

## 18. Monitoring Capital Project Budgets

- **The Recreation and Park Department Capital Division lacks adequate standards for monitoring capital project budgets or closing out completed capital projects. Capital Division project directors vary widely in the processes they use to track and document capital project costs.**
- **The Capital Division submits monthly financial reports to the General Manager, the Recreation and Park Commission, and the Parks, Recreation, and Open Space Advisory Committee. However, the project directors' reporting and documentation of capital project costs do not reconcile with the Capital Division's monthly financial reports. The Recreation and Park Department needs to set up standard protocols for all project directors that (a) clearly define the responsibilities of Recreation and Park Department project directors in managing capital project budgets, including construction budgets under the management of the Department of Public Works project managers, and (b) set standards for tracking and documenting actual project costs against project budgets.**
- **The Capital Division also lacks clear procedures for closing out capital projects once they are completed. According to a report provided by the Capital Division, 67 park and recreation facility capital projects have been completed but have not yet been closed out as of October of 2005. On average, these 67 projects had been completed or open to the public for 24 months, and had a net balance of \$2.2 million, which could be re-allocated to other projects. The Recreation and Park Department should establish clear guidelines to close out the construction phase of capital projects and to close out capital projects in the City's financial system, FAMIS, to ensure that unexpended project balances are available to be re-allocated.**

The Recreation and Park Department established a Capital Division after the voters approved Proposition A in March 2000, authorizing \$110 million in General Obligation bonds for a major Recreation and Park Department capital improvement program. Generally, Recreation and Park Department staff plan and design the Department's capital projects and Department of Public Works staff manage the construction projects.

Priorities and funding for capital projects are determined through the capital planning process. Each project has a spending plan, set up in an Excel spreadsheet, based on the flow of funds for the project. The Recreation and Park Department also has an in-house project management database, called RECAP, which includes project status, milestones, and other components of project management. The RECAP system's link to the City's general ledger system, FAMIS, and the Department's facility data system are still in development.

The Recreation and Park Commission, General Manager, and Parks, Recreation, and Open Space Advisory Committee receive monthly financial reports on the status of capital projects. These financial reports are also posted on the Department's web site.

## **Monitoring Capital Project Budgets**

Prior to 2004 the Recreation and Park Department requested project appropriation for capital projects based on broad project categories, such as "neighborhood parks" or "Golden Gate Park." Beginning in 2004, the Board of Supervisors mandated that capital project funds be appropriated and controlled at the facility level, such as "North Beach Playground" or "Sava Pool." The Recreation and Park Department set up unique index codes for each of the facility level projects which received funding in calendar years 2004 and 2005. Consequently, capital project appropriations can only be spent on the specific facility project. Unexpended project appropriations for project appropriations in calendar year 2004 and after must be re-appropriated by the Board of Supervisors. However, unexpended project appropriations prior to 2004, which were appropriated at the broad categorical level, can be re-allocated by the General Manager and Director of the Capital Division.

## **Capital Project Budgeting and Expenditure Tracking and Reporting**

The Recreation and Park Department's Capital Division policies and procedures are in draft form. Many of the Department's procedures have been incorporated from the Department of Public Works, and cover capital budget and expenditure tracking and reporting, cost allocation, project time tracking, and other project budget and accounting procedures.

Because the Department of Public Works manages actual construction projects on behalf of the Recreation and Park Department, the Recreation and Park Department transfers project funds to the Department of Public Works, which uses its own project management system to track and monitor construction projects. However, Recreation and Park Department Capital Division staff continue to have responsibility for the projects and costs. Recreation and Park Department staff attend construction management meetings and receive information about contract change orders and overall costs of the project. The Department of Public Works provides regular reports to the Recreation and Park Department that includes tracking of hard (construction) and soft (planning, design, and administrative) costs.

The Recreation and Park Department's standard procedures for monitoring and tracking project expenditures against capital project budgets are inadequate to capture expenditure details. Tracking and monitoring of capital project hard and soft costs against a budget should be occurring in a routine and standardized way in order to control project costs, identify and resolve issues early on, and to ensure timely close out of projects. Recreation and Park Department project directors do not have a standard approach to tracking and monitoring project costs, resulting in wide variability in project cost tracking and reporting.

A review of three completed capital projects - Helen Wills Park and Clubhouse, North Beach Pool and Clubhouse, and West Portal Playground and Clubhouse – found that documentation of project tracking and monitoring ranged from detailed to very limited documentation. While much of the responsibility for tracking and monitoring project costs has been shifted to the Department of Public Works which directly incurs the bulk of the administrative, planning and design (i.e. “soft”) costs and which also manages any related construction and professional service contracts related to a project, the Department of Recreation and Parks is ultimately responsible for the project and the related funding, and should be providing oversight for the Department of Public Works activities.

The Recreation and Park Department needs to set up standard protocols for all project directors that (a) clearly define the responsibilities of Recreation and Park Department project directors in managing capital project budgets, including construction budgets under the management of the Department of Public Works project managers, and (b) set standards for tracking and documenting actual project costs against project budgets.

### **Monthly Financial Reporting**

The Department’s Capital Division does produce high level monthly reports of project status, total budget, expenditures, and funding to date, which are submitted to the Recreation and Park Commission, General Manager, and Parks, Open Space and Recreation Advisory Committee and posted on the Department’s web site. However, the project budget and expenditure reports for Helen Wills Park and Clubhouse, North Beach Pool and Clubhouse, and West Portal Playground and Clubhouse did not match the information contained in the August 2005 monthly report. Further, these reports are at such a high level that they are not useful for individual project management purposes.

### **Closing Out Completed Capital Projects**

The Recreation and Park Department incorporates the Department of Public Works' procedures to close out capital projects that have been completed. Recreation and Park Department project directors work with Department of Public Works project managers to close out projects.

The Recreation and Park Department does not have rigorous procedures for closing out capital projects once they have been completed, identifying unexpended capital project balances, and requesting re-appropriation of the unexpended balances. A project is considered substantially completed once the newly constructed or renovated facility is available for occupation and the facilities systems, such as fire alarm and sprinkler systems, are operating. The Department of Public Works Bureau of Construction Management completes a punch list of final adjustments, such as touch up paint and minor repairs, and makes the final payment to the contractor. In one interview, the Department of Public Works project manager said that, if project monies were unspent at the construction project, the project might be extended to include additional work, such as resurfacing ball courts. According to interviews with several Department of Public Works and Recreation and Park Department staff, although the construction phase of the

project may be closed and the contractor paid, the actual project close-out, in which the account is closed in FAMIS and the remaining balance accounted for, does not necessarily happen. As part of the project close-out, the project director should review remaining project balances in the Department of Public Works accounts and ensure that remaining balances are returned to the Recreation and Park Department.

According to a report provided by the Recreation and Park Department Capital Division, in October of 2005 67 park and recreation facility capital projects had been completed or opened to the public but were not yet closed out. On average these 67 projects had been completed or opened to the public for 24 months, with a net unexpended balance of \$2.2 million, which could be re-allocated to other projects.

Projects are not closed out in a timely manner for a number of reasons. For example, the North Beach Community Pool was substantially complete and open to the public on May 21, 2005, but the construction project has not yet been closed out because items on the punch list were not completed satisfactorily. The Helen Wills Playground opened in 2004 but the project has not yet been closed out because of a dispute on whether the contractor met the City's labor standards provisions, requiring the payment of prevailing wage rates to the contractor's or subcontractors' employees. The West Portal Playground also opened in November 2004, but has not yet closed out due to punch list items needing repair and a claim by the contractor against the City for certain aspects of the work.

The Recreation and Park Department needs to establish clear guidelines for closing out the construction phase of capital projects and closing out capital projects in FAMIS. The Director of the Capital Program should routinely review the status of project close out and ensure that the Recreation and Park Department project directors are working with the Department of Public Works project managers to close out completed capital projects.

The Recreation and Park Department Capital Program reports the status of capital projects to the Recreation and Park Commission, General Manager, and Parks, Open Space and Recreation Advisory Committee monthly, but the data contained in the financial reports is inaccurate. The Director of the Capital Program should establish procedures to reconcile the monthly financial reports with the City's general ledger system, FAMIS, to ensure that reported project balances are accurate. The General Manager should provide a detailed report to the Board of Supervisors, no later than March 31, 2006, showing (a) all completed capital projects, (b) the date of substantial completion, (c) the date that the project was closed out, (d) reasons for not closing out the project, if applicable, and (e) the amount of unexpended balances. The General Manager should identify available unexpended balances and present these funds to the Board of Supervisors for reappropriation to unfunded capital projects.

## **Conclusions**

The Recreation and Park Department Capital Division's procedures for monitoring and closing out capital project budgets are inadequate. The Capital Division needs to develop more rigorous guidelines for monitoring capital project budgets and closing out capital projects. The Capital Division also needs to present updated and accurate monthly

financial reports to the General Manager, the Recreation and Park Commission, the Parks, Recreation, and Open Space Advisory Committee, and to ensure that the Department's capital project system reconciles with the City's general ledger system, FAMIS.

## **Recommendations**

The Recreation and Park Department General Manager should:

- 18.1 Provide a detailed report to the Board of Supervisors, no later than March 31, 2006, showing (a) all completed capital projects, (b) the date of substantial completion, (c) the date that the project was closed out, (d) the reasons for not closing out the project, if applicable, and (e) the amount of unexpended balances.
- 18.2 Identify available unexpended balances and present these funds to the Board of Supervisors for reappropriation to unfunded capital projects.

The Director of the Capital Division should:

- 18.3 Set up standard protocols for all project directors that (a) clearly define the responsibilities of Recreation and Park Department project directors in managing capital project budgets, including construction budgets under the management of the Department of Public Works project managers, and (b) set standards for tracking and documenting actual project costs against project budgets.
- 18.4 Establish clear guidelines for closing out the construction phase of capital projects and closing out capital projects in the City's general ledger system, FAMIS.
- 18.5 Routinely review the status of project close out and ensure that the Recreation and Park Department project directors are working with the Department of Public Works project managers to close out completed capital projects.
- 18.6 Establish procedures to reconcile the monthly financial reports with the City's general ledger system, FAMIS, to ensure that reported project balances are accurate.

## **Costs and Benefits**

The Recreation and Park Department has unexpended balances for completed capital projects that should be available for re-appropriation. Although the Recreation and Park Department's August 2005 financial report shows that the 74 completed capital projects reviewed by the Budget Analyst have total unexpended balances of \$7.2 million, the actual unexpended and available balances are probably significantly less. If the Recreation and Park Department accepts the Budget Analyst's recommendation to close out completed capital projects and reconcile project balances in FAMIS, the Recreation and Park Department will then be able to identify funds available for reappropriation.