

# REVIEW OF CAPITAL PROJECT CASH FLOW REQUIREMENTS

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## EXECUTIVE SUMMARY

Acts of Assembly Chapter 806 of the 2013 Session of the General Assembly required the Auditor of Public Accounts to report on the adherence to the cash flow requirements for each capital project funded in Chapter 806, Item C-39.40 and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects. This report reviews these capital projects and their related cash flows. It also reviews the involvement of the Departments of Planning and Budget, General Services, and Treasury and the role that the Six-Year Capital Outlay Advisory Committee plays in these processes to determine where delays occurred.

The capital project cash flow requirements process is effective; however, projects experienced occasional delays in obtaining planning funds from the Central Capital Planning Fund, getting approval to move to construction from the Advisory Committee, and getting approval to access construction funding. Agencies are submitting cash flow requirements to Treasury for determining bond issuance timing while General Services uses GCPay to forecast cash flow needs for the Advisory Committee. Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit.

### Key Recommendations:

The General Assembly may wish to consolidate the three project pools (pre-planning, detailed planning, and construction) into two pools (planning and construction) to reduce the time it can take a project to move through the three phases and potentially result in costs savings through timelier project schedules.

The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in starting project planning because all planning funds are in use.

The General Assembly may wish to consider eliminating the \$250 million dollar limit over Chapter 806 projects as it is redundant of the Commonwealth's debt capacity limit.

If the annual limit remains in place, the Advisory Committee should develop a process to evaluate the forecasted project expenditures, used to monitor the \$250 million annual limit, against actual expenditures to prevent projects from potentially stopping due to the estimates being much more conservative than actual expenditures.

To prevent delays in the progress of capital projects, in areas such as reimbursing and allocating Central Capital Planning Funds and approving access to construction funding, Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.

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## INTRODUCTION

Acts of Assembly Chapter 806 of the 2013 Session of the General Assembly stated, “the Auditor of Public Accounts shall report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.” This report reviews the capital projects funded in Chapter 806, Item C-39.40 (Chapter 806) and their related cash flows. The main objectives of this report are to

- obtain a thorough understanding of the capital project cash flow requirements process and determine whether the process is effective,
- obtain a thorough understanding of the use of cash flow requirements as guidance to approve projects for construction and for the issuance of bonds to satisfy the needs of capital projects,
- determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects,
- determine if agencies and institutions are submitting cash flow requirements to the Departments of Planning and Budget (Planning and Budget) and General Services (General Services), Chairmen of the House Appropriations and Senate Finance Committees, and the Six-Year Capital Outlay Advisory Committee (Advisory Committee),
- determine if the Advisory Committee is reviewing cash flow requirements and providing the information to the Department of Treasury (Treasury),
- determine if the Advisory Committee is meeting quarterly to evaluate capital projects,
- determine how Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit, and
- determine if Planning and Budget is reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.

The Auditor of Public Accounts issued a report in January 2014 titled, [\*Review of Capital Outlay Funding and Cash Flow Processes\*](#). The January 2014 report provides a description and history of the capital project pooled approach and the Advisory Committee.

This report will focus on the cash flow processes established around the Chapter 806 project pool. We included not only projects funded under item C-39.40, but also projects funded for pre-planning and detailed planning under item C-39.05, since the timing and availability of planning funds are significant to the entire pool process. We further narrowed the scope of this report by primarily reviewing project activity within fiscal year 2014. This will be an annual report, describing the progress of the Chapter 806 projects and any project delays that occur.

We conducted interviews with personnel at General Services, Planning and Budget, and Treasury. We attended the quarterly meetings of the Advisory Committee. We surveyed 26 agencies and institutions of higher education that have capital projects funded through the pooled project approach and have completed detailed planning, been approved for construction, or started construction. We performed analysis of the timing of various steps within the capital project cash flow process. We tested for compliance with Item C-39.40 of Chapter 806 of the 2013 Acts of Assembly.

Currently there are 73 projects in the Chapter 806 pools. As of June 30, 2014, ten projects have completed detailed planning and 16 projects have started construction. See [Appendix A](#) for a listing of all projects and their status.

## Major Cash Flow Processes

There are several processes that are imperative to the proper planning, timing, and delivery of bond proceeds to fund capital projects. These processes take place in various agencies and can be general processes used for all capital projects or specific processes created to address Chapter 806 reporting items. Some of these processes occur simultaneously while others are reliant on processes that occur previously. This report will address the essential processes to allow a project to be approved to progress from planning to construction including funding at various phases. These processes have been broken down into two independent but interrelated categories of Capital Project Processes and Capital Funding Processes. Generally, General Services and Planning and Budget handle the Capital Project Processes and Treasury handles the Capital Funding Processes. For the purposes of this report, all of these processes occur after a project has been approved and placed into the Chapter 806 project pool.

### Capital Project Process

Capital projects follow three basic steps, or phases, which include: Pre-planning, Detailed Planning, and Construction.

**Pre-planning phase** is the process meant to define the scope of the project and provide detailed definition and cost estimates. Pre-planning generally includes a statement of program definition, space requirements, estimates of gross and net square footage, and preliminary site analysis. General Services and agencies work together to develop a cost estimate during pre-planning to include total cost of the

project, construction costs, cost per square foot, costing methodology, and any factors that are unique that may impact the total project cost.

**Detailed planning phase** includes the preparation of architectural and engineering documents up to the preliminary design stage.

**Construction phase** includes the preparation of final working drawings and specifications, advertising for a sealed bid or proposal, awarding a contract pursuant to law, and construction of a project until completion.

Within the pooled funded project approach, there are three pools (pre-planning, detailed planning, and construction) and one fund (the Central Capital Planning Fund.) The Central Capital Planning Fund is a revolving fund that provides planning funds for projects in the pre-planning and detailed planning pools.

Since the creation of the initial project pools during the 2008 Special Session, there have been several separate pre-planning, detailed planning, and construction pools created. The process was originally designed to have three set pools and each year projects and funding are added or removed based on the current status of the projects within the pools. The original intent of the process was to move a project through planning before consideration to place a project within the construction pool. This would mean that projects could only move between phases once a year with the General Assembly making this decision through approval of the Appropriation Act.

However, the General Assembly has placed projects directly in the construction pool that have not completed either pre-planning or detailed planning. These projects can move through the phases without additional approval or intervention from the General Assembly or the Advisory Committee, except in relation to the Advisory Committee's monitoring and compliance with the \$250 million annual issuance limit. Placing the projects directly in the construction pool helps prevent delays that might occur if a project had to wait for each General Assembly session to move to the next phase or pool. Projects placed directly in the construction pool are not using planning funds from the Central Capital Planning Fund. These projects are using bond funds to finance the planning phase because the General Assembly has approved these projects for construction, there is no risk of the project stopping, and there are limited funds available in the Central Capital Planning Fund. However, the current process of placing unplanned projects in the construction pool eliminates the ability of the General Assembly to evaluate projects after detailed planning for feasibility and cost before moving to construction.

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### **Observation**

*The original intention of the Capital Outlay process was to have three separate pools that the General Assembly moves projects through once a year when they meet. This would allow the General Assembly to stop a project in the planning process, if desired. Projects in planning pools cannot move through the process until the next General Assembly session, which could cause delays and inaccurate construction estimates due to the passage of time and cost fluctuations. The current process of placing unplanned projects in the construction pool eliminates the ability of the General Assembly to evaluate projects after detailed planning for feasibility and cost before moving to construction.*

### **Recommendation #1**

*The General Assembly may wish to amend the process to consolidate the planning pools and have one planning pool and one construction pool. Then the General Assembly could empower the Advisory Committee to move projects through the two planning phases (Pre-planning and Detailed Planning) and use funds from the Central Capital Planning Fund for planning these projects. This could result in cost savings for the Commonwealth through timelier project schedules while preserving the original intent of the pooled process to provide the General Assembly the opportunity to evaluate the feasibility and cost of projects before approving them for construction.*

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Chapter 806 requires the Advisory Committee, at a minimum, to meet at the end of each quarter to evaluate the progress of Chapter 806 capital outlay projects. Prior to fiscal year 2014, the Advisory Committee did not meet quarterly and did not have a formal process to decide which projects to advance to the next phase. During fiscal year 2014, the Advisory Committee became more structured with scheduled meetings each quarter, planned agendas, and documented project information provided to each member prior to the meeting to enable them to make informed decisions. In addition, the members agreed on a process to move projects into the construction phase between quarterly meetings to prevent any delays in the process.

### *Pre-Planning*

The first part of the process for any Chapter 806 project is the pre-planning phase. There are a few sources for planning funds. An agency may use funds from the Central Capital Planning Fund or their own non-general funds to complete pre-planning. In addition, projects placed directly into the construction pool with no prior planning can use bond money for planning purposes.

The General Assembly appropriated \$50 million from the General Fund during the 2008 Special Session, creating a non-reverting Central Capital Planning Fund. The sole use of the Central Capital Planning Fund is to pay pre-planning or detailed planning costs of a capital outlay project the General Assembly has previously approved. Once a project advances to the construction phase, it is required that the Central Capital Planning Fund be reimbursed for payments made for pre-planning or detailed planning through the use of bond proceeds or other funds appropriated by the General Assembly. Therefore, the intention of the Central Capital Planning Fund was for it to be a revolving fund and replenished by construction funds unless a project fails to advance to the construction

phase. Since 2008, the Central Capital Planning Fund has reverted approximately \$34,851,700 at the General Assembly's direction. This leaves the current planning pool limited to a total of \$15,148,300, or 30 percent of the original funding.

In order to access the funds within the Central Capital Planning Fund, an agency must submit a CO-2 to General Services and Planning and Budget and process a BEX to appropriate the funds. The CO-2 is the capital outlay form that gives the agency the authority to initiate a capital outlay project and sets up the planning budget, project scope, project schedule, and project authorization for the capital project. A BEX is the Performance Budget System transaction that is used to execute an administrative change in an agency's appropriation and transmit this change to the Commonwealth Accounting and Reporting System (CARS). Upon approval, the agency will be able to access the planning money requested. In addition to using the Central Capital Planning Fund, agencies and institutions may request authority and appropriation to conduct pre-planning for projects using their own non-general fund sources. Reimbursement of costs can occur up to the lesser of \$250,000 or one percent of the project construction costs once the project advances to the construction phase. In addition, unplanned projects in the construction pool can use bond funds.

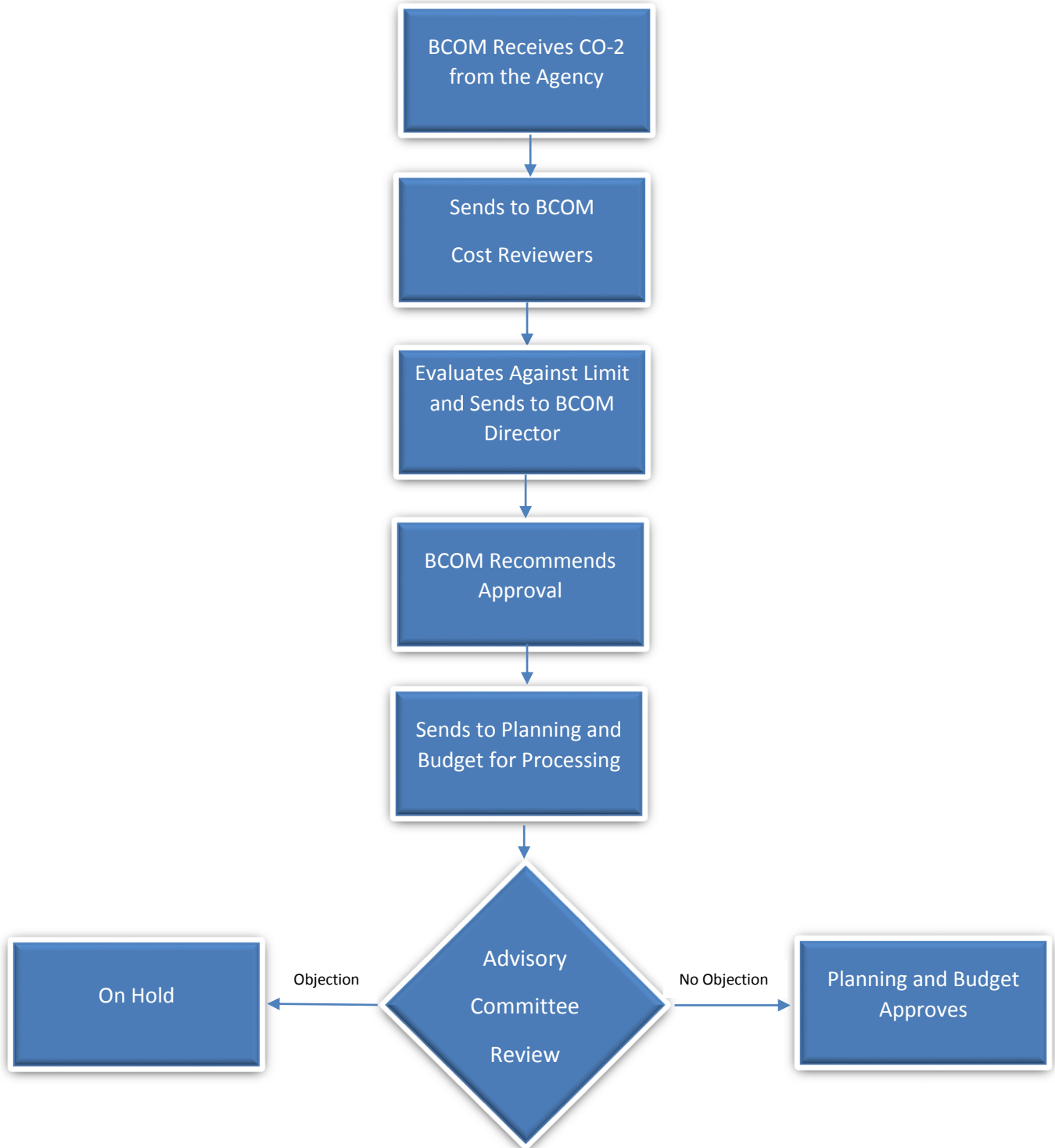
At the completion of the pre-planning phase, projects originally placed in the pre-planning pool must wait for the next General Assembly session for approval to move to detailed planning. Projects placed directly in the construction pool can move from pre-planning to detailed planning without any outside approval.

### *Detailed Planning*

Like the pre-planning phase, an agency can obtain funds through the Central Capital Planning Fund, through bond funds if the project is in the construction pool, or use its own non-general funds. However, detailed planning is more expensive and substantial, so it may be more practical for an agency to use the Central Capital Planning Fund than its own non-general funds. In order to obtain funding for the detailed planning phase through the Central Capital Planning Fund, an agency submits a CO-2, or revised CO-2 if one was completed during pre-planning, to the Bureau of Capital Outlay Management (BCOM) division of General Services. This document sets up the planning budget, project scope, project schedule, and project authorization for the capital project. While a CO-2 can also be used to get pre-planning funding, the CO-2 that is used within the detailed planning phase has more refined and accurate funding information based on the projected scope established at the pre-planning phase. BCOM's Capital Outlay Cost Reviewers verify the funding is appropriate to complete the design and construct the facility, and then forward the CO-2 to Planning and Budget for processing. Planning and Budget further requires an agency to submit a BEX. The agency has to transfer the appropriation using a BEX from the Central Capital Planning Fund to the agency project before Planning and Budget can approve the CO-2. Typical agencies have the responsibility for preparing the BEX and the CO-2 divided between the budget section and the Capital Outlay section, respectively. As a result, sometimes agencies encounter delays in getting the CO-2 approved because they do not coordinate the timing of these two transactions. Once Planning and Budget approves the BEX, they can approve the CO-2.



# CHART 1 CO-2 Approval Process for Chapter 806 Projects



The Central Capital Planning Fund is reimbursed for planning funds when a project receives its appropriation for construction funding. Once an agency has completed detailed planning and they have agreed to a project cost with BCOM, BCOM forwards the information to the Advisory Committee for evaluation against the \$250 million annual limit. Once approved to move forward, BCOM issues a “funding report” that sets forth the estimate of the total cost of the project. Once the Advisory Committee reviews and approves the project to move to construction, Planning and Budget processes the appropriation transfer for construction. At this point, the funds are available to reimburse the Central Capital Planning Fund. Planning and Budget has to request that Department of Accounts (Accounts) process the transaction that transfers the cash between the agency’s planning fund and the Central Capital Planning Fund. However, Planning and Budget does not send a request to Accounts after each project receives its appropriation. Rather they wait until they have a batch of projects and then send a request to Accounts.

The Central Capital Planning Fund is vital for the start of capital projects. Agencies, and to a lesser extent institutions, cannot start the planning phase of a capital project without funding from the Central Capital Planning fund. If this fund does not have adequate resources, then projects stall in the pre-planning or detailed planning phase, waiting for other projects to move to construction and reimburse the Central Capital Planning Fund. In addition to using the Central Capital Planning Fund, agencies and institutions may request authority and appropriation to conduct pre-planning and detailed planning using non-general fund sources. However, many state agencies lack the non-general fund resources to bypass the Central Capital Planning Fund.

At the beginning of fiscal year 2014, the majority of the Central Capital Planning Fund resources were in use planning projects as detailed in Table 1 below.

| <b>TABLE 1</b>  |       |   |                      |
|---|-------|---|----------------------|
| <b>Central Capital Planning Fund as of July 1, 2013</b> |       |   |                      |
| <b>Cash Balance July 1, 2013</b>                        |       |   | <b>\$ 114,428</b>    |
| <b>Funds in Use:</b>                                    |       |   |                      |
| DGS   | 17091 | Renovate 9th Street Office Building                         | 2,055,046            |
| VSU   | 17511 | Renovate Lockett Hall                                       | 474,350              |
| DCR   | 17589 | Construct Powhatan State Park, Phase I                      | 548,307              |
| VSU   | 17665 | Construct Multipurpose Center                               | 464,000              |
| SMV   | 17974 | Construct Event Space and Upgrade Museum Exhibits           | 654,756              |
| WWRC  | 17975 | Renovate Dining Hall and Activities Building, Phase II      | 360,098              |
| WWRC  | 17976 | Renovate Anderson Vocational Training Building, Phase I     | 545,100              |
| JYF   | 17977 | Yorktown Outside Areas, Signage and Amenities               | 190,866              |
| DFS   | 17978 | Expand Western VA Forensic Lab and Office of CME Facility   | 2,676,492            |
| VSU   | 17980 | Erosion and Sediment Control Stormwater Master Plan         | 179,550              |
| NSU   | 17981 | Replace Brown Hall  | 1,214,047            |
| LU  | 17982 | Construct Student Success Center                            | 334,884              |
| RU  | 17984 | Construct New Academic Building                             | 1,025,076            |
| RBC   | 17985 | Renovate Ernst Hall   | 275,476              |
| VCCS  | 17986 | Renovate Main Hall, Middletown Campus, LFCC                 | 419,202              |
| VCCS  | 17987 | Construct New Classroom and Admin Building, BRCC            | 430,944              |
| VCCS  | 17988 | Renovate Building B, Parham Rd Campus, JSRCC                | 453,059              |
| VCCS  | 17989 | Renovate Reynolds Academic Building, Loudon Campus, NVCC    | 447,181              |
| VCCS  | 17990 | Renovate Bayside Building, VA Beach Campus, TCC             | 472,431              |
| VCCS  | 17991 | Renovate Anderson Hall, VWCC                                | 572,710              |
| VCCS  | 17992 | Construct Phase III Academic Bldg., Midlothian Campus, JTCC | 828,578              |
| VIMS  | 17993 | Construct Consolidate Scientific Research Facility          | 411,719              |
| <b>Total Central Capital Planning Fund</b>              |       |   | <b>\$ 15,148,300</b> |

In the fall of 2013, there were five projects ready for pre-planning or detailed planning funds. These projects included Renovate Supreme Court, Capital Complex Infrastructure and Security, Morson Row Renovation, Renovate Main Hall, and Construct Early American Industry Exhibit. However, the Central Capital Planning funds available were inadequate to fund all five of the projects. As a result, Planning and Budget consulted with the Advisory Committee at its January 2014 meeting to establish priorities for which projects should receive planning funds first. The Advisory Committee established priorities; however, the funds available only supported two of the five projects. The Capital Complex Infrastructure and Security project received funding and authorization for construction in the Chapter 1 Acts of Assembly from the 2014 Special Session. Therefore, bond funds were available for planning, but the project is on hold for reasons not related to the capital

pool process. The remaining two projects have to wait until additional funds come available when other projects are approved for construction. In late January 2014, Planning and Budget requested that Accounts reimburse the Central Capital Planning Fund from projects approved for construction and transfer funds to the Renovate Main Hall and Construct Early American Industry Exhibit projects for planning. This reimbursement and transfer process was not complete until May 2014. The lack of planning funds available, the need to wait for the quarterly Advisory Committee meeting to set priorities, and the lengthy time to process reimbursements and transfers resulted in an overall delay of approximately eight months for two projects to receive planning funds. In addition, the remaining three projects are still awaiting planning funds in fiscal year 2015 because of the insufficiency of the available planning funds.

**Observation**

*The time it takes to process the Central Capital Planning Fund reimbursements and transfer planning funds to new projects is excessive.*

**Recommendation #2**

*Planning and Budget should work with the Department of Accounts to understand the Central Capital Planning Fund process and develop a reasonable time schedule for these transactions to occur to ensure that new projects receive planning funds timely.*

Table 2 below shows the activity within the Central Capital Planning Fund during fiscal year 2014. The fund ended the year with \$3.7 million available to fund planning projects in fiscal year 2015.

| <b>TABLE 2</b>                                |       |   |                     |
|---|-------|---|---------------------|
| <b>Central Capital Planning Fund Activity</b> |       |   |                     |
| <b>For the Year Ended June 30, 2014</b>       |       |   |                     |
| <b>Cash Balance, July 1, 2013</b>             |       |   | \$ 114,428          |
| <b>Reimbursements:</b>                        |       |   |                     |
| WWRC  | 17976 | Renovate Anderson Vocational Training Building, Phase I   | 545,100             |
| VSU   | 17665 | Construct Multipurpose Center                             | 464,000             |
| RU  | 17984 | Construct New Academic Building                           | 1,025,076           |
| RBC   | 17985 | Renovate Ernst Hall                                       | 275,476             |
| JYF   | 17977 | Yorktown Outside Areas, Signage and Amenities             | 190,866             |
| DFS   | 17978 | Expand Western VA Forensic Lab and Office of CME Facility | 2,676,492           |
| <b>Funds to new projects:</b>                 |       |   |                     |
| VSDB  | 18069 | Renovate Main Hall  | (1,356,467)         |
| FCM   | 18073 | Construct Early American Industry Exhibit                 | (191,313)           |
| <b>Cash Balance, June 30, 2014</b>            |       |   | <b>\$ 3,743,658</b> |

Although the scope of this report is fiscal year 2014, we are already aware that for fiscal year 2015, there is still not enough cash available to fund all of the projects approved for planning. As a result, Planning and Budget has not approved planning funds for any projects in fiscal year 2015 as of the October 2014 Advisory Committee meeting. Planning and Budget is working with agencies to find internal non-general funds to use for planning. Once they find resources for all of the projects, they will release the planning funds. Planning and Budget predicts there is the potential for a similar slow down due to the lack of planning funds in fiscal year 2016.

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#### **Observation**

*The Central Capital Planning Fund originally had \$50 million dollars to fund the planning phases. With prior year reversions resulting in a total of only \$15.1 million available at any given time, there is a potential for capital projects to be stalled due to the lack of availability of planning funds as observed during fiscal year 2014.*

#### **Recommendation #3**

*The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.*

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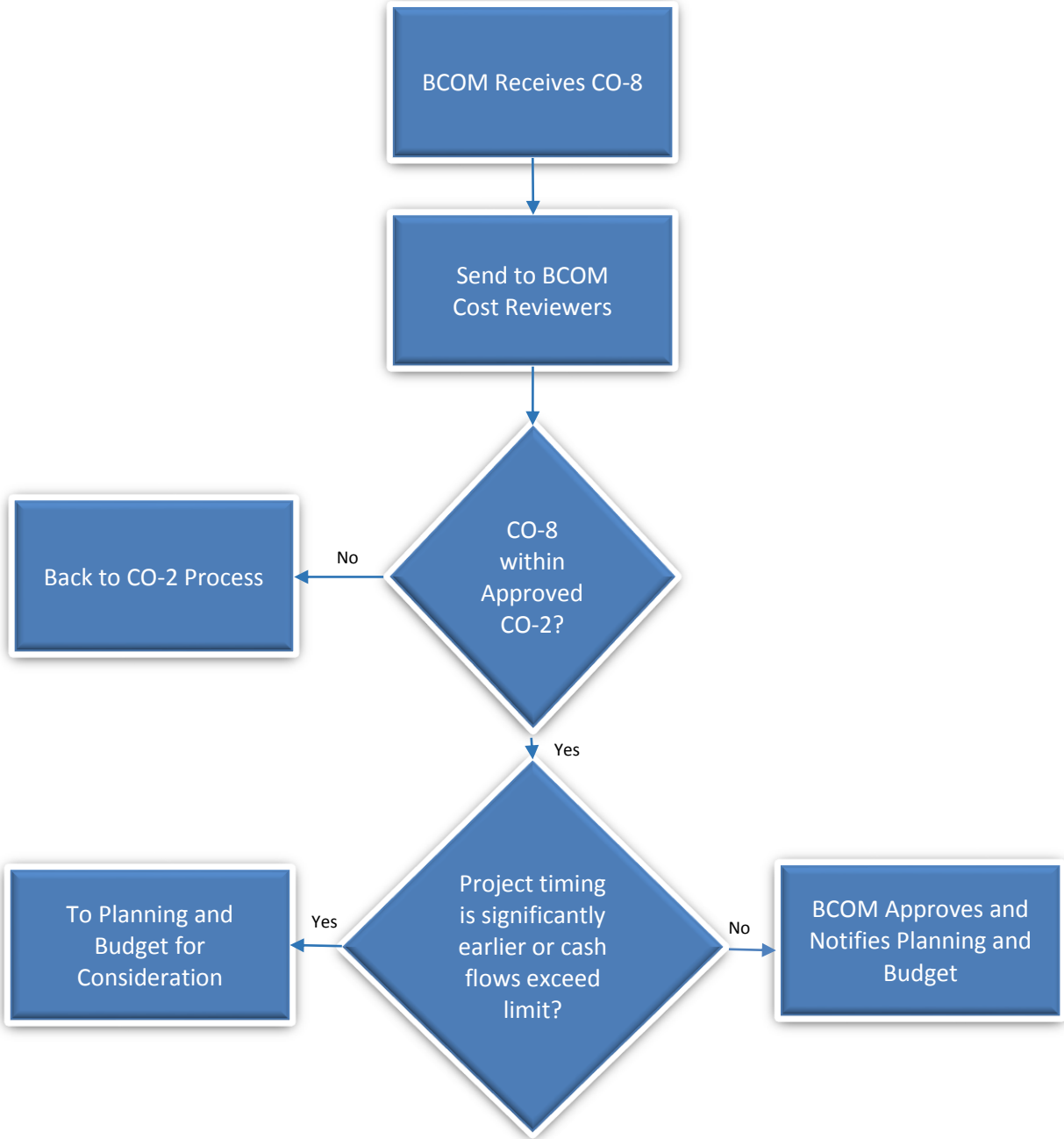
#### **Construction**

At the conclusion of detailed planning, the Advisory Committee reviews all projects to determine whether it is appropriate to advance the project to the construction phase based on the project information and the Chapter 806 \$250 million annual debt limit. It was the General Assembly's intent to have the ability to stop a project after detailed planning if the project's costs, scope, or justification significantly changed at the completion of detailed planning.

After approval for construction, a project receives funding through general funds or bond issuances administered by Treasury. After Planning and Budget approves the funding through the issuance of the CO-2, BCOM will issue a CO-8 (capital outlay form that provides approval to award the construction contract), which allows the capital project to move into the construction phase. The CO-2 process for construction is similar to the detailed planning process, except one important difference. When General Services receives a CO-2 form related to construction, they apply the project to the GCPay graph, described below in the section entitled "GCPay," to ensure the approval of the project does not cause the total approved projects' cash flows to exceed the \$250 million dollar annual limit established by the General Assembly. The Advisory Committee is responsible for monitoring this limit, and is involved in moving projects into the construction phase keeping this limit in mind. Agencies submit CO-8's and General Services approves them.

The process for approving CO-8's is: The agency submits the CO-8 to BCOM. BCOM's Capital Outlay Cost Reviewers compare the project budget on the CO-8 to the previously approved CO-2. If the CO-8 budget is within the approved CO-2 amounts for the project, BCOM approves the CO-8. If the CO-8 budget is not within the previously approved CO-2 budget but is within 105 percent of the previously approved amount, the agency must submit a new CO-2. If the bid comes in high enough to cause the project budget to exceed 105 percent of the previously approved amount, the agency must take steps to bring the budget in line or find additional funding. Once the BCOM Director receives the CO-8 and GCPay graph, he reviews to determine whether the project timing has changed from its original schedule and whether the total approved projects' cash flows exceed the \$250 million annual limit. If the project timing is significantly earlier than previously reported or the cash flows exceed the \$250 million limit, the BCOM Director sends the CO-8 to Planning and Budget, which may involve holding the CO-8 until the cash flows fit within the annual limit. If the timing is not significantly different and the cash flows are within the annual limit, BCOM approves the CO-8 and notifies Planning and Budget.

**CHART 2**  
**CO-8 Approval Process for Chapter 806 Projects**



The time elapsing between the CO-2 and the CO-8 can be a few months to a year. This is the time when the agency is having the architect prepare the working drawings. In practice, the first submission of working drawings is usually not very complete, but the agency submits it to get feedback from General Services. If agencies submit complete and accurate working drawings on all

submittals, including the first one, it could minimize time delays and inefficiencies. When General Services receives working drawings, they try to turn them around in seven to 14 days, but it could be as long as 21 days. It all depends on the complexity of the project. When a project is less complex, the turnaround time is shorter. When a project is more complex, the turnaround time is longer. General Services is very detailed in their review to ensure that projects meet building and safety codes. Under normal circumstances, the process involves submitting working drawings three times. However, some projects go through multiple revisions resulting in a longer time between the CO-2 and the CO-8. Each time the drawings go back and forth could add 2-6 weeks to the process.

The construction phase includes preparing final working drawings and specifications, advertising for a sealed bid or proposal, awarding a contract, and constructing the actual project. Once the agency has final working drawings and specifications and awards the contract, the agency submits a CO-17, an application for building permit, to BCOM. The CO-17 is the final document needed to commence construction. The form has information about the project such as building name, purpose of work, scope of work, building code information, and other useful information. Issuance of the building permit means that the project design has met all building structure and safety requirements.

The timing of the CO-8 and CO-17 are generally close. However, General Services should never issue the CO-17 before the CO-8. The CO-8 means that the agency has the project costs in alignment with the CO-2, and Planning and Budget can release the funds. The CO-17 is tied to whether they have working drawings that meet building and safety codes. It is possible to have a good budget and available funds, resulting in an approved CO-8, but not have final drawings that meet building and safety code and; therefore, the CO-17 is not approved. Subsequent to construction approval, a project receives appropriation.

### *GCPay and Tracking the \$250 Million Annual Limit*

Chapter 806, Item C-39.40-A.8.a states that agencies and institutions included in this project pool will submit cash flow requirements for each project to the Directors of Planning and Budget and General Services, the chairmen of the House Appropriations and Senate Finance Committees, and the Advisory Committee. The cash flow projections are required to include quarterly cash needs to complete planning, working drawings, and construction to project completion. The Advisory Committee is responsible for reviewing the cash flow needs and ensuring that they do not approve projects for construction that will jeopardize staying under the \$250 million annual limit.

General Services proposed and the Advisory Committee decided to use GCPay to forecast cash flows for projects to ensure that the expenditures for approved projects will stay within the \$250 million annual limit. GCPay is a vendor that provides a web-based service to process payment applications and track expenditures for construction projects. Agencies and institutions can use this system for submitting, reviewing, and approving construction contractor's Schedule of Values / Applications for Payment and architect and engineering invoices. GCPay has fields for recording ledger entries for all other costs associated with a construction project; this allows agencies to capture all expenditure and budget data associated with projects in one location in real time. GCPay



uses the data about the project that the agency enters, such as project start and end dates and project cost, to forecast cash flows for each project.

General Services, as instructed by the Advisory Committee, uses GCPay to create two future year cash flow graphs to monitor the \$250 million annual limit. The first graph (See Chart 3) includes Chapter 806 projects within the construction pool that are approved for construction, projects approved for detailed planning from the construction pool, or projects approved separately for furniture, fixtures, and equipment, and the second graph (See Chart 4) includes all Chapter 806 projects within the construction pool. The GCPay software uses assumptions that make the graphs conservative and risk averse in nature.

The major assumptions used by GCPay are:

- The expenditure projection is based on a bell curve that assumes that less funds are spent at the beginning and end of the projects and more in the middle.
- Detailed planning amounts will be reimbursed at the first allocation of Chapter 806 debt. This is conservative because it often takes some time to process the reimbursement of the planning funds once the project is approved. Therefore, other funds may be spent first.
- For projects that have multiple funding sources, the graph assumes that funds will be spent in the following order: Chapter 806 debt, all other debt, and then agency funds. This is conservative because spending could occur in any order. However, having the Chapter 806 funds spent first, brings them in earlier which makes expenditures approach the limit sooner.
- The start and end dates for the projects are aggressive and rarely do projects start at the anticipated start date. These dates drive the expenditure projection, resulting in a much sooner estimate to use funds than actually occurs.

The approved projects graph (Chart 3) is more accurate and based on better estimates due to projects completing the detailed planning process. The approved projects graph has more developed budgets being used to create the graph, including information pertaining to planning and construction, and more accurate start and end dates for particular phases of a project.

The graph (Chart 4) created using all projects in the construction pool is less accurate because the information used to create the graph is not as developed. For example, a total estimated project's costs are evenly applied throughout the life of a project; in reality, planning funds will occur sooner in the life cycle of a project and construction towards the middle. In addition, projects that have not been through the detailed planning phase do not have a developed budget, rather the budget is just an estimate.

GCPay also has the ability to incorporate actual expenditure data recorded within the system to create the graphs used to project future cash flows. However, at this time, General Services has not implemented this feature due to the complexity of the data and inability to ensure it is accurate.

Chapter 806, Item C-39.40-A.6 states that the General Assembly does not want more than a total aggregate principal amount of \$250 million in debt obligations to be issued excluding refunding bonds in any fiscal year for the capital projects set forth in Chapter 806 Item C-39.40 A. Further, if less than \$250 million in debt obligations is incurred in any fiscal year, the unused amount may be added to any other subsequent fiscal year. The \$250 million dollar issuance restriction is further limited to only projects within Chapter 806, and does not apply to previously authorized debt or projects in paragraphs C, D, and E of item C-39.40.

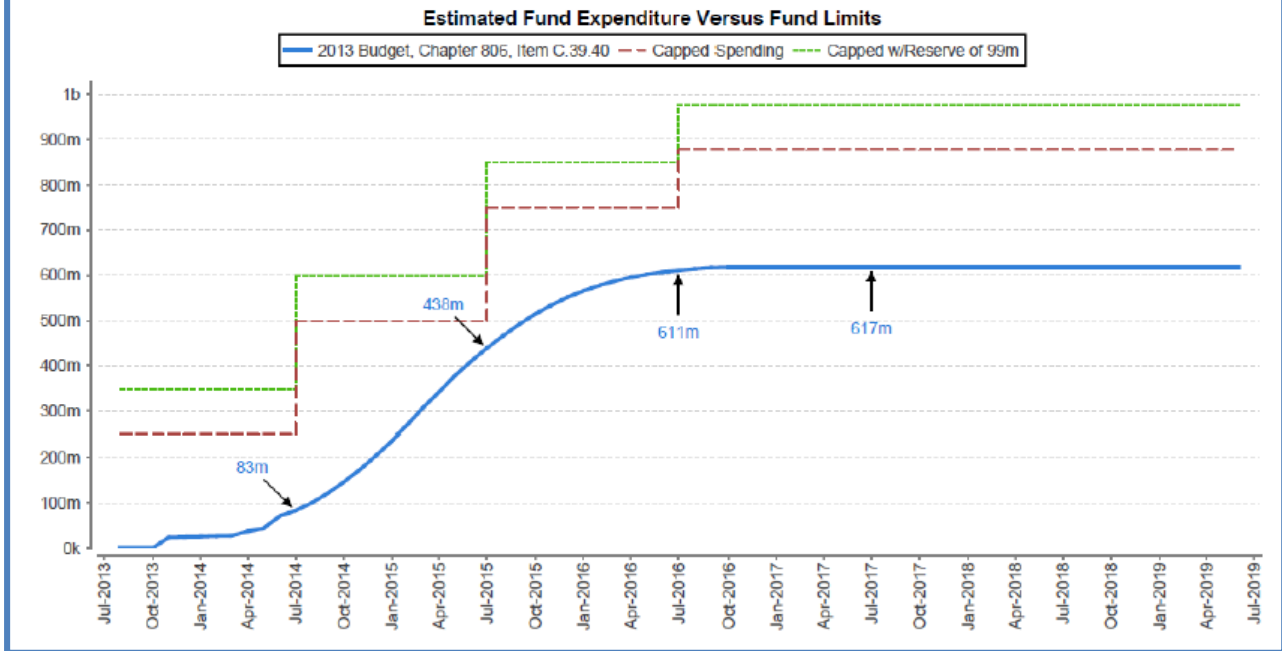
Chapter 806 appropriated \$877.5 million for the projects listed in item C-39.40-A. In addition, Chapter 1 from the 2014 General Assembly session amended Chapter 806 to appropriate an additional \$4.8 million for the same projects. The total \$882.3 million is subject to the \$250 million annual limit. Chapter 806 also rescinded the purpose for \$35.2 million from Chapter 2 of the 2012 Special Session and reassigned those bond funds to support the projects in item C-39.40. Finally, Chapter 806 stated that the projects could also use any remaining bond authorizations in Chapter 1 of the 2008 Acts of Assembly and Chapter 874 of the 2010 Acts of Assembly. As of June 30, 2014, General Services estimates the savings from the projects under these bond authorizations at approximately \$64.0 million. This \$64.0 million in savings could become less if the remaining projects supported by those bonds exceed original estimates. However, a large number of projects are already complete, so General Services does not expect a large decrease in these savings. The additional \$35.2 and \$64.0 million are not part of the \$250 million annual limit. Therefore, General Services considers these funds to be a reserve when they are forecasting project expenditures to determine how close they are coming to the annual limit.

Chart 3 below shows the estimated expenditures for all approved projects using information recorded in GCPay. The graph shows the current estimated Chapter 806 project expenditures per year (solid blue line) and the \$250 million yearly spending restriction set by the General Assembly (dotted red line.) The green line represents the \$99 million dollar reserve on top of the \$250 million yearly spending cap. It appears that the Chapter 806 projects approved through June 30, 2014, will not cause the estimated expenditures to exceed the spending cap put in place by the General Assembly. In addition, there is still room to add more construction projects before exceeding the limit and using the \$99.2 million reserve.

### CHART 3

## Chapter 806, Projects APPROVED as of 6/30/14

2013 Budget, Chapter 806, Item C.39.40



Source: GCPay Generated Report as shown in the June 30, 2014, State of the Pools Report

As of June 30, 2014, the total actual Chapter 806 bond reimbursed expenditures were only \$36,047,231. Chart 3 above estimates the total project expenditures to be \$83 million as of July 1, 2014. This comparison of estimated expenditures to actuals demonstrates how aggressive the GCPay graph is in forecasting expenditures, which is more conservative in nature. In reality, with the actual bond expenditures being significantly less than the forecast expenditures, project expenditures will shift down the graph into future years, which will cause actual expenditures to reach the spending limit later.

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#### **Observation**

*The GCPay Approved Projects graph (Chart 3) has estimated expenditures much higher than actual expenditures. Further, the Advisory Committee uses this graph to make funding decisions on whether to move Chapter 806 projects into construction. The Advisory Committee has not instructed General Services to reconcile or compare the GCPay estimates to actuals to date. With the graph being so much more conservative than actual, the Advisory Committee runs the risk that they will delay projects moving to construction because the graph predicts hitting the annual limit, while in reality they will not.*

#### **Recommendation #4**

*The Advisory Committee should instruct General Services to develop a process to evaluate the GCPay Approved Projects graph against actual expenditures to prevent projects from being held up by the Advisory Committee.*

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It is important to note that this process is independent of the Planning and Budget draw schedule process that Treasury uses to create budgets and determine timing for planned bond issuances, described below in section “Capital Funding Processes.” Therefore, even if GCPay estimates are higher than actuals, they do not affect Treasury’s decisions. When Treasury creates their forecast for future bond needs, they receive cash flow information from Planning and Budget, which agencies update annually or as needed.

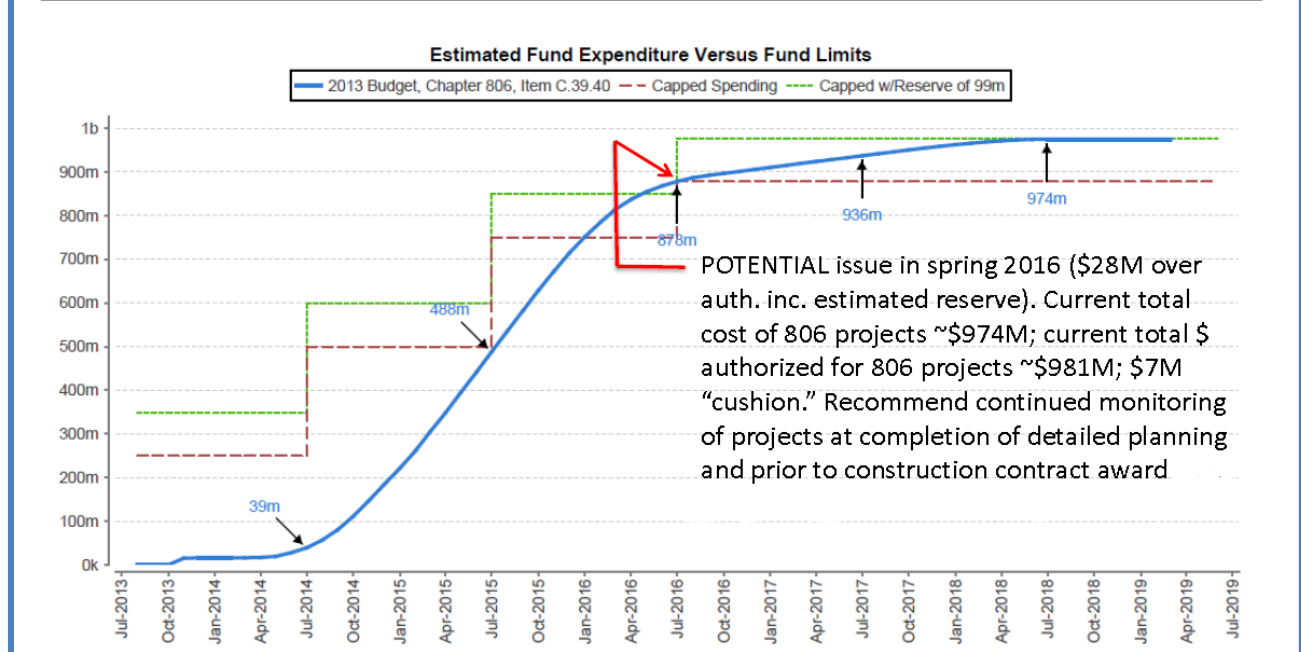
As of June 30, 2014, Chart 4 below shows what would happen if all projects within Chapter 806 were approved for construction as of June 30, 2014.

## CHART 4

# Chapter 806, PROJECTION for all projects

2013 Budget, Chapter 806, Item C.39.40

As of June 30, 2014



Source: GCPay Generated Report as shown in the June 30, 2014, State of the Pools Report

Chart 4 is set up similar to Chart 3 above. However, Chart 4 includes all projects authorized for construction by the General Assembly and not just the current projects that have made it through all of the planning phases and have Advisory Committee approval to enter construction. The project information on which the graph is based is not as defined because some projects have not been through the planning phases to refine the timing and costs. As a result, Chart 4 forecasts total estimated project costs over the entire bell curve, where Chart 3 above uses information for planning and construction expenditures to more appropriately distribute the data within the graph. For example, Chart 3 shows estimated expenditures of \$83 million at June 30, 2014, opposed to \$39 million in Chart 4. One would expect the graph with all projects to have higher estimated expenditures at all points in the graph. However, Chart 4 is ignoring the assumption that planning money will be spent earlier in the process.

Each of the graphs above serves different purposes. The Advisory Committee uses Chart 3 to determine if a project can move to construction without exceeding the \$250 million dollar spending cap. The Advisory Committee uses Chart 4 for overall planning purposes.

Chart 4 shows the big picture of the expenditures for all of the projects in Chapter 806. Chart 4 illustrates a potential issue in July 2016, when there is the possibility that project expenditures could exceed the annual limit, which will be \$750 million at that time, by \$128 million and exceed the limit plus the reserve by \$29 million. Given that Chart 4 is a conservative estimate and that not all projects have started as of June 2014, this serves as an indicator for the Advisory Committee to monitor the limit and analyze projects and their effect on the graph as projects move to construction to ensure expenditures remain below the limit.

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#### **Observation**

*Chart 4 shows that the total estimated expenditures for all Chapter 806 projects totals \$974 million, which is just \$7 million under the total amount authorized of \$981 million. This means there is not much “cushion” for any change in project budgets as unplanned projects go through the planning phases, developing more refined project estimates. In addition, \$64 million of the reserve is an estimate of project savings, which has the potential to shrink.*

#### **Recommendation #5**

*The potential exists that at some point in the future, there may not be enough funds allocated to complete all of the Chapter 806 projects, and the General Assembly may wish to consider adding more funds to the Chapter 806 construction pool.*

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### **Capital Funding Process**

#### *Budgeting for Capital Bond Needs*

Treasury normally budgets for capital funding in the fall, for the next biennium. As part of this budgeting process, Treasury creates bond issuance estimates for six years. The budgeting process for capital outlay bond issuances and debt service involves all bond funded capital projects, including all pool funded projects, and agency projects specifically funded with bond funds outside of the pooled process.

In order to create the budget, Treasury starts by receiving construction draw schedules from Planning and Budget for all pool funded projects. Planning and Budget creates these draw schedules from agency input and transmits them to Treasury. Treasury also receives draw schedules directly from agencies for special projects outside the normal pooled process. However, these are outside the scope of this project.

After Treasury receives the draw schedules, Treasury uses the information to compare the current balance available from recent bond issuances to future cash flow needs, and then using judgment and experience, Treasury creates the projected cash flow needs for the biennium. Treasury also considers the overall debt capacity of the Commonwealth when producing their capital debt budget.

## *Bond Issuance and Requisition Processes*

Treasury takes several factors into consideration before issuing bonds. These factors include current cash balances versus expected draws, economic factors, fiscal policy, debt capacity limit, and any expected large draws for reimbursement type projects outside the normal pooled process.

Once Treasury issues bonds, Treasury's Trust Accounting section tracks cash draws through a spreadsheet. When Treasury receives a cash requisition from an agency, before processing it they ensure it will not cause the project to exceed the project budget received from Planning and Budget and that actual expenditures exist in the appropriate fund in CARS to cover the requisition amount. Trust Accounting then enters the cash requisition amount into a spreadsheet tracked by project. If a requisition would cause a project to exceed its budget, then Treasury would hold the processing of the requisition and investigate the cause of the overage.

## *Tracking the \$250 Million Annual Limit*

As explained above in the GCPay section, Chapter 806, Item C-39.40-A.6 states that the General Assembly does not want more than a total aggregate principal amount of \$250 million in debt obligations to be issued excluding refunding bonds in any fiscal year for the capital projects set forth in Chapter 806 Item C-39.40-A. To comply with the General Assembly, Treasury originally tried to set aside a portion of a bond issuance specifically for Chapter 806 projects. However, the Chapter 806 projects were not drawing money down at the anticipated rate resulting in funds going unused. Conversely, projects from other pools were drawing down money. Treasury tried to transfer money between funds to track issuance, but it became cumbersome. Furthermore, Treasury did not want to issue more bonds for the non-Chapter 806 projects and have unused bond funds sitting around for the Chapter 806 projects.

Therefore, in order to comply with the intent of the General Assembly, Treasury issues bonds for use on any bond funded project, but tracks the actual project expenditures for Chapter 806 projects separately to ensure that the expenditures do not exceed the \$250 million annual limit. Simultaneously, Treasury is monitoring the issuance of all Commonwealth tax supported debt to ensure that the Commonwealth stays within its debt capacity limit.

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### ***Observation***

*The \$250 million issuance limit over Chapter 806 pool funded projects seems to be redundant. The General Assembly authorizes new capital debt annually. At any given time, there are many bond authorizations outstanding for numerous capital projects. Setting an annual limit over one authorization and not others seems to have no purpose. The Commonwealth already has a debt capacity limit of which any debt issued for Chapter 806 projects is a part. Therefore, that limit should drive the amount of debt issued each year rather than a limit over one specific bond authorization.*

### ***Recommendation #6***

*The General Assembly may wish to consider eliminating the current \$250 million dollar limit over Chapter 806 capital projects.*

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### **Observation**

*The General Assembly established the requirement to limit the “issuance” of debt to \$250 million a year. Bond proceeds issued are applied to all pool funded projects, including non-Chapter 806 projects. Therefore, tracking issuance amounts for Chapter 806 projects is difficult and inefficient. In practice, Planning and Budget and Treasury have interpreted this requirement to mean Chapter 806 project expenditures.*

### **Recommendation #7**

*If the General Assembly keeps the \$250 million limit, they may wish to update the language in order to better align their intent with how the Advisory Committee and Treasury implemented this requirement.*

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## **Delays in Project Progress**

Chapter 806, Item C-39.40-A.12 requires the Auditor of Public Accounts to report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.

We reviewed and analyzed Chapter 806 projects for fiscal year 2014 in order to determine if there were any deviations or delays in the progress of authorized projects. We reviewed the roles of Treasury, General Services, Planning and Budget, and the Advisory Committee in the process to determine if any slowdowns occurred.

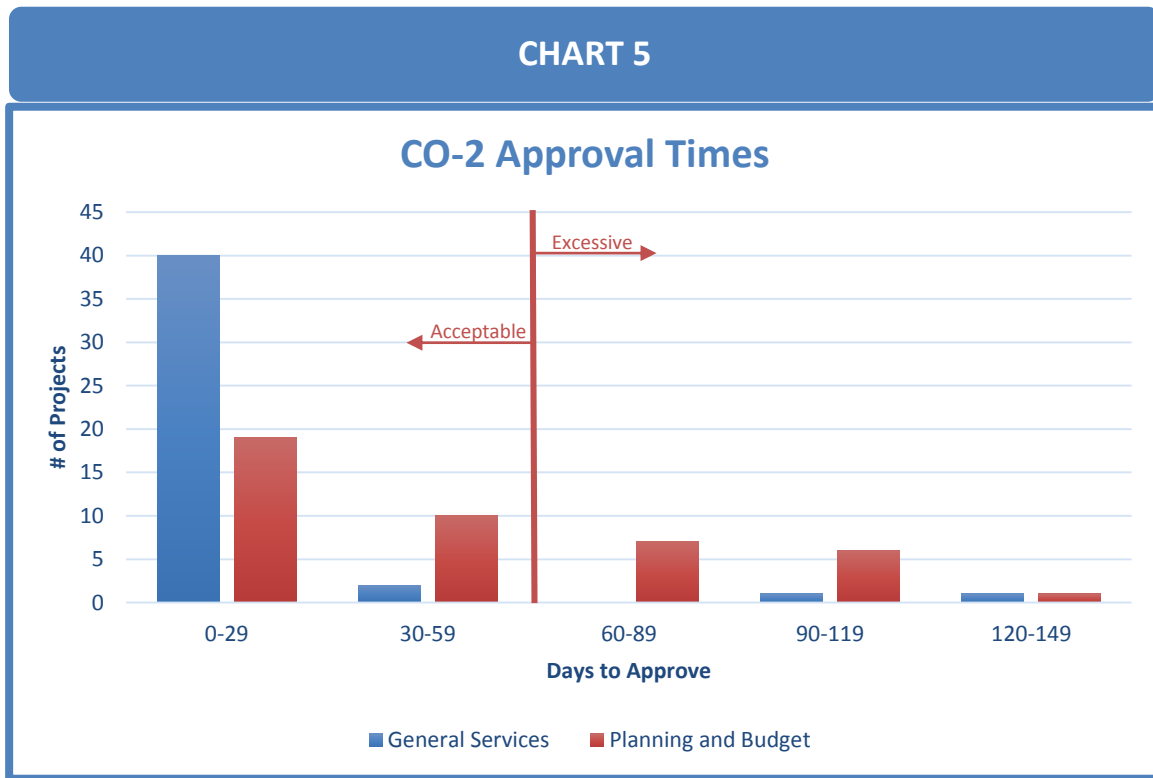
During fiscal year 2014, we did not find any instances where Treasury’s role in the bond issuance and requisition process resulted in any delays in project funding for any Chapter 806 capital projects. Treasury appears to have an adequate process to budget for and determine the timing of bond issuances.

When reviewing General Services and Planning and Budget’s role in the capital project process, we analyzed the timing of CO-2’s, CO-8’s, and CO-17’s to determine if any delays occurred throughout the process. Each of these forms plays a time sensitive role in the process. The process begins with a CO-2 form, which authorizes funding for a project at the various phases including pre-planning, detailed planning, and construction. Both General Services and Planning and Budget approve the CO-2. After an agency is finished with planning and puts the project out for bid, the agency can apply for a CO-8. A CO-8 authorizes the final construction budget for a project and gives the agency the ability to award the construction contract. The CO-8 budget generally matches the CO-2 issued at the detailed planning phase. If the CO-8 does not match the CO-2, then the agency must complete a new CO-2 as well. The CO-8 only requires the approval of General Services. After an approved CO-2 and CO-8, an agency can apply for a building permit, CO-17. The CO-17 is the final document needed to commence construction and is issued after all planning and life and safety concerns of a project have been addressed within the working drawings.



When analyzing the process for delays, we reviewed the approval time of CO-2 forms, the time between the approval of the CO-2 form for detailed planning and the issuance of a CO-8, and the time between the CO-8 issuance and CO-17 issuance.

The following graph depicts CO-2 approvals by the number of days from the time General Services or Planning and Budget received the form until the respective agency approved it. The CO-2 is an important capital outlay form in the overall process, as it allows funding to pass to the agency for a construction project in the planning and construction phases. We determined that approval times 60 days or longer were unreasonable.



Source: Fiscal year 2014 CO-2 Forms from BITS for Chapter 806 projects

General Services’ had two projects with approval times of 60 days or more, with approval times of 101 and 125 days. Both of these projects were in the planning phase requesting funds from the Central Capital Planning Fund. General Services held these projects at Planning and Budget’s instruction because planning funds were not available. See the discussion of this delay earlier in this report in section “Detailed Planning” under Table 1 on page 9.

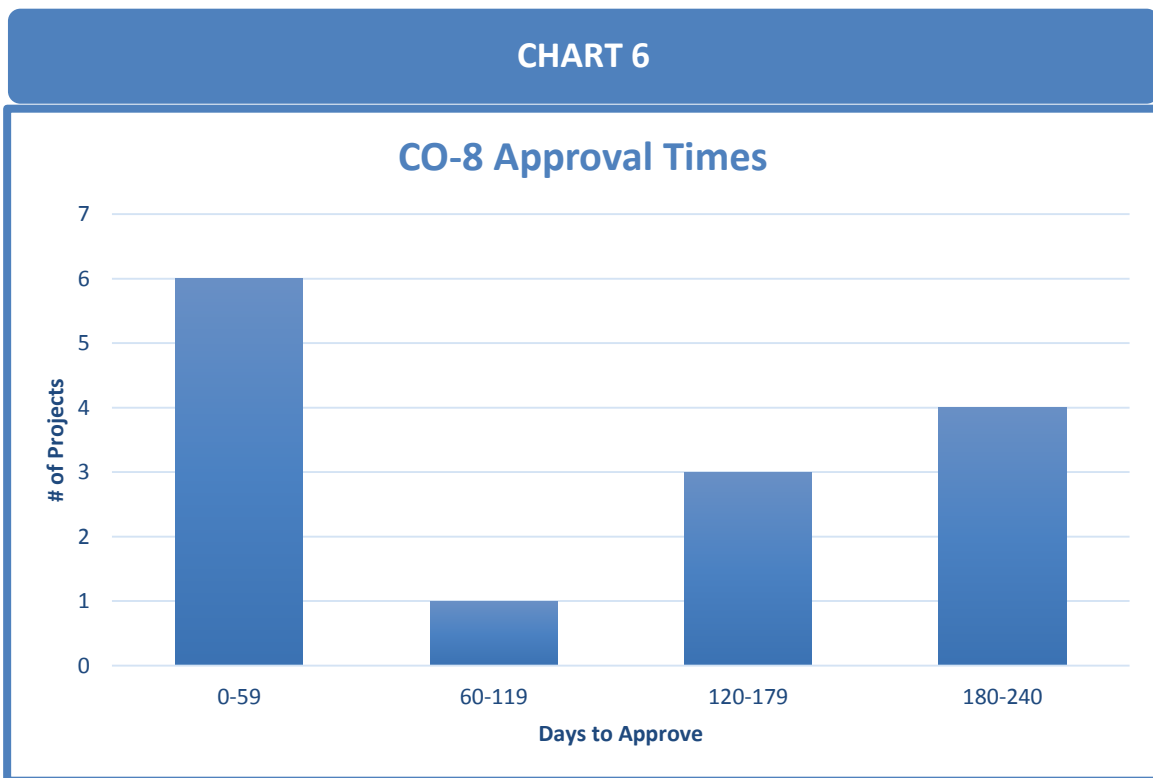
Planning and Budget had 14 projects with approval times of 60 days or more, with approval times ranging from 60 days to 132 days. There were multiple causes for these delays and some projects were delayed for multiple reasons.

- Planning and Budget delayed approval of CO-2’s due to staffing issues. At certain times of the year, Planning and Budget prioritized other activities over approving

CO-2's, such as developing the budget, acclimating to a new administration, and responding to requests and actions during the 2014 Regular and Special Sessions of the General Assembly. In addition, a budget analyst was out on extended leave.

- Some agencies did not submit a BEX timely to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request. Planning and Budget cannot approve the CO-2 without a proper BEX.
- In the fall of 2013, the Advisory Committee did not have a well-developed process to approve projects for construction between meetings, and several projects had to wait for the committee to meet in October for approval.
- As noted earlier, Planning and Budget delayed approving the planning CO-2 for two projects because there were not enough funds in the Central Capital Planning Fund because Planning and Budget did not process reimbursements to the planning fund timely so that funds would be available.

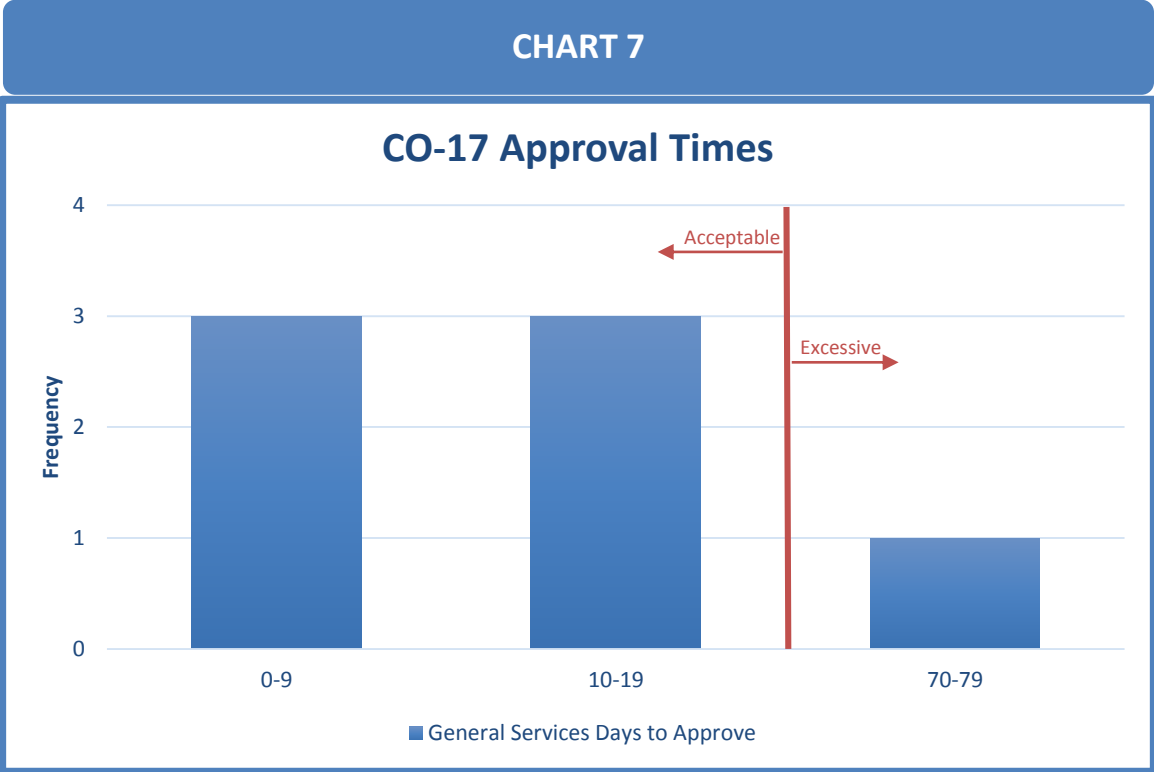
Chart 6 depicts CO-8 approvals by the number of days between Planning and Budget's approval of the CO-2 for detailed planning completion and General Services' approval of the CO-8. The CO-8 is the final funding document and allows an agency to award a construction contract.



Source: Fiscal Year 2014 CO-8 Forms from BITS for Chapter 806 projects

As discussed earlier in the section “Construction” on page 12, the time between the detailed planning CO-2 and the CO-8 can be a few months to a year. This is the time that agencies prepare working drawings and go through the review and approval process with BCOM. The agency on average will submit drawings for review three times. Each submittal can take up to six weeks. None of these delays were due to cash flow processes. The submission and review process over working drawing is not in the scope of this review, therefore, we did not investigate these delays any further.

Chart 7 depicts the CO-17 approvals by the number of days between General Services’ approval of the CO-8 and the CO-17. The CO-17 is the building permit, which is the final document that allows an agency to commence construction.



Source: Fiscal Year 2014 CO-17 Forms from BITS for Chapter 806 projects

We determined that approval times 60 days or longer were unreasonable. General Services’ approval time exceeded 60 days for one CO-17. This was a Construction Management at Risk project. When using this type of procurement, an agency can award the contract to the construction manager without having complete working drawings. The agency will then complete final working drawings after contract award but before beginning construction, resulting in a longer time between approval of the CO-8 and CO-17. This was the case for this project and; therefore, the extended approval time is reasonable.

In summary, there were three main causes for any project delays within the cash flow processes.

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**Observation**

*In the fall of 2013, the Advisory Committee did not have a process in place to approve projects for construction between committee meetings. However, since then, the Advisory Committee has established regular quarterly meetings with a process in place to approve projects ready for construction between meetings to ensure no delay occurs. We did not note any delays related to the Advisory Committee's role since the fall of 2013.*

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**Observation**

*Agencies are not timely in their submission to Planning and Budget of the BEX, which is necessary to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request. Planning and Budget cannot approve the CO-2 without a proper BEX.*

**Recommendation #8**

*Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.*

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**Observation**

*Planning and Budget does not appear to have the resources necessary to address its responsibilities timely related to the Central Capital Planning Fund and approval of CO-2 forms due to conflicting priorities, such as developing the budget, acclimating to a new administration, and responding to requests and actions during the General Assembly sessions. In addition, a budget analyst was out on extended leave.*

**Recommendation #9**

*To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.*

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## Agency and Institution Feedback

In order to obtain feedback from actual participants that have had Chapter 806 projects in the capital outlay funding process, we surveyed agencies and institutions throughout the Commonwealth. Over 20 agencies and institutions provided feedback, which accounts for approximately 50 percent of respondents surveyed. The feedback was mixed with half of the agencies reporting no funding delays in the process, and the other half of the agencies reporting delays in the process of varying degrees.

In general, untimely approval of CO-2's was a common theme among agencies that reported they had delays in the process. Agencies reported delayed funding throughout the process including planning and construction. In some cases, delays reported by the agencies were several months. In general, the previous section's discussion of delays reflects the agency and institutions responses that we received. Agencies and institutions addressed some areas that were outside of the capital project cash flow process and; therefore, we did not investigate those concerns or include them in this report.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 5, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the capital project cash flow processes and are pleased to submit our report entitled **Review of Capital Project Cash Flow Requirements**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

- Obtain a thorough understanding of the capital project cash flow requirements process and determine whether the process is effective,
- Obtain a thorough understanding of the use of cash flow requirements as guidance to approve projects for construction and for the issuance of bonds to satisfy the needs of capital projects,
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects,
- Determine if agencies and institutions are submitting cash flow requirements to Planning and Budget, General Services, Chairmen of the House appropriations and Senate Finance Committees, and the Advisory Committee,
- Determine if the Advisory Committee is reviewing cash flow requirements and providing the information to Treasury,

- Determine if the Advisory Committee is meeting quarterly to evaluate capital projects,
- Determine how Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit, and
- Determine if Planning and Budget is reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.

### Conclusion

The capital project cash flow requirements process is effective; however, projects experienced occasional delays in obtaining planning funds from the Central Capital Planning Fund, getting approval to move to construction from the Advisory Committee, and getting approval to access construction funding. Agencies are submitting cash flow requirements to Treasury for determining bond issuance timing; however, General Services uses GCPay to forecast cash flow needs for the Advisory Committee. Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit.

### Exit Conference and Report Distribution

We discussed this report with management of Planning and Budget, General Services, and Treasury. General Services' and Planning and Budget's response to the findings identified in our audit are included in the section titled "Responsible Officials Response." Treasury chose not to provide a response. We did not audit General Services' and Planning and Budget's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

**APPENDIX A  
CHAPTER 806 PROJECT STATUS  
AS OF JUNE 30, 2014**

| Pre-Planning Pool    |   |           |             |
|----------------------|---|-----------|-------------|
| Agency Name          | Project Title   | Project # | Phase       |
| <b>CNU</b>           | Construct and Renovate Fine Arts and Rehearsal Space          | 18086     | Not Started |
| <b>DGS</b>           | Renovate Supreme Court Interior                               | 17490     | Not Started |
| <b>DGS</b>           | Capitol Complex Infrastructure and Security                   | 18081     | Not Started |
| <b>JMU</b>           | Renovate Madison Hall   | 18085     | Not Started |
| <b>LU</b>            | Construct New Admissions Office                               | 18083     | Not Started |
| <b>LU</b>            | Construct New Academic Building                               | 18084     | Not Started |
| <b>UVA</b>           | Renovate Gilmer Hall and Chemistry Building                   | 18082     | Not Started |
| <b>VCCS</b>          | Renovate Godwin Building, Annandale Campus, Northern Virginia | 18087     | Not Started |
| <b>VIMS</b>          | Construct Facilities Management Building                      | 18088     | Not Started |
| <b>VPISU<br/>CES</b> | Improve Kentland Facilities                                   | 17830     | Not Started |

| Detailed-Planning Pool |  |           |             |
|------------------------|--|-----------|-------------|
| Agency Name            | Project Title  | Project # | Phase       |
| <b>CNU</b>             | Construct Library, Phase II  | 18074     | Not Started |
| <b>DBHDS</b>           | Replace Facility Roofs and Building Envelopes                              | 18080     | Not Started |
| <b>DGS</b>             | Morson Row Renovation  | 18064     | Not Started |
| <b>FCM</b>             | Construct Early American Industry Exhibit                                  | 18073     | Not Started |
| <b>ODU</b>             | Construct Chemistry Building   | 18068     | Not Started |
| <b>RU</b>              | Renovate Whitt Hall  | 18067     | Not Started |
| <b>UMW</b>             | Construct Jepson Science Center Addition                                   | 18066     | Not Started |
| <b>VCCS</b>            | Construct Phase VII Academic Building, Annandale Campus, Northern Virginia | 18075     | Not Started |



| Detailed-Planning Pool |  |           |             |
|------------------------|--|-----------|-------------|
| Agency Name            | Project Title  | Project # | Phase       |
| VCCS                   | Replace Academic and Administration Building, Eastern Shore                              | 18076     | Not Started |
| VCCS                   | Renovate Engineering and Industrial Technology Building, Danville                        | 18077     | Not Started |
| VCCS                   | Construct Bioscience Building, Blue Ridge  | 18078     | Not Started |
| VCCS                   | Construct Student Service and Learning Resources Center, Christanna Campus, Southside VA | 18079     | Not Started |
| VCU                    | Renovate Sanger Hall, Phase II   | 18070     | Not Started |
| VCU                    | Renovate Raleigh Building  | 18071     | Not Started |
| VPISU                  | Renovate/Renew Academic Buildings  | 18065     | Not Started |
| VSDB                   | Renovate Main Hall   | 18069     | Not Started |

| Construction Pool |   |           |           |
|-------------------|---|-----------|-----------|
| Agency Name       | Project Title   | Project # | Phase     |
| DCR               | Construct Powhatan State Park, Phase I                              | 17589     | Schematic |
| DCR               | Construct Highway Intersection, Powhatan State Park                 | 18055     | Schematic |
| DCR               | Widewater State Park, Phase I A                                     | 18056     | Schematic |
| DCR               | New Cabins Various State Parks                                      | 18057     | Schematic |
| DOC               | Richmond P & P  | 18063     | Schematic |
| DVS               | Hampton Roads Veterans Care Center                                  | 17957     | Schematic |
| DVS               | Northern Virginia Veterans Care Center                              | #####     | Schematic |
| SMV               | Construct Event Space and Upgrade Museum Exhibits                   | 17974     | Schematic |
| VCU               | Replacement Facility for the Virginia Treatment Center for Children | 18060     | Schematic |
| VMFA              | Renovate Robinson House   | 18061     | Schematic |
| VCCS              | Renovate Building B, Parham Road Campus, J. Sargeant Reynolds       | 17988     | Schematic |

| Construction Pool |   |           |                      |
|-------------------|---|-----------|----------------------|
| Agency Name       | Project Title   | Project # | Phase                |
| <b>VCCS</b>       | Renovate Reynolds Academic Building, Loudoun Campus, Northern Virginia                        | 17989     | Schematic            |
| <b>VCCS</b>       | Renovate Anderson Hall, Virginia Western  | 17991     | Schematic            |
| <b>VCCS</b>       | Expand Workforce Development Center, Danville   | 18042     | Schematic            |
| <b>VCCS</b>       | Renovate Sowder Hall, Fauquier Campus, Lord Fairfax   | 18062     | Schematic            |
| <b>VIMS</b>       | Construct Consolidated Scientific Research Facility   | 17993     | Schematic            |
| <b>WWRC</b>       | Renovate Dining Hall and Activities Building, Phase II  | 17975     | Schematic            |
| <b>LU</b>         | Construct Student Success Center  | 17982     | Preliminary Planning |
| <b>NSU</b>        | Replace Brown Hall  | 17981     | Preliminary Planning |
| <b>VCCS</b>       | Renovate Main Hall, Middletown Campus, Lord Fairfax   | 17986     | Preliminary Planning |
| <b>VSP</b>        | Area Offices 14, 16 and 26, Only Phase 1 of 3   | 18054     | Preliminary Planning |
| <b>CWM</b>        | Renovate Tyler Hall   | 17994     | Working Drawings     |
| <b>GMU</b>        | Construct Academic VII / Research III, Phase I  | 17999     | Working Drawings     |
| <b>GMU</b>        | Construct Life Sciences Building, Prince William (Construct Bull Run Hall IIIB Addition)      | 18000     | Working Drawings     |
| <b>GMU</b>        | Central Utility Plant   | 18043     | Working Drawings     |
| <b>ODU</b>        | Construct New School of Education   | 17875     | Working Drawings     |
| <b>RBC</b>        | Renovate Ernst Hall   | 17985     | Working Drawings     |
| <b>VCCS</b>       | Construct New Classroom and Administration Building, Blue Ridge                               | 17987     | Working Drawings     |
| <b>VPI SU</b>     | Construct Classroom Building  | 17995     | Working Drawings     |
| <b>VSU</b>        | Renovate Lockett Hall   | 17511     | Working Drawings     |
| <b>WWRC</b>       | Renovate Anderson Vocational Training Building, Phase I                                       | 17976     | Working Drawings     |
| <b>CNU</b>        | Construct Student Success Center  | 17872     | Construction         |
| <b>DBHDS</b>      | Western State Hospital Supplement   | 17276     | Construction         |
| <b>DFS</b>        | Expand Western Virginia Forensic Laboratory and Office of the Chief Medical Examiner Facility | 17978     | Construction         |

| Construction Pool |   |           |              |
|-------------------|---|-----------|--------------|
| Agency Name       | Project Title   | Project # | Phase        |
| DGS               | Renovation of the 9th Street Office Building                            | 17091     | Construction |
| DOC               | Construct James River Water Line  | 17913     | Construction |
| JMU               | Construct Health and Engineering Academic Facility (East Wing Hospital) | 17997     | Construction |
| LOV               | State Library Improvements for Storage, Security and IT                 | 18058     | Construction |
| RU                | Construct New Academic Building, Phase I and II                         | 17984     | Construction |
| UMW               | Renovate Mercer and Woodard Halls                                       | 17983     | Construction |
| UVA               | Renovate the Rotunda  | 17915     | Construction |
| VCCS              | Renovate Bayside Building, Virginia Beach Campus, Tidewater             | 17990     | Construction |
| VCCS              | Construct Phase III Academic Building, Midlothian Campus, John Tyler    | 17992     | Construction |
| VCU               | Construct and Renovate Information Commons and Libraries                | 17998     | Construction |
| VMI               | Construct Corps Physical Training Facilities, Phase I and Phase II      | 17996     | Construction |
| VSU               | Erosion and Sediment Control Stormwater Master Plan / Retention Pond    | 17980     | Construction |
| VSU               | Water Storage Tank and Campus Water Distribution Piping, Phases 1-3     | 18059     | Construction |

Legend:

#####: Northern Virginia Veterans Care Center does not have an assigned project number yet.

Schematic: Undergoing schematic design development and cost review.

Preliminary planning: Undergoing preliminary design development and cost review; schematic cost review report issued.

Working drawings: Undergoing working drawings development; preliminary cost review and detailed planning complete (CO-2 forwarded to Planning and Budget to BCOM).

Construction: Approved for construction contract award via BCOM-approved CO-8, approval to award construction contract; or if funding is supplemental/Furniture, fixtures, and equipment only (for which no CO-8 is required).

**APPENDIX B**  
**ACRONYMS FOR AGENCIES AND INSTITUTIONS**  
**CAPITAL OUTLAY FORMS**

| <u>Acronym</u>   | <u>Agency/Institution</u>                                  |
|------------------|--|
| <b>CNU</b>       | Christopher Newport University                             |
| <b>CWM</b>       | College of William and Mary                                |
| <b>DBHDS</b>     | Department of Behavioral Health and Developmental Services |
| <b>DCR</b>       | Department of Conservation and Recreation                  |
| <b>DGS</b>       | Department of General Services                             |
| <b>DFS</b>       | Department of Forensic Science                             |
| <b>DOC</b>       | Department of Corrections                                  |
| <b>DVS</b>       | Department of Veterans Services                            |
| <b>VPISU CES</b> | VPISU Cooperative Extension Service                        |
| <b>FCM</b>       | Frontier Culture Museum                                    |
| <b>GMU</b>       | George Mason University                                    |
| <b>JMU</b>       | James Madison University                                   |
| <b>JYF</b>       | Jamestown-Yorktown Foundation                              |
| <b>LU</b>        | Longwood University  |
| <b>LOV</b>       | Library of Virginia  |
| <b>NSU</b>       | Norfolk State University                                   |
| <b>ODU</b>       | Old Dominion University                                    |
| <b>RBC</b>       | Richard Bland College                                      |
| <b>RU</b>        | Radford University   |
| <b>SMV</b>       | Science Museum of Virginia                                 |
| <b>UMW</b>       | University of Mary Washington                              |
| <b>UVA</b>       | University of Virginia                                     |
| <b>VCCS</b>      | Virginia Community College System                          |
| <b>VCU</b>       | Virginia Commonwealth University                           |
| <b>VSDB</b>      | Virginia School for the Deaf and Blind                     |
| <b>VIMS</b>      | Virginia Institute of Marine Science                       |
| <b>VMI</b>       | Virginia Military Institute                                |
| <b>VMFA</b>      | Virginia Museum of Fine Arts                               |
| <b>VPISU</b>     | Virginia Tech  |
| <b>VSP</b>       | Virginia State Police                                      |
| <b>VSU</b>       | Virginia State University                                  |
| <b>WWRC</b>      | Woodrow Wilson Rehabilitation Center                       |
|                  |  |

| <u>Acronym</u> | <u>Capital Outlay Form</u>                   |
|----------------|--|
| <b>CO-2</b>    | Authority to Initiate Capital Outlay Project |
| <b>CO-8</b>    | Approval to Award Construction Contract      |
| <b>CO-17</b>   | Building Permit for Construction             |

## APPENDIX C

### SUMMARY OF RECOMMENDATIONS

#### Recommendations for the General Assembly:

Recommendation #1: The General Assembly may wish to amend the process to consolidate the planning pools and have one planning pool and one construction pool. Then the General Assembly could empower the Advisory Committee to move projects through the two planning phases (Pre-planning and Detailed Planning) and use funds from the Central Capital Planning Fund for planning these projects. This could result in cost savings for the Commonwealth through timelier project schedules while preserving the original intent of the pooled process to provide the General Assembly the opportunity to evaluate the feasibility and cost of projects before approving them for construction.

Recommendation #3: The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.

Recommendation #5: The potential exists that at some point in the future, there may not be enough funds allocated to complete all of the Chapter 806 projects, and the General Assembly may wish to consider adding more funds to the Chapter 806 construction pool.

Recommendation #6: The General Assembly may wish to consider eliminating the current \$250 million dollar limit over Chapter 806 capital projects.

Recommendation #7: If the General Assembly keeps the \$250 million limit, they may wish to update the language in order to better align their intent with how the Advisory Committee and Treasury implemented this requirement.

#### Recommendations for Planning and Budget:

Recommendation #2: Planning and Budget should work with the Department of Accounts to understand the Central Capital Planning Fund reimbursement and transfer process and develop a time schedule in which it is reasonable for these transactions to occur to ensure that new projects receive planning funds timely.

Recommendation #9: To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.

#### Recommendations for the Advisory Committee:

Recommendation #4: The Advisory Committee should instruct General Services to develop a process to evaluate the GCPay Approved Projects graphs against actual expenditures to prevent projects from being held up by the Advisory Committee.

#### Recommendations for all Agencies and Institutions:

Recommendation #8: Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.



# COMMONWEALTH of VIRGINIA

*Department of General Services*

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Director

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Deputy Director

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January 5, 2015

The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review the Auditor of Public Accounts, Chapter 806, Cash Flow Requirements 2014 Draft Report.

The Department of General Services (DGS) appreciates the time and effort the staff of the Auditor of Public Accounts (APA) spent review and preparing the report and generally agrees with the comments and recommendations contained in the report.

Sincerely,

  
Richard F. Sliwoski, P. E.



# COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE  
Director

1111 E. Broad Street  
Room 5040  
Richmond, VA 23219-1922

January 14, 2015

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Commonwealth of Virginia  
James Monroe Building  
101 North 14<sup>th</sup> Street  
Richmond, Virginia. 23219

Dear Ms. Mavredes:

Thank you for the opportunity to respond to your report on the cash flow requirements for each capital project funded in Chapter 806, Item C-39.40.

I want to address the two recommendations specifically for the Department of Planning and Budget (DPB):

*Recommendation #2: Planning and Budget should work with the Department of Accounts to understand the Central Capital Planning Fund reimbursement and transfer process and develop a time schedule in which it is reasonable for these transactions to occur to ensure that new projects receive planning funds timely.*

Since DPB is the author of the process for recovering central capital planning funds, I agree that DPB should work closely with the Department of Accounts (DOA) to ensure the timely recovery of special planning funds from projects that have received bond funding for construction. This is necessary to provide planning funds to newly authorized projects as soon as possible. As such, DPB staff routinely works with DOA staff to implement this process. Working together, the two agencies have recovered \$5.5 million this fiscal year, which is all that is currently available for recovery. As a result, I would contend that this recommendation of the report has already been implemented.

*Recommendation #9: To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or*

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Ms. Martha S. Mavredes  
January 14, 2015  
Page 2

*temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.*

As set out in the report, there are many reasons for which there may be a delay in processing the transactions for capital projects. Processing capital transactions, as with operating transactions, are ongoing execution transactions that can occur at any point in the fiscal year. They cannot be quarantined to a specific time of the year or season. The need to process each transaction must be considered against the other priorities facing DPB staff. It is not practical to try to “staff up” for a particular period of time for such transactions. At times, DPB analysts are faced with tasks of higher priority, such as preparing analyses for budget development or responding to legislative inquiries and preparing fiscal impact statements during the General Assembly session. Further, sometimes agencies do not submit the required documents in a timely fashion or these documents need amending. Finally, the agency does not have the resources at this time to expand its staff, as recommended in the report. With all that being said, I assure you that DPB will do everything it can to review, analyze, and process these capital projects as quickly as we can.

I appreciate the work your staff has put forth on this report and the opportunity they gave DPB staff to review previous drafts and provide comments, most of which were incorporated in the report. I look forward to working with you and your staff in the future on capital project issues.

Sincerely,



Daniel S. Timberlake

c: The Honorable Richard D. Brown

## RESPONSIBLE OFFICIALS

### DEPARTMENT OF GENERAL SERVICES

Richard F. Sliwoski, Director

### DEPARTMENT OF PLANNING AND BUDGET

Daniel S. Timberlake, Director

### DEPARTMENT OF TREASURY

Manju Ganeriwala, Treasurer

### SIX-YEAR CAPITAL OUTLAY ADVISORY COMMITTEE

Richard D. Brown  
Secretary of Finance

Daniel S. Timberlake  
Director, Department of Planning and Budget

Richard F. Sliwoski  
Director, Department of General Services

Peter A. Blake  
Executive Director, State Council of Higher Education for Virginia

Robert P. Vaughan  
Staff Director, House Appropriations Committee

Betsey Daley  
Staff Director, Senate Finance Committee