Merrill: What we're doing is dividing them into two spots. We're

going to identify every project that's in the records somewhere as completed and done, and that will be in the appendix, there's going to be pages and pages. Then we're going to identify active projects by project and how much money was set up and what's the status of that project.

Moss: You got some kind of time frame on that?

Merrill: Our report to our executive, to our commissioner in draft form, we are expecting around the 15th of December, and then you can expect the published document maybe about a month later. This is, the reason we can meet this time schedule is because we have not had to do a strictly accounting reconciliation. Summary data is much easier and I...

Fahrenkamp: You do have to do that strictly accounting type stuff which would leave big holes as well, wouldn't it?

Merrill: Yes. What it would do is it wouldn't be any more accurate than the summary because of the holes in the data. And we have a consultant, Arnold Young, from one of the big accounting firms, who also agrees that this approach probably better than a strictly accounting approach.

Fahrenkamp: Well, Mr. Chairman, I've got to say again, even though it's summary data, I'm very encouraged to see this coming on line.

Moss: (inaudible)...I'm kind of proud of it myself.

Merrill: Any successes we've had so far has been because of this committee, has been willing to work with us on this, and I think it speaks well for the cooperation to the department on this project. Both are benefit.

Moss: Anything else.

Fahrenkamp: Let's go home. Unless he needs anything from us. What do you need from us?

Merrill: The only thing that I would need is some feedback is on the approach that I can't do a strictly accounting and that this would be an approach at least you'd be willing to look at.

Fahrenkamp: What you really expect is to hear some yelling about it, right?

Merrill: Yeah.

Fahrenkamp: Well all I can tell you is that... as I know how, because I don't know how you can do anything else unless you've got fifty years to do it in.

Merrill: And that's the conclusion...

Fahrenkamp: If you did do it strictly accounting then somebody's going to do a witch hunt.

Merrill: Oh yeah, there would be jail talk, and that's really not what we've been cut to do.

Fahrenkamp: What we set out to do is get this thing straightened up.

Merrill: I do appreciate the interest. This thing could have died if it hadn't been for the commissioner and your interest as the committee. It hasn't been totally an easy road internally.

Fahrenkamp: Have you had any encouragement on the part of any of the other agencies or are they knowledgeable about what you're doing, have you had any encouragement from the agencies wanting this type of approach taken into their accounting?

Merrill: We have not contacted them, other than I know they do have basically the same problem, that could be approached the same way.

Moss: This is one of the biggest problems we had in the department, Bettye, when you look at it. Actually if this system works here, it could be applied to any other department.

Fahrenkamp: We could get them up to snuff and start somewhere clean.

Merrill: The one thing, Senator, that's got me a little concerned, that we have set up these human controls that we're going to try to keep the data clean now, but that has to be always a little pressure, always emphasis maintained, the human has a tendency to relax. There is nothing in the system developed as we have today that will allow it to, set it to motion and forget it. Our commissioner is not willing to do that, he's not willing to set it in motion and forget it, we stress that he is going to keep the pressure on.

Fahrenkamp: I would hope that your commissioner would encourage other commissioners to look at the...and to share with them what he feels about the value of this kind of approach, because I know we've had good people to leave government agencies for the fear that, good Lord, the way some of the accounting processes are, somebody's going to go to jail, and it's not going to be me, I quit.

Merrill: I thought about that myself.

Chairman Moss adjourned the meeting.

CAPITAL PROJECTS CLEANUP

STATUS 9/27/84

The Capital Projects Cleanup (CPC) effort was started in November 1983 as a result of the Arthur Young Inc. Capital Projects Assumptive audit of October 1983. The CPC team is now preparing the Final Report of its year long effort.

Important Accomplishments

The CPC effort has some significant accomplishments, both as a direct result and as indirect spinoff.

1. The universe of projects in the system has been significantly reduced. 8,351 projects or project phases have been closed. Our project computer reports are now 3/4 inch thick instead of 3 1/2 inches. All projects have been assigned to the responsible Region and the Departments' reports are now available by Region. Special exception reports have been developed to highlight problems and errors.
2. Increased knowledge and awareness of good project management techniques and responsibilities. Projects with expenditures in excess of budget have been reduced from \$45,509,539 to less than \$10,000,000.
3. A detailed look into the idiosyncrocies of FMS and our whole project management and accounting system.
4. Confirmation of the continuing belief that our present "system" is not serving us well. This knowledge has strengthened the development of the Department's new Project accounting system (F.I.S.) and the Project Control Groups in the Region.
5. Development of an integrated approach to reconciliation of the Department's present project accounting system which would be acceptable to most interested parties. This involves a three element program accountability analysis.
6. Better understanding and teamwork between various Departments and the Legislature concerning the whole Capital Projects problem area. These various groups have become part of the solution, not critical onlookers.

CPC OBJECTIVES

The CPC Process and Procedures manual published in January of 1984 listed five objectives of our effort. The Final Report will show that these objectives either can be or have already been met by the Department.

Objectives

1. Restore confidence in Department of Transportation and Public Facilities (DOT&PF) ability to effectively manage Capital projects.
2. Separate the Department's C.I.P. program of work initially into active and inactive categories for analysis and accountability of current and previous C.I.P. activity. Subsequent refinements of status will place all projects in active, complete, closed, and unclassified classifications.
3. Find a suitable way to account for Departmental responsibilities in the past which will allow those old issues to be resolved.
4. Provide a "cross walk" to F.I.S. by identifying the projects and information reliability to be included in the new system.
5. Identify criteria, policy, procedures and training needed for effective future project management.

These five objectives will be thoroughly discussed with recommendations in the report.

CPC FINAL REPORT FORMAT

The CPC Final Report will contain five main sections and an extensive, detailed Appendix. The Report will include these sections:

1. CPC Objectives

This section will show how the CPC effort has met the objectives.

2. CPC Process

This section will build confidence in the solution and provide a detailed history of the effort which will provide an audit outline for future use by providing a complete outline of the whole CPC effort, the solution that the Department has developed, its strengths, weaknesses, etc..

3. PBA/FMS Reconciliation

This section will establish the reliability of FMS in relationship to PBA. Some old problems will be discussed and the conclusions that CPC arrived at will be detailed.

4. Program Accountability

This section will be a summary type presentation of how well the Department has met its obligations. The detailed data will be cross-referenced from the Appendix. Use of charts and graphs will be extensive.

CPC will provide program accountability using three basic methods:

- By Project: This will treat projects as a single entity regardless of funding source. This will show scope accomplishment including conformity factors.
- By Appropriation: This method will provide the accountability (or lack of) based on appropriations.
- By Fund: This method will provide the accountability by both project and appropriation within the designated fund.

The Program Accountability section will concentrate on the strengths of DOT&PF program/project management while readily admitting the weakness and unreconcilable problems. This section will be strictly "up beat" with concentration on understanding and acceptance. The three basic methods will be brought together in a rational analyses which will show the overall condition and accountability of the C.I.P. program activities.

The Program Accountability Section will also address program irregularities, program status, fund status and revenue questions. Appendices will be correlated to provide information in detail for those who wish the backup.

5. Corrective Action and Time Schedule

This section will detail the actions recommended by CPC using three general groupings.

a) Departmental

This group of recommendations and corrective actions including implementation schedules will cover items such as:

- program accountability recommendations
- system integrity and development
- recommended supplementals, etc.
- training
- policy, procedures
- Quality Assurance and Control
- organizational needs

b) Administration (other Departments of State)

This section will discuss interrelationships and recommendations with units such as OMB, DOA Finance, etc. Items such as:

- State Accounting System
- Revenue accountability
- RSA's etc.

c) Legislative

This section will present and discuss CPC recommendations for Legislative Actions. Items such as:

- Revenue
- C.I.P. implementation problems due to structure of appropriations, etc.
- Capital projects flexibility

The CPC effort will also produce for the Commissioner a Confidential Executive Report which will speak frankly about any strictly in-house items which he should be aware of.

This report can include items such as:

- confidential personnel matters
- inter-intra Departmental relationships and problems
- Legislative Recommendations
- Policy Recommendations

Time Schedule


The CPC Final Report will be ready for detailed Executive review by December 15, 1984. The Report data will reflect the C.I.P. status as of October 1, 1984. It is intended that the Final Report will be made available soon after the final Executive approval.

C P C
CAPITAL PROJECTS
CLEANUP

INTERIM REPORT

No. 1

State of Alaska
Department of Transportation
& Public Facilities



CAPITAL PROJECTS CLEANUP COMMITTEE
INTERIM REPORT #1

This report is the first of several planned interim reports which will provide status of the project and outline the next steps needed in the Capital Projects Cleanup (CPC) effort. Included in this report will be problem identification, recommended solutions, and listing of resources needed to successfully keep the project on target and on schedule.

I. CPC PROJECT STATUS: (As of 4/1/84)

The major emphasis of the CPC to date has been focused on three principle areas:

1. a) classification of all projects listed as active and open in FMS and PDS into four categories (element III. See CPC Process and Procedures Manual for definitions).
 - 1) active
 - 2) complete
 - 3) closed
 - 4) unclassified
- b) proper assignment of Regional or Unit responsibility
- c) freezing "closed" projects in FMS (element IV)
2. determination of fund source status (elements V and VI)
3. verification of PBA/FMS reconciliations (elements I and II)

The effort in classification has been very successful. The areas where significant gains can be made have been highlighted and recommendations for these actions are contained in the recommendations section of this report.

CLASSIFICATION RESULTS

CLASSIFICATION	TOTAL #	% OF TOTAL	NUMBER OF PROJECTS/PHASES IN CLASSIFICATION BY REGION OR UNIT RESPONSIBILITY							
			CENTRAL	NORTHERN	SE	NOME	VALDEZ	STATEWIDE	MHS	STATEWIDE
			1	2	3	4	5	6	7	8
Active	1760	45%	593	491	195	10	7	20	41	3
Complete	552	19%	388	94	56	3	3	2	6	0
Closed	986	34%	272	395	227	28	36	11	17	0
Unclassified	52	2%	13	18	11	3	1	4	0	2
TOTAL	2950	100%	1256	998	489	44	47	37	64	5

* The CPC had concentrated its efforts on FMS cleanup as the timing, priority, relationship to PBA, and resources available do not allow full operations on both FMS and PDS at this time. This does not mean that the PDS effort is dropped, only delayed until FMS is cleared up. In this interim, on-going activities in PDS should be coordinated with the results of the CPC classification and cleanup efforts.

ESTIMATED COSTS TO CLOSE

CLASSIFICATION	TOTAL \$(1,000)	REGION OR UNIT RESPONSIBILITY \$(1,000)							
		CENTRAL	NORTHERN	SE	NOME	VALDEZ	STATEWIDE	MHS	STATEWIDE
		1	2	3	4	5	6	7	8
Active	453,890	194,458	130,532	60,021	464	128	24,666	42,634	897
Complete	28,409	20,747	2,343	1,643	203	43	2,850	580	-0-
TOTAL	482,209	215,205	132,875	61,664	667	171	27,516	43,214	897

* Does not include liabilities in 52 unclassified projects

ON LINE FMS ACTIVITY

Using the information supplied during the Regional CPC classification effort, 954 of the 986 projects or project phases identified as closed were "frozen" in the on-system FMS. This freezing action was accomplished by placing 00/00/00 as a cutoff date and where fund resources allow, funding the project equal to expenditures. This action will undoubtedly increase the number of transactions on the error register due to "after cutoff date." We plan to let these errors accumulate during April. A "window" will be opened during May for clearance of the error register. During this time period, CPC intends to correct all the "after cutoff date" errors caused by the CPC closure effort. This is a manual process which will impact the Headquarters unit. No regional effort will be required for this action. Other error types must also be cleared. This will be a regional responsibility.

The effect on the error register so far has been negligible, but we expect the April 30, 1984 errors "after cutoff date" will show a substantial increase.

<u>TYPE OF ERROR</u>	<u># OF ERRORS 2/29/84</u>	<u># OF ERRORS 3/31/84</u>
After cutoff date	1472	1339

DETERMINATION OF FUND SOURCE STATUS

Determination of fund source status has been one of the most difficult and labor intensive efforts. While some of the information already resided within the FMS data base, considerable effort has been expended to correlate this information to the original legislation and fund type. This effort involved a project-by-project search of the legislation, correlation of fund type (billable versus non-billable) with programmatic records and legislative appropriations. This effort is still in progress. Due to the magnitude of the difficulties encountered, additional resources from other units will be needed to verify and correct the data. This effort is the highest priority within CPC at this time as the data will also be required for FIS implementation and loading.

PBA/FMS RECONCILIATIONS

Elements I and II of the CPC task required verification of PBA/FMS reconciliation. The CPC team has monitored these elements for three months and has concluded that for all practical purposes PBA and FMS are in basic balance. By the term "in balance" it must be understood this represents an accounting balance which reflects the net collocate status in PBA/FMS.

NET ACCOUNTING BALANCE DIFFERENCE BETWEEN PBA AND FMS

<u>DATE</u>	<u>AMOUNT</u>
1/31/84	\$ 5,132.00
2/29/84	\$ 4,651.27
3/31/84	\$ 4,674.02

The matter of "reconciliation" to the project level is another problem. When documents do not pass the edit checks built into FMS, it must be remembered that PBA already paid the bill and charged the collocate. When the document tries to process in FMS and cannot, it goes to errors. The costs already paid by PBA are placed in clearing accounts such as Z99996 and the collocodes in both FMS and PBA are then in an "accounting balance" but have not been reconciled to a specific project. If the error is ultimately identified to a specific project, it is removed from the error clearing accounts and charged to the project by manual adjustment. If it remains uncleared, project level reconciliation has not occurred.

The question of project specific reconciliation then becomes a matter of cost benefit. It makes very little sense to spend \$100 to "reconcile" \$5 to the specific project. Where federal aid projects are involved, these uncleared costs will never be reimbursed by federal aid. The general fund has already paid the bill. This may contribute to the "funny money" problem.

As of 3/31/84, the scope of these "unreconciled project specific" expenditures amounts to \$39,275,057. This amount resides in various M and Z accounts in FMS. \$16,001,892 of the total \$39,275,057 of "unreconciled" expenditures is in the M90001 pre-FMS Accounting Transactions account. Some of this amount may represent actual unrecorded expenditures to specific projects. However, this condition may not be the case if the original expenditures were actually recorded to a project which has been lapsed improperly from the system. It would be difficult to determine the exact status of these "unreconciled" project specific expenditures.

A policy decision is needed relative to the resources required to resolve this "unreconciled" project specific expenditure problem.

II. ACCOMPLISHMENTS AND BENEFITS OF THE CPC EFFORT (To 4/1/84)

The CPC effort so far has made several significant contributions to the Department's program/project management effort:

1. For the first time, all active projects have a Regional or Unit responsibility assignment. This has been previously impossible due to the many statewide programs and appropriations. Early in April, the first regionalized R01-TBR-1615 (suppressed version) will be available to the CPC Regional Coordinator and Project Control Groups. This will allow regions to have a 1615 with just their projects shown.
2. Closing of 983 projects/phases which were previously identified "active" in FMS.
3. In addition to closing projects, the CPC has determined the scope of our "completed" project problem by categorizing those unresolved liabilities which do not allow closing of the project.

4. The CPC effort has identified the estimated costs-to-close of all active and completed projects. During the classification effort, costs-to-close for the active and completed projects were estimated to be \$482,209.000 as of 1/31/84.
5. The CPC effort has identified several short-term objectives which should be accomplished before year-end closing and FIS startup:
 - a. determination of fund source status (billable and non-billable),
 - b. correction of a serious over-programming situation (see page 8),
 - c. identification of training, policy, and procedure needs,
 - d. correction of project overexpenditures, both in individual collocodes and projects level.

These items will be discussed in the recommendations section.

6. Possibly more important than the information gained from the CPC effort is the renewed interest in program/project management. The CPC found a great enthusiasm among all DOT/PF personnel for development of a dynamic and on-going operation to overcome our program/project management problems. This opportunity must not slip away, nor this enthusiasm go unrewarded.

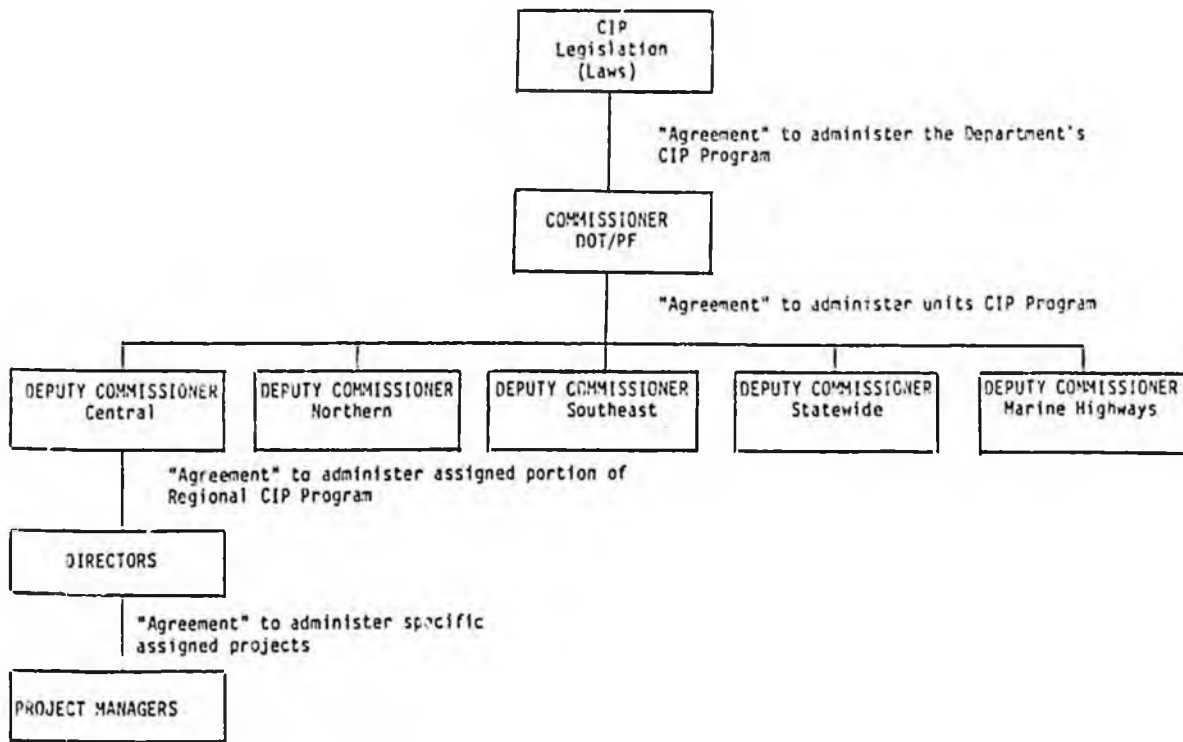
III. RECOMMENDATIONS

The CPC team has several recommendations which we feel must be carried forward. These recommendations will require significant expenditures of resources to accomplish and will impact the Regions and other units. Commitment of these resources is essential for continued progress.

The recommendations in this section have been divided into CPC operational recommendations (which are usually short term) and Departmental policy and systems recommendations.

CPC OPERATIONAL

The CPC effort has identified several major problem areas which demand a concentrated effort for correction before full accounting and project reconciliation can be accomplished. The Department has many levels of responsibilities. Some of these responsibilities are internal to the organization and some external. In the program/project management area, these responsibilities can be characterized as a series of "agreements" between certain positions, sections, etc. and higher levels of responsibilities. For Example:



From the simplified diagram given, there are at least four levels of agreements within the Department's CIP program administration. Each of these levels carry basically the same responsibilities: the Commissioner "agrees" to administer the CIP program/projects within scope, budget, and time constraints, if any. This same "agreement" is present between the Directors and their Project Managers only at a more detailed level. The main goal of the CPC effort is to determine if these agreements are still applicable, if the parties are "out-of-agreement", and to correct areas where "out-of-agreements" occur.

CPC has identified projects in each region which are "out-of-agreement." "Out-of-agreement" in CPC context is defined as projects or programs which:

1. expenditures have exceeded budgeted or authorized fundings,
2. expenditures exceed individual funding source or type,
3. project scope, etc. is significantly different from the "agreement" with the next level of responsibility.

The CPC effort has identified several major areas where these "out-of-agreement" conditions appear to be present. Other areas of "out-of-agreement" will be covered in later Interim Reports as more detail and corrective action has been identified.

These problem areas are:

- A serious, possibly long term, over-programming problem is apparent. On 2/29/84 FMS records indicated a total of \$5,845,732 over-programmed in 158 different collocodes. This represents a serious differential between our accounting, programmatic and project budget records. For example, in collocode 24-84-7-001, there is \$1,240,180 programmed to specific projects in excess of funding available. There is only one project funded in this collocode...K93511 Fairbanks Flood Control.

CIP PROJECT AUTHORIZATION BALANCES								MONTH ENDING	03/31/85
PROJECT	NAME	COLLOCATION CODE	CUTOFF DATE	LAST DATE ACTIVITY	FUNDING	ENCUMBRANCE	YTD EXPENDITURE	BALANCE	
R02-TBR-1615	DEPT 24								
X93448	KODIAK BOAT HARBOR BONDS	24841750	12/31/84	03/31/83	114,400.00		125,028.66	10,628.66	
		24843232	12/31/84	02/29/84			52.00	52.00	
		24847004	12/31/84	08/17/83	1,000,000.00		1,039,980.85	39,980.85	
		K93448 PROJECT TOTALS:			3,614,400.00	0.00	3,617,445.47	3,045.47	
X93511	FAIRBANKS FLOOD CONTROL	24847001	06/30/85	08/12/83	9,930,000.00	1,695,220.86	6,986,198.29	1,248,580.85	
		K93511 PROJECT TOTALS:			9,930,000.00	1,695,220.86	6,986,198.29	1,248,580.85	

CIP COLLOCATION-PROJECT AUTHORIZATION BALANCES								MONTH ENDING	03/31/85
COLLOCATION CODE	PROJECT	NAME	CUTOFF DATE	LAST DATE ACTIVITY	FUNDING	ENCUMBRANCE	YTD EXPENDITURE	BALANCE	
R02-TBR-1615	DEPT 24								
24847001	K93511	FAIRBANKS FLOOD CONTROL	06/30/85	08/12/83	9,930,000.00	1,695,220.86	6,986,198.29	1,248,580.85	
	UNALLO	*** NOT ON PROJECT MASTER FILE ***			1,240,179.61			1,240,179.61	
		COLLOCATION TOTALS:			8,689,820.39	1,695,220.86	6,986,198.29	8,401.24	
24847004	K31406	WASMO POINT LOCK	08/31/84	02/02/84	438,922.49		438,922.49		
	K21438	UNALASKA HARBOR	08/31/84		233,039.37			233,039.37	
	K78448	KODIAK DOG BAY HARBOR DEVEL	12/31/84	03/31/84	75,350.00	2,500.00	1,693.09	238,539.37	
	K83448	DOG BAY BREAKWATER	12/31/85	03/23/84			329.50	73,658.91	
	K93124	METLAKATCA BOAT HARBOR BONDS	12/31/85	06/10/82	1,199,886.68		1,227,706.84	28,706.84	
	K93153	KETCHIKAN BAR HARBOR	12/31/83	12/31/83	818,505.64		761,515.92	56,989.72	
	K93448	KODIAK BOAT HARBOR BONDS	12/31/84	08/17/83	1,000,000.00		1,039,980.85	39,980.85	
	M90007	UNCLEARED Z99996 PRE S1	12/31/83	00/00/00			1,318.78	1,318.78	
	UNALLO	*** NOT ON PROJECT MASTER FILE ***			253,339.29			253,339.29	
	Z99910	P/R SUSPENSE AFTER 02/30/83		03/31/84			61.28	61.28	
	Z99999	A/P EQUIPMENT USAGE		12/31/82			378.30	378.30	
		COLLOCATION TOTALS:			3,240,978.21	2,500.00	3,469,137.71	49,360.28	

The \$1,240,180 was placed as a "negative unallocated" in the code to bring it in balance with PBA. The project budget still reflects funding of \$9,930,000 with an unencumbered balance of \$1,248,581. However, the funding source code as shown in the R02-TBR-1615 has only \$8,401 unencumbered balance. Simply stated, the project thinks it has \$1,248,580 when in reality it has only \$8,401.

These "negative unallocated" funds must be brought to zero so the project budget accurately reflects the funding available. Of interest on the same chart, the very next code -24-84-7-004 -- also has "negative unallocated" funding of \$223,839. This code also reflects similar conditions.

- ° There are 796 projects/phases with expenditures in excess of budget as indicated by FMS records of 3/31/84. This situation of "negative balances" can be caused by a variety of reasons including data entry errors. In any case, this represents a failure to recognize in the Department's programmatic and budget records the actual funding necessary to offset expenditures which have already occurred.

The 3/31/84 records in FMS show \$17,358,221 expenditures in excess budget. This does not mean the appropriation is overexpended. It does indicate, however, a lack of discipline in keeping the project records current. The lack of corrective action indicates an "out-of-agreement" situation. The summary of "out-of-agreements" by regional or unit responsibility are as follows:

REGION #	REGION OR UNIT	# OF PROJECT/PHASE	\$EXPENDITURES IN EXCESS OF BUDGETS "AMOUNT OUT OF AGREEMENT"
1	Central	184	\$12,988,908
2	Northern	141	813,736
3	Southeast	76	1,213,326
4	Nome	11	44,667
5	Valdez	14	31,329
6	Statewide	9	130,540
7	Marine Highways	8	26,613
8	Statewide Planning	1	5,005
	Headquarters/Financial Management (00/00/00 projects in process of closing)	352	2,103,597
	TOTAL*		\$17,358,221

* Included in the \$17,358,221 is \$1,409,921 expenditures in Departments "16" and "25" and \$344,118 in advance Right-of-Way funds (Q Funds) which may or may not be correctable at this time.

Of particular concern in the \$17,000,000 total negative balances is the occurrence of expenditures which are not Federal-Aid reimbursable. Within project categories which are usually general-funded (and many times in a single appropriation) there has been \$3,200,000 of expenditures in excess of FMS recorded project budgets.

CATEGORIES	\$ EXPENDITURES IN EXCESS OF BUDGET
State Funded Highway Projects	\$912,377
LSR&T	61,294
Buildings	593,686
Harbors	98,118
RSA and Department Contracts	1,139,845
Special State-Funded Projects	34,743

- ° There are many active project budgets which have one or more funding codes overexpended in FMS. In many cases, the correction will only involve moving expenditures to another code within the same project.

It is essential that these be corrected before year-end closing. Due to the rolling forward of net balances available in PBA, the Department's ability to correct this problem, in many cases, exists only until about August 15, 1984. After that date, correction will be virtually impossible. The over-expenditures in the project funding collocodes, if not corrected, could have serious consequences on the Department's ability to complete other projects in the same collocodes.

Numerous examples exist which show that collocate over-expenditure can have serious consequences for other projects funded in the same code. For Example:

R01-TBR-1615		DEPT 24		CIP PROJECT AUTHORIZATION BALANCES				MONTH ENDING 03/31/84	
PROJECT	NAME	COLLOCATION CODE	CUTOFF DATE	DATE LAST ACTIVITY	FUNDING	ENCUMBRANCE	ITD EXPENDITURE	BALANCE	
→ H00204	DIOMEDE HIGH SCHOOL	24881100	01/01/84	04/06/83	1,097,969.00		1,145,498.91	47,529.91-	
		24881350	01/01/84	11/28/83	2,561,000.00	47,529.91	2,513,470.09		
		24881454	01/01/84	11/28/83	1,600,000.00	630,000.00	313,969.91	51,030.09	
		H00204 PROJECT TOTALS:			4,658,969.00	677,529.91	3,977,938.91	3,500.18	
→ H00206	ST MICHAEL HIGH SCHOOL	24881100	06/30/85	04/25/83	1,793,707.00	33,570.00	1,714,028.00	46,109.00	
		24882045	06/30/85		19,442.00			19,442.00	
		H00206 PROJECT TOTALS:			1,813,149.00	33,570.00	1,714,028.00	65,551.00	

R02-TBR-1615		DEPT 24		CIP COLLOCATION-PROJECT AUTHORIZATION BALANCES				MONTH ENDING 03/31/84	
COLLOCATION CODE	PROJECT	NAME	CUTOFF DATE	DATE LAST ACTIVITY	FUNDING	ENCUMBRANCE	ITD EXPENDITURE	BALANCE	
24881100	H00202	ELIM HIGH SCHOOL	12/30/85	03/13/80	899,835.00		899,835.00		
	H00203	SHAKYOOKLIK HIGH SCHOOL	12/30/85	11/02/82	912,444.00		905,333.00	7,056.00	
	H00204	DIOMEDE HIGH SCHOOL	01/01/84	04/06/83	1,097,969.00		1,145,498.91	47,529.91-	
	H00206	ST MICHAEL HIGH SCHOOL	06/30/85	04/25/83	1,793,707.00	33,570.00	1,714,028.00	46,109.00	
	H00207	GOLOVIN HIGH SCHOOL	12/30/85	01/04/83	1,570,149.00		1,538,745.00	31,403.00	
	H00208	KOYUK HIGH SCHOOL	12/30/85	12/02/82	1,343,272.00		1,330,912.00	12,360.00	
	H00209	STEBBINS HIGH SCHOOL	12/30/85	01/05/83	2,020,421.00		1,959,822.34	60,613.00	
	H00210	BREVIG HIGH SCHOOL	12/30/85	11/02/82	1,583,659.00	2,034.00	1,581,655.00	14.34-	
		COLLOCATION TOTALS:			11,221,506.00	139,950.00	11,075,935.25	5,620.75-	

The over-expenditure in H00204, Diomedes High School, occurred in the same collocate as the St. Michael High School project, project #H00206. The St. Michael High School with a cutoff date of 6/30/85 shows a project balance of \$46,109 in collocate 24-89-1-100. The total code has only \$5,620 unencumbered balance. Unless the Diomedes project expenditures are transferred to 24-89-1-454, an additional funding source for the St. Michael project must be found. The St. Michael project has been put in jeopardy by the over-expenditure in this collocate of the Diomedes High School project.

One interesting sidelight brought to light in the CPC cost-to-close effort is an estimate by the region that St. Michael School project #H00206 has cost-to-close of \$99,000. If this estimate is correct, the project will also need additional funding to complete.

- ° To aid in the CPC effort of determining fund source status (elements V and VI), Financial Management has developed a series of reports which will tie each collocate and project to the proper authorization and fund source type (billable and non-billable). Within the Department, there has not been uniformity from one mode to another in how funding sources and expenditures are treated. Expenditures have usually been recorded as billable (participating) or non-billable (nonparticipating) but the authorized funding for these expenditures by fund source type has not been correlated in the FMS system with the expenditures. The Department must now validate the data in these reports to determine the true fund status.

This will require considerable effort by the regions and other units but it is essential to the CPC and regular Departmental operations efforts. Benefits of this effort will:

- a) provide validated data on fund source status for cross-walking to the new FIS
- b) determine if fund type (billable or non-billable) has been over-expended (this information is not available at current time) and the true status of the fund type
- c) allow a better look at the revenue questions within the Department's systems.

The determination of fund source status is probably the most difficult part of the CPC. It is in this area that the Commissioner's "agreement" with the CIP legislation is most vulnerable. At this time, we are unable to determine if the Commissioner is "out of agreement" with the CIP Legislation, and if out of agreement, by how much, and what type of funding is involved.

- ° The CPC effort identified 552 separate projects or phases in which all work has been completed but the project cannot be closed due to claims, right-of-way problems, etc. The cost-to-close of these projects is estimated to be \$28,409,000. Some of these "completed" projects have cutoff dates as far back as 1975; others are more recent but could be several years old. A concerted effort must be undertaken to close these projects and liquidate the liabilities.

RECOMMENDATION #1:

Each region or unit designate a minimum of two individuals with at least one from the accounting office, to review the new reports, verify or correct the data and expenditures, and prepare the input documents necessary for their corrections. As a part of this effort, these individuals will:

- a) assist the CPC in driving the "negative unallocated" funding to zero by correcting if possible the funding programmed to each project within each collocode where this occurs. (discussed on page 8)
- b) review all projects/phases where there are expenditures in excess of funding and correct either the collocode over-expenditure or provide funding to bring the project/phase back into budget. (discussed on page 10)
- c) clear error register assigned to the region (discussed on page 3)
- d) update the programmatic records on active and complete projects to reflect the actions in a), b), and c).

These activities need to be completed before the fiscal year ends to prevent "locking" these conditions into the official State records when PBA rolls over. Since many collocodes contain projects from more than one region, any unilateral action on one specific project may impact other projects in the collocode. It is recommended that the Division of Statewide Planning and Policy be included in this effort and provide staffing and assistance to the CPC to resolve this problem. The commitment of resources is needed to assure completion of this activity prior to the fiscal year end.

RECOMMENDATION #2:

For those projects classified as "completed projects" by the regions with anticipated additional expenditures, assign specialists from the Division of

Standards and Technical Services to assist CPC in spearheading a concerted effort to close these projects. Suggested assignments are:

Utilities	Bruce Freitag
Claims	Loren Rasmussen
Right-of-Way	Jack Bodine

Completed projects with "other" types of anticipated expenditure classifications should be handled on the same expedited basis by designating an individual in each region or unit to work full time to determine:

- exact nature of liability
- problem preventing closure
- recommended closure action
- schedule for closing action
- determination of costs and availability of funding to close

Close coordination with CPC is essential.

To prevent further erosion of the project funding required to liquidate the estimated cost-to-close of completed projects, it is recommended that where project funding is available to cover the cost-to-close, the amount be encumbered and the balance released back to unallocated. For those completed projects without sufficient funding to cover the cost-to-close, additional funding will need to be located or a management decision on project termination considered. If additional funding is found, it should also be encumbered.

The following table summarizes the problem based on CPC analysis performed to date:

#	REGION	SURPLUS FUNDING		UNDER FUNDED	
		# PROJECTS	\$ EXCESS	# PROJECTS	\$ UNDER
1	Central	157	\$5,409,135	231	\$14,426,518
2	Northern	48	1,541,724	46	515,014
3	Southeast	30	1,477,995	26	1,652,031
4	Nome	2	61,812	1	43,041
5	Valdez	0	0	3	41,970
6	Statewide	0	0	2	161
7	MHS	4	604,124	2	3,636
8	Statewide Planning	0	0	0	0
	Misc., already closed, etc.				2,631,839
	Total	241	\$9,094,790	311	\$19,314,210

RECOMMENDATION # 3:

The CPC team believes that there is a great need for basic departmental program/project financial management training. This training must be tailored to a basic level as there is a wide range of knowledge levels in the project managers and Project Control Groups. The recent decentralization of DOT/PF activities has made it imperative that the Regions and units have a basic and broad understanding of DOT&PF program/project financial management principles. Training should be "targeted" to non-accounting personnel. If the training becomes too accounting-oriented the impact to on-going project management personnel will be lost. The training could establish the ground work for the "agreements" concept of program/project management. The concept, while very simple is a departure from prior Departmental philosophy and will require the support of both top management and project personnel for implementation.

DEPARTMENTAL POLICY AND SYSTEMS RECOMMENDATIONS

The CPC effort has identified several areas where policy decisions and system changes would increase the efficiency of our program/project management and would prevent recurrence of the problems which the CPC is now addressing. These recommendations should be considered as long term commitments and not instituted as temporary measures to an ongoing problem. It is recognized that some elements of the recommendations are already underway within the Department. Other elements still need to be addressed.

The major deficiencies in the Department's program/project management efforts can be summarized into the following four categories:

- 1) fractionalization of the authority/command structure
- 2) lack of dependable and accurate CIP Regional and Statewide reports
- 3) lack of coordinated efforts, program goals, and objectives
- 4) lack of a comprehensive "systems" approach which not only would provide the needed subsystems but would include personnel training, motivation, and development of a reliable quality assurance program.

From CPC experience, the department does not have defined lines of responsibility within either the headquarters or regional level relative to responsibility for CIP financial and programmatic direction and information. There does not seem to be a clearly defined responsibility assigned to develop, administer and monitor the performance of our programs, budgets and projects.

The CPC team feels that the many and varied efforts and approaches to the same basic problem of program/project management must be brought together into a unified effort. To our knowledge, there are at least 8 groups actively

working on the same effort, some only on a part of the problem. In most cases a single focus of responsibility (similar to CPC effort) could contribute significantly to efficient, coordinated problem resolution.

The Department needs to be able to tie its operating budget requests to project workloads. (The capability exists within MIS). As the downward pressures on the operating budget increase, detailed analyses and backup tied to the CIP workload must be developed to assure full recognition of program impacts and allow alternatives to be developed and presented. The organization of Project Control Groups is a start but from the understanding the CPC team has of their duties, the PCG as presently staffed cannot provide the management analysis, direction and information needed for effective control. Classification problems may need to be overcome to allow qualified staffing at the appropriate levels of expertise and experience.

The CPC team has not seen clearly defined goals and objectives in Departmental program/project management. This lack of goals and objectives allows divergent development and management which does not contribute to our ability to pull together. For example, Southeast Region Design and Construction saw a vacuum in terminology used in program/project management and has developed a small guide. We applaud this effort but the same vacuum exists elsewhere and without a coordinated effort, the Department will have as many definitions as there are individuals dealing with program/project management.

RECOMMENDATION #1:

The Department should unify its efforts in program/project management by

developing an organizational structure with a single point of focus responsible for program/project management, development, direction and leadership.

This recommendation is concerned with the operational procedures, coordination of programmatic and accounting information, evaluation, analysis, and monitoring of program and CIP performance.

RECOMMENDATION #2:

The Department should broaden its "systems" management approach to its operations. The more decentralized and diverse an organization the stronger its systems must be.

One of the first systems which should be installed is the Department Quality Assurance Program (QAP). This umbrella system would provide the Department-wide system for quality control. To be effective it must be highly visible. This visibility can be achieved by requiring each region to develop a quality control system in conjunction with the Department's QAP. The region quality control information base must be compatible with the Department's QAP. A commonly managed MIS would provide this.

RECOMMENDATION #3

Develop within the Department's CIP program/project management the concept of "agreements." This will clearly define the responsibility for corrective action when programs or projects "go out of agreement."

ADDITIONAL POLICY ISSUES NEEDING RESOLUTION

The CPC has identified additional policy issues which will need addressing in the near future. The investigation, analysis, and coordination has not been completed on these issues so recommendations are not given in Interim Report #1.

These issues are listed for identification purposes and to develop understanding for future discussion. This list may not be all inclusive.

Additional policy issues needing resolution are:

- "Reconciliation" of clearing and suspense accounts to the project level
- Audit requirements on TORA's, Grants, Agreements, etc.
- Over expenditure of RSA's
- Disposition of REAA balances
- Lapsing Policy for completed or closed projects
- Resolution of unfunded expenditures

DOT audit: Projects caught in a paper traffic jam

By LARRY CAMPBELL
Daily News reporter

The state Department of Transportation has failed to undertake more than \$800 million in construction projects approved by the Alaska Legislature since statehood, according to a preliminary audit of the department released this week.

The whereabouts of some of the money is difficult to determine, the audit said.

In many cases, hard cash intended for those never-to-be projects was shifted to other efforts. The state also may have paid more than neces-

sary for some projects because it failed to apply for available federal funds.

The audit, called the Capital Projects Cleanup preliminary report, was made public in a state Senate Transportation Committee work session Tuesday afternoon. The report is the result of two years of sifting through convoluted DOT accounting procedures used for the last 25 years, said Jim Merrill, DOT special projects engineer.

Auditors still are working to straighten out the confusing DOT accounting system in time to submit a final report

to the Legislature on Dec. 15, Merrill said.

Perhaps 75 percent of the \$397 million in DOT unfunded projects represents federal matching funds that no one apparently ever bothered to request, Merrill said.

"We're talking about a lot of small projects that just added up over the years," Merrill said. "In some cases, these projects were put back because they just weren't ready to go. In others, the DOT never had any intention of building them."

"This is something we haven't done since statehood,"

said Sen. Pappy Moss, Delta Junction, committee chairman, of the accounting review. "The philosophy has always been build it now and we'll straighten out the records later. Well, it's later now."

The problem grew as each Legislature through the years would approve appropriations for projects, Moss said. Each appropriation would contain formulas designating how much the state would pay and how much would come from the federal government.

While the dollar approval

for projects grew, the paper work necessary to obtain federal funds for those projects fell behind in many cases, Moss said. In other instances the DOT never intended to begin the projects, at least within a time frame viewed by the Legislature.

Lax accounting procedures also may have cost the state hundreds of thousands of dollars because some projects would occasionally use state funds where federal dollars should have been used, Merrill said. An estimated accounting of how much the state has overspent also will

be included in the Dec. 15 report.

Until recently, the department had kept about 11,000 projects in an open status that should have been closed or were never intended to be built, Merrill said. In the past month, Merrill and his staff have closed out more than 8,000 accounts that should have been closed years ago, he said.

One example was a \$50 million plan years ago to build a new ferry to replace the state system's Tustumena ferry that sails between Kodiak and southcentral Alaska.

The project was to be completed with \$3 million in state funds and the balance coming from the federal government. But the money was never requested.

Meanwhile, the Tustumena account was kept open, since the project was never completed. Merrill said, however, that building a new ferry is not in any future DOT plans.

Moss said the Capital Projects Cleanup evaluation at least has brought to light the lack of proper accounting procedures within the DOT.

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