State of New York
Office of the State Comptroller
Division of Management Audit and State Financial Services

OFFICE OF PARKS, RECREATION AND HISTORIC PRESERVATION

CAPITAL PROJECTS MANAGEMENT

REPORT 98-S-73

H. Carl McCall

Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit and
State Financial Services

Report 98-S-73

Ms. Bernadette Castro
Commissioner
Office of Parks, Recreation and Historic Preservation
Empire State Plaza
Agency Building 1
Albany, NY 12238

Dear Ms. Castro:

The following is a report of our audit of the management of capital projects by the New York State Office of Parks, Recreation and Historic Preservation.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to this audit report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

December 2, 1999

Executive Summary

Office of Parks, Recreation and Historic Preservation
Capital Projects Management

Scope of Audit

The Office of Parks, Recreation and Historic Preservation (OPRHP) is responsible for managing an array of natural and cultural resources within the 151 parks and 35 historic sites it operates in 11 regions throughout the State. Since about half of its buildings were built at least 40 years ago, much of OPRHP's physical plant is old and in need of rehabilitation. In 1992, the State Legislature established the State Parks Infrastructure Fund (SPIF) to provide a stable and predictable funding source for critical capital projects. SPIF is funded by revenues from OPRHP user fees and concession revenues. Other funding sources for capital projects include the Environmental Protection Fund; the Clean Water, Clean Air Bond Act; the Environmental Quality Bond Act (EQBA); Federal funds; special revenue funds; and legislative initiatives. During the three fiscal years ended March 31, 1999, these sources provided more than $110 million for capital projects, almost $78.5 million of which was from the SPIF.

In 1993, the Rockefeller Institute of Government of the State University of New York at Albany published a report entitled Preserve & Protect which addressed the challenges facing New York State's park system. The report cited an estimate in support of the 1990 EQBA showing that it would cost more than $1.0 billion to bring the park system to a state of good repair and to meet the current demand for outdoor recreation. The report also stated that OPRHP's funding from SPIF would not meet the estimated needs. Given that OPRHP's capital project funding from all sources is far short of the needs that the Rockefeller report cited, it is incumbent upon OPRHP officials to ensure they are setting the highest priorities when they decide which capital projects to fund.

Our financial-related audit, which covered the period of January 1, 1997 through March 31, 1999, addressed the following question:

- Does OPRHP have adequate systems for determining the priorities of capital projects and for managing and monitoring those projects?

Audit Observations and Conclusions

OPRHP officials do not maintain documentation that indicates whether the capital projects they fund meet the most important of OPRHP's goals. In addition, officials do not document the method they use to determine how much capital project funding each region receives, nor do they maintain a written record of their funding decisions. Officials generally base the level of funding on past history, meaning that each region receives the

same percentage allocation from year to year. Because of the lack of written procedures and written records of decision-making, we question OPRHP officials' ability to be assured that the capital projects program is funding the highest priority projects. OPRHP officials need to establish procedures to help ensure they are allocating available capital funds to the highest priorities. (See pp. 5-8)

OPRHP's accounting system does not accumulate a project's costs under a single identifying code. In addition, OPRHP does not have a system that tracks and monitors the status of a project. The Central Office receives no information concerning the results of project inspections, nor does it receive information regarding a contractor's adherence to a construction schedule. Instead, the Central Office relies on regional staff certifications to justify payments. OPRHP officials need to establish a centralized project-tracking and cost-accounting system that will provide comprehensive information on each project's status and cost. (See pp. 9-12)

OPRHP also has not developed policies and procedures that regional staff should follow to monitor the progress and quality of a project and to document those monitoring activities. We visited four regions and found that none had developed written procedures for monitoring their capital projects or for documenting their monitoring activities. OPRHP officials need to establish policies and procedures for regional staff to monitor the progress and quality of their capital projects. (See pp. 12-16)

Comments of OPRHP Officials

OPRHP officials recognize they have procedural and recordkeeping deficiencies and that they are currently relying on manual systems and long-standing funding formulas to manage their capital program. However, they are implementing a new computer network that they believe will provide them with an integrated capital project tracking system. This system will provide programmatic and financial information and will reference project information in one file.

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Introduction

Background

The Office of Parks, Recreation and Historic Preservation (OPRHP) is responsible for managing an array of natural and cultural resources within its 151 parks and 35 historic sites, which are located in 11 regions throughout the State. OPRHP property includes 5,000 buildings, 20 pools, 27 beaches and bathhouses, 8,731 campsites, 25 golf courses, 19 boat launching sites, 13 marinas, and 16 nature centers. It also includes hundreds of miles of roads, 1,197 miles of trails, 106 dams, and 604 bridges. Many of the facilities are old and in need of rehabilitation or reconstruction. About 50 percent of the buildings in the system are 40 years old or older. More than 65 million patrons visit the various parks and historic sites each year, primarily during July and August. The combination of age, heavy use, and exposure to severe weather conditions continue to exert wear on the facilities.

Until recently, OPRHP had to rely on allocations from the State's General Fund for the restoration and construction of its capital projects. These funding allocations were not sufficient to keep the parks in good repair. Starting in fiscal year 1992-93, the Legislature established the State Parks Infrastructure Fund (SPIF) to provide a stable and predictable funding source for critical capital projects. SPIF, the single largest source of support for capital projects, is funded by a dedicated portion of revenues from user fees, concession revenues, and other smaller sources of revenue. It has enabled OPRHP to plan the funding of capital projects. Other sources of funding include the Environmental Protection Fund (EPF); the Clean Water, Clean Air Bond Act (CWCA); the Environmental Quality Bond Act (EQBA); Federal funds; special revenue funds; and legislative initiatives. In addition, OPRHP uses concession agreements and other contracts to leverage private investment in aging facilities in return for the opportunity to operate an ongoing business that serves visitors to the parks.

Officials in OPRHP's Central Office approve the capital projects to be undertaken in each of the 11 regions, and allocate the funds that pay for them. Each region has a regional capital facilities manager and a staff of engineers who are responsible for planning and overseeing the projects. The following chart shows OPRHP's capital project funding from all sources for the past three fiscal years:

Fiscal Year	1996-97	1997-98	1998-99	Totals
SPIF				
Projects	$19,950,500	$16,449,975	$18,190,225	$ 54,590,700
Payroll [1]	5,763,000	6,600,000	7,000,000	19,363,000
Debt Service [2]	1,500,000	1,500,000	1,500,000	4,500,000
EPF	2,915,000	6,167,500	5,284,175	14,366,675
CWCA	0	1,265,000	8,205,000	9,470,000
Other [3]	3,475,781	1,573,097	2,706,000	7,754,878
Totals	$33,604,281	$33,555,572	$42,885,400	$110,045,253

[1] Payroll: personal service costs for engineering and maintenance positions.
[2] Debt Service: repayment of bonds used to initiate SPIF funding.
[3] Other: miscellaneous sources of funding for projects, including EQBA, special revenue, Federal, and legislative-initiative funding.

Audit Scope, Objectives, and Methodology

The objectives of our financial-related audit were to determine whether, during the period of January 1, 1997 through March 31, 1999, OPRHP had adequate systems for setting the priorities of capital projects and for managing and monitoring such projects to ensure that they were designed and constructed in accordance with those priorities. To accomplish our objectives, we interviewed OPRHP officials to identify their procedures and systems for approving and monitoring projects. We obtained and reviewed financial reports from OPRHP's accounting system, its five-year capital plans, and its annual disbursement plans. We also visited four regions (Long Island, Thousand Islands, Saratoga, and Central) to determine the procedures and practices they follow in monitoring the progress and quality of a project. At the first two of these regions, we also reviewed selected project files to determine the adequacy and consistency of their documentation of such monitoring activities.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those OPRHP operations that are within our scope. Further, these standards require that we understand OPRHP's internal control structure and compliance with those laws, rules and regulations that are relevant to our audit scope. An audit includes examining on a test basis evidence supporting transactions in the accounting and operating records and applying such other procedures we consider necessary in the circumstances. An audit also includes assessing the estimates, decisions and judgments made by management. We believe

our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our efforts on those activities we have identified as having the greatest potential for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient and effective. As a result, we prepare our audit reports on "an exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

We identified weaknesses in OPRHP's internal controls related to setting capital funding priorities and monitoring the resulting projects. We describe these weaknesses in various sections of our report.

Response of OPRHP Officials to Audit

Draft copies of this report were provided to OPRHP officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Parks, Recreation and Historic Preservation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Setting Priorities

In 1993, the Rockefeller Institute of Government of the State University of New York at Albany published a report entitled Preserve & Protect which addressed the challenges facing New York's state park system. The report cited an estimate in support of the 1990 EQBA showing that it would cost more than $1.0 billion to bring the park system to a state of good repair and to meet the current demand for outdoor recreation. The report also stated that OPRHP's assured funding from SPIF would not meet the estimated needs. Given that OPRHP's actual annual capital project funding from all sources is far short of the needs that the Rockefeller report cited, it is incumbent upon OPRHP officials to ensure they are setting the highest priorities when they decide which capital projects to fund.

We found, however, that OPRHP officials do not have adequate procedures showing the method they use to determine the amount of funding for capital projects they allocate to the regions or how they determine which specific projects to fund, either on a statewide basis or within a region. In addition, OPRHP officials do not maintain a written record to document their decisions on these matters. Good internal controls call for officials entrusted with handling public resources to apply those resources efficiently, economically and effectively to achieve their intended purposes. Officials should also maintain complete and accurate documentation to substantiate decisions. Proper documentation provides a permanent written record that would enable management to ensure that activities are carried out in accordance with established procedures.

OPRHP uses directives known as call letters, a rolling five-year plan, and an annual disbursement plan to inform its 11 regions of the amount of funds they will receive for capital projects. In June of each fiscal year, the Central Office sends the regions a call letter directing them to submit projects for the five-year capital plan. That call letter sets priorities, provides projected disbursement ceilings and provides the Commissioner's capital plan overview. Officials review the submissions in response to this letter, then approve an updated five-year plan. In August, the regions receive a second call letter for those projects on the five-year plan that will be included in the executive budget request that OPRHP submits to the State's Division of the Budget in September. Officials send a third call letter in February that sets a tentative disbursement allocation amount for the next fiscal year and directs the regions to submit, in priority order, projects from the five-year plan that they plan to undertake in the next fiscal year. In the process of reviewing and approving these submissions, OPRHP officials develop the annual disbursement plan.

OPRHP's Commissioner has established five goals for the funding of capital projects in the regions: (1) to correct public health and safety deficiencies, comply with building code and disabled access requirements, and meet environmental mandates; (2) to expand, improve, and enhance existing facilities to meet customer demand; (3) to initiate and support general repair and rehabilitation of existing facilities based on current conditions and usage; (4) to develop ongoing preventive, corrective, and scheduled major repairs and improvements that will meet long-range infrastructure needs; and (5) to increase preservation and restoration of natural, recreational, and cultural resources.

The five-year plan and the Commissioner's call letters and five goals generally refer only to SPIF funding, which is generated primarily by park fee revenues, because OPRHP is sure to receive SPIF each year. OPRHP does not receive capital project funding every year from other sources, such as EPF, CWCA or legislative initiatives. These other sources also have preestablished use restrictions that OPRHP does not control. However, OPRHP can fund a pre-approved SPIF project by using a non-SPIF funding source, if the project also meets that source's criteria.

OPRHP officials do not maintain documentation that would indicate whether a capital project had met the Commissioner's goals. Instead, they rely on the judgment of the regional capital facilities managers (RCFMs), who are licensed professional engineers reporting to the regions' directors. However, we noted that when the RCFMs request funding for capital projects, they do not indicate which of the Commissioner's goals the projects meet. The regions are supposed to give the highest priority to projects related to the Commissioner's first goal. Our review of the projects we sampled in the Long Island and Thousand Islands regions indicates that all of them would satisfy at least one of the Commissioner's five goals, because those goals are very broad.

Officials base the tentative disbursement ceilings that show on the annual plan's call letter on long-standing funding formulas, meaning that each region generally receives the same percentage allocation from year to year. However, the actual and the planned allocation amounts sometimes vary. For example, for the 1998-99 fiscal year the actual allocation for the Central Region was $2.0 million even though the call letter showed it was to receive $1.1 million. In fiscal year 1997-98, the Finger Lakes Region actually received $1.5 million of the funding when the call letter showed it was to receive $1.0 million. These increases are relatively significant. Yet, officials do not maintain any documentation showing the reasons for them. Furthermore, the allocation percentages OPRHP uses on the annual plan's call letter predate SPIF, which has been in effect since 1992. Before that year, OPRHP had established the allocation percentages

according to the number, condition, and value of all of the buildings; the number of buildings that were in poor condition; and the region's overall use level and type, as measured by attendance and revenue. Although this appears to have been a reasonable method for determining allocations, officials could not document the support for the numbers on which their decisions were based; nor have they updated these numbers since 1992.

In addition, we could not determine whether the projects we reviewed represented the highest priorities within the two regions. Furthermore, we could not determine whether there were projects of a higher priority in other regions that should have received funding first. Therefore, we question OPRHP officials' ability to be assured that their capital projects program is funding the projects of the highest priority. We encourage officials to take the steps necessary to establish a system of internal controls to address these issues, particularly in light of OPRHP's allocation of nearly $43 million for capital project management for the 1998-99 fiscal year, and its expected allocation of about $45 million during the 1999-2000 fiscal year. Officials need to ensure they are using these funds in the most efficient, economic and effective manner.

Recommendations

1. Establish procedures showing the method for determining the regional capital project funding allocations and for ensuring that projects meet the highest current priorities, both within a region and on a statewide basis.

   (OPRHP officials responded that they have a very deliberate project selection process and that their new automated project tracking system, currently under development, will provide the additional documentation recommended.)

2. Maintain complete and accurate records of the funding-allocation process and decisions.

Recommendations (Cont'd)

(OPRHP officials responded that they have a very dynamic fund allocation process. However, they recognize the need to provide a new allocation formula. As indicated above, they also expect that the automated project tracking system, currently under development, will enable them to maintain the additional information recommended.)

Project Monitoring

Good internal controls call for management to implement a system that:

- establishes and accounts for capital project activities by identifying and capturing pertinent information in a comprehensive and timely manner;

- produces reports containing operational, financial, and compliance-related information for management's use in running and controlling its organization; and

- aids management in monitoring the progress of capital projects.

OPRHP lacks a project accounting system that includes a project's budget and accumulates the related costs under a single code number. OPRHP also does not have a system that tracks the status of a project at a given time or identifies problems or delays in completing a project. In addition, management has not developed comprehensive policies or procedures that regional staff should follow in monitoring the progress and quality of the projects and documenting their monitoring activities. We found that the regions have developed various practices related to both monitoring and documentation. However, OPRHP needs to improve accountability through centralized tracking of project progress.

Project Tracking and Accounting System

OPRHP's current automated accounting system supplements information already found on the State's accounting system in a different format. Although OPRHP's system can provide more transaction detail for each project, and can sort project data by region; it does not accumulate a project's costs under a single identifying code number and does not indicate the project completion date. Manual project files that are also maintained must be reviewed to determine whether a project has been completed and whether all of its costs have been paid. The following examples from our examination demonstrate how projects appear on OPRHP's accounting system:

- Replacement of a maintenance facility at Bethpage State Park in the Long Island Region (total estimated cost: $2.2 million) - This project appears under five separate project codes on the accounting system: three under the SPIF funding source (totaling $1.5 million) and two under the EPF funding source (totaling $730,000). Each code contains a project description indicating that it relates to a

maintenance facility at Bethpage State Park, but not necessarily the same project.

- Construction of a regional maintenance facility in the Thousand Islands Region (total estimated cost: $218,900) - This project is listed under three separate project codes on the system, all of which are under the SPIF funding source. One of the project codes is for fiscal year 1994 funding ($105,000) and uses a project description for the maintenance facility; another is included under fiscal year 1994 funding ($73,900), as well, but contains the generic project description for agency rehabilitation. The third project code, which also uses the project description for the maintenance facility, is for fiscal year 1995 funding ($40,000).

It is possible to review the manual project files maintained by the Central Office to identify the codes related to a particular project; however, this type of review is time-consuming and cumbersome. A system that accumulates management and accounting information electronically in a single location, regardless of the funding source, would allow OPRHP to monitor and administer its capital projects more effectively.

In addition, OPRHP does not have a system that tracks and monitors the status of a project at a given time. Consequently, management cannot compare the actual with the planned percentage of project completion or identify problems and construction delays. The Central Office monitors a capital project by reviewing the various documents it receives from the regions. These documents include a request to start a project that is listed on the annual disbursement plan, a request for release of funds, and the contract-award and contract-payment requests. The Central Office receives no information concerning the results of project inspections conducted by its regional engineers; nor does it receive information concerning the adherence of a particular contractor to the construction schedule. The contract-payment requests do contain the percentage of contract completion; but, because the Central Office receives neither inspection data nor other information about a project's progress, it cannot verify that the payments to the contractor are justified. Instead, the Central Office relies solely on regional staff certifications to justify payments.

During our review of project files at the regions, we tested the propriety of payments. We identified one contract for replacing roofs at the Thousand Islands Region for which the final payment had been certified by regional staff even though the contractor had not replaced galvanized parts of the roofs that were rusting. At the Long Island Region, our review showed three contracts that had been certified for final payment;

yet the project files did not contain evidence that the contractor had corrected deficiencies identified by regional staff. These included missing pavement markings, galvanizing, equipment inspections and molding.

In addition, all of the 13 contracts we reviewed in the Long Island Region exceeded the scheduled completion dates, generally by a few days up to two months. However, one project, due to be completed by the end of March 1998, was not available for use until August of that year. Another project, due to be completed in May 1993, was not available for use by park patrons until July 1994. Not completing projects within the scheduled time may also delay other projects from being started. Delays may also increase the costs of future projects because the prices of material and labor are generally higher as time goes on. OPRHP officials pointed out in response to our draft report that the Long Island Region managed 69 projects during our audit period. In addition, they identified extenuating reasons for the delays in 10 of the 13 projects. We did not determine whether the contracts in the Thousand Islands Region were completed by the specified completion date.

Central Office officials explained that their current automated system cannot associate a project's funding sources with one identifying code number. They said that a project management and tracking system would be beneficial. However, they expressed the belief that they are monitoring projects adequately now because they can telephone a region and determine a project's status in minutes. However, we note that OPRHP has requested funding to implement a new capital projects management and tracking system. According to a document provided to us by OPRHP officials, the proposed system would include:

- project description, including the region, park, and county;
- estimated and final costs;
- targeted and actual design and construction dates;
- project reviews, clearances, and permits;
- scope of project;
- bid, contract award, and approval dates;
- status of project at any point in time; and
- project completion date.

The document also indicates that the proposed system would be fully integrated with systems used by the regional offices so that information could be entered as the project progresses. We encourage OPRHP officials to continue their efforts to obtain funding for such a system, and to ensure that the various funding sources of a project are combined under one code number in any new system they adopt. In the meantime, officials should, at least, issue comprehensive policies and procedures that regional staff should follow when they monitor the progress and quality of each project and document their monitoring activities, and ensure that all required work is completed before the final payment is certified.

Regional Monitoring

OPRHP management has not developed comprehensive policies and procedures that regional staff should follow to monitor the progress and quality of the projects and to document their monitoring activities. Such policies and procedures should cover the following factors:

- the proper form of documentation for preconstruction meetings with contractors or OPRHP's own labor force,
- documentation that contractors have purchased the required insurance,
- the frequency of and proper documentation for periodic construction meetings,
- the preparation of and adherence to detailed construction schedules,
- the frequency of inspections by the engineer,
- the proper form of documentation for inspections,
- documentation of the reasons for delays in construction, and
- documentation that final inspection items have been corrected on a timely basis and before final payments are authorized.

If these factors are not covered, significant problems of accountability might result for the agency. For example, a lack of documentation of estimated costs can lead to overruns by contractors that cannot be challenged; and a lack of proof that a contractor has workers' compensation insurance could leave the agency open to liability if an employee of the contractor is injured on the job. Documentation of planning and expectations can also be important. If a meeting is not held with all of the participating contractors before a construction project begins, the work

may not be coordinated; and some critical tasks may not be scheduled appropriately. Such lack of coordination could lead to higher costs and extensive delays. In addition, all key participants in the project need to have access to a detailed construction schedule, including frequent inspections, if they are to be expected to do their part on a timely basis.

Once a project is underway, regular ongoing meetings with contractors can help avoid delays and errors. Documentation of such meetings, as well as detailed reports of periodic visits and inspections of the project as it progresses, can be important factors in determining whether the agency or the contractor is liable when problems occur. It can also be useful in securing approval for change orders. On the other hand, if errors are made and certification of the final contract payment request is made before the contractor has corrected all deficiencies, the potential exists that the corrections will never be made (some contractors will correct their errors only if payment is withheld).

We visited 4 of OPRHP's 11 regions (Long Island, Thousand Islands, Saratoga, and Central) to identify the procedures and practices in place for monitoring the progress and quality of the projects. Long Island and Saratoga are two of the largest regions and Thousand Islands and Central are two of the smaller regions. Procedures and practices vary at each region. The Thousand Islands Region has a procedure manual that contains a list of documents to be kept in a project file, including maintaining bid and other contract documents, as well as the engineer's detailed design estimate. However, none of the four regions have developed written procedures for monitoring the progress and quality of a project or documenting monitoring activities. To determine the adequacy and consistency of documentation supporting the monitoring activities in the Long Island and Thousand Islands regions, we also selected judgmental samples of their project files, including some of their largest projects. Documentation varied between the two, and among projects within each one.

We reviewed the files for five projects in the Thousand Islands Region, with estimated costs ranging from $104,000 to $318,000. Each project had one contract with an outside construction contractor. In one project, OPRHP employees were used to do a portion of the construction. We noted the following lack of documentation or documentation inconsistences in the project files regarding the Region's monitoring efforts:

- All five files lacked documentation that a preconstruction meeting had been held with the contractors. The project engineers later provided evidence to support that this meeting had occurred for

four of the contracts; however, the evidence did not indicate what was accomplished at those meetings.

- One file did not contain a detailed cost estimate for the project's design.

- One file lacked documentation that any periodic meetings had been held with the contractor.

- Four files lacked detailed construction schedules.

- One file showed inspection entries on just two different dates, even though the construction schedule indicates the contract duration was six months. This situation highlights the need for a standard for the frequency of project inspections.

- One file's engineer's log contained a final entry made on February 4, 1997; yet the project was not actually completed until April 16, 1997.

The Thousand Islands Region's regional capital facilities manger (RCFM) told us that he does not have a formal system for monitoring project progress against the construction schedule. He said his staff have no written procedures to guide them in monitoring progress, but that the engineers do such reviews constantly. He also said he does not review project files to ensure that they include documentation of monitoring activities. He explained that the project files are not maintained consistently and do not contain all items because the Region lacks both staff and written procedures.

In the Long Island Region, we reviewed 13 contract files that related to 8 projects with costs ranging from $14,125 to $2.1 million. Each project we reviewed had at least one contract with an outside construction contractor. One project also used OPRHP's employees to do a portion of the construction. We noted the following lack of documentation or documentation inconsistences in the project files regarding the Region's monitoring efforts:

- One file lacked documentation that a preconstruction meeting had been held with the contractor. The RCFM told us this meeting would have been held and the minutes must have been misfiled.

- Three files lacked documentation that any periodic meetings had been held with the contractors.

- Three files did not contain a construction schedule.

- Four files lacked revised construction schedules that had been requested by the regional engineer. The RCFM stated that these would have been obtained, but were probably filed in a different location.

- Two files lacked documentation that any inspections had been performed.

- One file lacked documentation that the contractor had the required workers' compensation insurance.

In reference to the above observations, the Long Island Region RCFM stated that projects of short duration would not call for meetings with the contractor after the initial preconstruction meeting, and that small projects would not require a construction schedule or the use of a project inspection log. However, the Region does not define projects of short duration or small projects; nor does it have written procedures to cover these types of situations. The RCFM said that engineers do monitor progress against the construction schedule, when monitoring is called for; and they try to ensure that the contractor adheres to the schedule. However, he said that he does not have enough staff to document such monitoring.

The results of our site visits demonstrate that OPRHP management needs to provide comprehensive policies, procedures, and guidance to regional capital program staff so that project monitoring and documentation are adequate and consistent among all regions. Adherence to such procedures would help ensure that capital projects are completed in a timely manner, and economically, with all payments justified; that the projects satisfy OPRHP's needs; and that OPRHP receives quality products and services from its contractors. In addition, completing projects on a timely basis would have the effect of controlling costs during inflationary periods, making facilities available more promptly to park staff and patrons, and maximizing revenue collections.

Central Office officials agreed with the regions that they lack staff in the capital project management program. However, because we did not analyze capital project management staffing levels as part of this audit, we did not determine whether OPRHP needs more staff to strengthen its internal controls over program monitoring. Moreover, we believe management must address the procedural issues discussed in this report before it considers staff requirements.

Recommendations

3. Establish a project-tracking and accounting system that will provide comprehensive information on a project's description and status, including:

   - accumulated project budget and actual costs under one project-identifying code, regardless of funding sources;
   - the tracking of project milestones from a project's inception through its design and construction; and,
   - documentation of the results of inspections and the reasons for project delays.

   (OPRHP officials indicate they are currently designing a system capable of producing the recommended information.)

4. Establish comprehensive policies and procedures that regional capital project staff should follow to monitor the progress and quality of a project and to document their monitoring activities. Follow-up to ensure that regional staff adhere to the procedures.

   (OPRHP officials agree that there is a need for a project manual that will instruct field staff in the use and requirements of the new computerized tracking system, and will also centralize the requirements of what should be maintained in terms of project progress meetings, justification and documentation of change orders and written and formal project close out procedures.)

Major Contributors to This Report

Frank J. Houston
Dominick Vanacore
Thomas A. Nowinski
Joseph Quinlan
Wayne Bolton
Amy Pertgen
Louise Ellis
Marticia Madory

OFFICE OF PARKS, RECREATION · HISTORIC PRESERVATION
NEW YORK STATE
Bernadette Castro
Commissioner

New York State Office of Parks, Recreation and Historic Preservation
The Governor Nelson A. Rockefeller Empire State Plaza
Agency Building 1, Albany, New York 12238

518-474-0456
Human Resources
518-474-0453
Fiscal Management
518-474-0061
TDD: 518-486-1899

September 28, 1999

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of Management & State Financial Services
270 Broadway, 19th Floor
New York, NY 10007

Dear Mr. Houston:

In response to the State Comptroller's Draft Audit Report #98-S-73 on Capital Projects Management, we have reviewed the findings and recommendations and offer the following comments:

This audit focuses largely on procedural and record-keeping issues. We recognize that we have deficiencies in this area as we currently rely on largely manual systems and long-standing funding formulas to manage our capital construction program. Over two years ago this agency initiated the design and development of an agency computer network. For the first time, this new computer network will allow us to have an integrated capital project tracking system which will provide not only programmatic and financial information but will be able to reference project information (such as job meeting and engineering notes) all under one file. While this technology was previously inaccessible to us, we now have the resources to implement such a state of the art management tool. This system will track each project regardless of the number of funding sources by one identifying number.

The State Park system has expanded 10% in the past five (5) years. Visitation continues to increase; we serve 65 million patrons per year, second only to the State of California nationwide. New and expanded parks have been added at Sterling Forest, Woodlawn Beach, Rockwood Hall, Wilson-Tuscarora and in the Hudson Highlands, for example. From 1996 to 1999, capital investment in State Parks has totaled $110 million. We recognize this growth and expansion necessitates our current capital funding formula be revised and we are developing a new formula to be put in place for 2000-01. This new formula will be based not only on an update of the status of the physical plant but will reflect the intent of a new set of Capital program goals to be established. While the first priority will always be directed to health and safety, there must be a recognition of our

visitor's changing demands in recreational services such as full service cabins and more refined trail networks. As the State Park Infrastructure Fund (SPIF) is a critical component of our overall Capital Program (and is dependent upon revenue generated within the system), this element is a major concern, as well.

The Office of Parks, Recreation and Historic Preservation has both been able, in a few short years, to not only stem the tide of decades of neglect, but to bring about a revitalization and modernization of a system that as recently as 1993, was described by the Nelson A. Rockefeller Institute of Government as being allowed to slide into a state of decline. With minimal staffing increases, an annual investment of less than $12 million dollars a year in 1992, has been turned around to where we expended over $34 million dollars annually on State Park capital projects with virtually every project related to health and safety or the rehabilitation of existing infrastructure. Through the judicious use of all available funding sources, such as the State Park Infrastructure Fund, Environmental Protection Fund, Clean Water, Clean Air Bond Act, Land and Water Conservation Fund and Private Investment, we can now assure every park patron the drinking water is pure, the septic systems work, the pools are filtered, the ponds are safe and the park will not only be open tomorrow, but for generations to come.

With limited staff available and this tremendous new financial commitment to resurrect State Parks, we made a number of interim choices in the delivery of this program. The emphasis was on bricks and mortar, and the thorough application of environmental and historic review. We enabled those with the engineering experience, our capital program managers, to apply that expertise first hand by being on site at the regional level. As the State Comptroller's Audit Report 95-S-33 of only four years ago stated, "We found that in-house repair and rehabilitation projects were getting done." Since 1993, this concern (getting projects done), protection and preservation of resources and sound financial management have been the focus of the management of our Capital program.

This audit did not address these areas but used a risk-based approach to select activities for audit. As stated in the audit, little audit effort is expended reviewing operations that may be relatively efficient and effective and that audits are prepared "on an exception basis." As a result, the audit fails to acknowledge the essential purpose of the program, the maintenance of capital infrastructure, the protection of our fragile ecosystem and the health and safety of all park patrons and the fact that these goals are being accomplished efficiently and effectively.

The Audit Observations and Conclusions assert that the agency needs to improve their project review and oversight process. Actually, we do have a well developed system of project review and oversight. The agency staff invited OSC staff to witness first-hand the workings of the Resource Management Group (RMG) which meets bi-weekly and is a critical part of our Capital project selection and review. The RMG, which is composed of: Director of Resource Management, Director of Environmental Management, Director of Planning, Director of Concession Management, Director of Land Acquisition, Associate Counsel, Director of Field Services, Director of Historic Preservation, and the Director of Capital Programs, brings all disciplines to the table on a bi-weekly basis to

discuss each capital project in detail and review for funding, legal ramifications, explore alternative methods of achieving the same goal (i.e., adaptive reuse of existing facilities, alternative site, etc.), Environmental review and Historic compliance and compliance to agency goals and objectives. This process also provides policy direction, is part of the project selection process and provides ongoing management oversight.

Other documentation of agency management tools provided were also not acknowledged. The process or procedure for the determination of funding to a region or project begins with the setting of goals by the Commissioner, review of five year capital plan, submission of budget request documentation, review by the Resource Management Group, establishment of an annual expenditure plan, review by Legislature, review by Division of Budget, internal Executive review, etc.

We also maintain an automated financial tracking system that provides a level of detail necessary to the efficient delivery of the program. One of the deficiencies noted of the present system is its inability to provide a grand total of project cost if funded from multiple sources. Currently this step is done manually as the Central Accounting system cannot integrate or combine multiple funding sources into a single "project". The installation of the agency's new computer system will automate this final step.

This financial audit failed to recognize the fundamental uniqueness in how the SPIF program is financed. SPIF is a cash-based capital program, driven by park user fees. Each year we expend in the capital program the revenues taken in by SPIF. If one project is delayed (a common occurrence in any construction program) another must be substituted in its place. The audit cites 13 contracts that were reviewed in one Park region and cites that all missed completion dates and that not completing projects within the scheduled time may also delay other projects and increase costs. The audit fails to point out that the region in question managed 69 different projects during the audit period. Of the 13 projects cited, three projects had liquidated damages brought against the contractors by Parks, two other projects were intentionally extended by Parks due to previously unknown environmental conditions and the other four projects cited were only delayed one month or less and the one cited as a year behind schedule actually opened a day early (boat launch) but the contract was kept open because the plantings were killed by drought and had to be replaced the following year. The audit asserts that project delays may delay other project starts and may increase project costs; this is not true, especially for a cash-based program like SPIF. Project delays actually present the opportunity to advance new projects within the parameters of the cash plan and, moreover, in the current economy, minor project delays do not necessarily increase costs.

The following is in response to the specific recommendations made by the audit report.

Recommendation #1. Improve procedures showing the method for determining the regional capital project funding allocation and for ensuring that projects meet the highest current priorities, both within a region and a statewide basis.

Response. As documented for the auditors, we use a Five-Year Capital Planning process, we set priorities for funding using published Program Goals, and we determine our one-year Capital Program (the annual project schedule) based on these criteria, the annual priorities of the Commissioner and Executive Staff, and the funds available. We anticipate that a new automated project tracking system, currently under development, will provide the additional documentation the auditors are recommending.

Recommendation #2. Maintain complete and accurate records of the funding-allocation process and decisions.

Response. As documented for the auditors, we use an incremental budgeting approach to develop expenditure ceilings for each region (based on historic percentages), establish major statewide project priorities in a given year, and then make determinations based on total funding available. Regions also have their own priority project lists and, during the year, as projects are delayed or as emergencies arise, project priorities are shifted both within regions and among regions. This is done to ensure that priority (health and safety) projects and those that are "ready-to-go" are always at the top of the list and that all funds made available in a given year (which all come from dedicated revenue sources) are fully expended. This is a very dynamic process. In the case of State Parks Infrastructure Fund (SPIF) projects, which are entirely funded by patron user fees, we feel we have an obligation to reinvest every penny we receive each year back into the park system. SPIF is a cash-based program and we require additional projects to be "in the pipeline" in order to achieve our disbursement targets each year. Changes in regional allocations are already documented through a monthly status report and the status of individual projects is already documented by the Resource Management review process and financial records (contracts, encumbrances, payments). We do recognize the need to provide a new allocation formula as discussed earlier. As with Recommendation #1, we expect that a new capital project tracking system will enable us to maintain the additional information the auditors recommend.

Recommendation #3. Establish a project tracking and accounting system.

Response. We are currently working on a design of such a system to become part of our agency data communications network. We agree such a system is desirable, however systems do not have to be automated (and integrated) to be effective. For the past twenty years we have relied on the Comptroller's own Central Accounting System (CAS) as the core to our internal financial reporting system. This internal financial reporting system provides great detail and provides enhanced monitoring capability to track and monitor capital project expenditures. In the last decade we have also taken advantage of the Fixed Asset Inventory system established by the Office of General Services. We maintain manual files on all capital projects at both the region and in the Albany Office. We have recently (June 1999) implemented a statewide computer system capable of producing the information the auditors are requesting and will be pursuing such a project design in the upcoming year.

Recommendation #4. Establish comprehensive policies and procedures that regional capital project staff should follow to monitor the progress and quality of a project and to document their monitoring activities.

Response. We believe that sufficient financial policies and procedures already exist, as promulgated by the agency, the State Comptroller's Office, the Budget Division and others, and as governed by the State Finance Law. Furthermore, as professionals licensed by the State Education Department, our regional engineers must conform to the standards and practices of their profession and there is a growing body of laws, rules and regulations and court decisions which govern the procedures and activities of engineering design, construction and related professions. We believe that there is a need for a project manual that will instruct field staff in the use and requirements of the new computerized tracking system, but will also centralize the requirements of what should be maintained in terms of project progress meetings, justification and documentation of change orders and written and formal project close-out procedures.

The audit has identified where some of these procedural gaps exist and we will be examining and clarifying all such guidelines and procedures in response to this audit.

Sincerely,

J. Dennis Hanrahan
Director, Human Resources