

Metropolitan King County Council

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MANAGEMENT LETTER

DATE: December 10, 2004

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Follow-up: Wastewater Treatment Division Capital Planning -
Implementation of 2003 Performance Audit Recommendations

The 2004 Auditor's Office Work Program mandates a follow-up review of the Wastewater Treatment Division's (WTD) efforts to implement recommendations from our 2003 performance audit of the division's capital planning activities (Report No. 2003-03). This follow-up finds that the WTD is taking substantive actions to improve its performance by developing approaches to ensure that complete, accurate, and consistent methods are used to analyze potential capital project costs. The WTD is also taking steps to strengthen accountability by improving the quality of the data it collects so that meaningful information about wastewater capital project delivery can be provided to the council and the public.

Background

The 2003 performance audit found that the WTD was making efforts to improve management of its capital planning activities. However, the audit also found that some division practices fell short of national industry standards for best management practices that promote cost-effectiveness and greater accountability. The report made 11 recommendations to strengthen capital project management oversight and accountability. Below is a summary of the recommendations and the division's actions to implement them:

The WTD should analyze and integrate existing asset cost and condition information into financial analyses of capital planning alternatives. This information should also be considered during the annual ranking and prioritization of proposed capital projects.

The WTD is developing a standard approach for collecting and analyzing asset inventory, costs, and condition information. The division is implementing a business case evaluation (BCE) approach on a pilot basis for two major facilities. The BCE allows the division to identify the most appropriate information to collect about its

major assets. Information such as ongoing costs of ownership, future needs, risks of equipment failure, and replacement costs will be analyzed when making major equipment repair or replacement proposals and decisions. WTD is also evaluating how existing data systems that contain asset information can be integrated so that asset data can be more readily analyzed and used.

The WTD should establish guidelines for conducting financial analyses of capital project alternatives. In addition, the Office of Management and Budget (OMB) needs to develop and implement a countywide policy for calculating the time value of money. The WTD should also analyze and report the impact on rates for proposed large-scale asset management and major capital projects.

The WTD has established draft guidelines for conducting financial analyses of capital project alternatives. These guidelines are intended to help improve consistency and completeness of life-cycle cost and economic analysis of capital project alternatives. The guidelines identify relevant cost components and other analysis parameters such as establishing the correct period of analysis and appropriate equipment replacement cycles. The WTD will be providing training to its staff in January 2005 as well as ongoing assistance in application of the guidelines. The WTD will begin using the information from these analyses in its capital decision making and rate projections in 2005. Additional follow-up will need to occur in developing approaches to identify and analyze qualitative factors associated with proposed project alternatives so that benefit-cost analysis of major projects can be complete and comprehensive.

The Office of Management and Budget has developed a draft discount rate policy. A countywide policy for calculating the time value of money is important in ensuring accuracy and comparability of capital project costs across county government. We have reviewed the draft policy and provided feedback to the OMB. This included suggestions to OMB that 1) a base discount rate be set as policy and examples of its use be identified, 2) instances and examples of when the rate of borrowing as a substitute for the above rate would be allowable, 3) a method to ensure compliance with the policy be implemented, and 4) OMB review and have the authority to approve agency requests to use a discount rate outside the parameters of the policy. The discount rate policy is still in draft form and OMB anticipates it will be finalized in Spring 2005.

The WTD needs to establish a reporting system that provides meaningful capital project cost, scope, schedule, and budget information to decision makers. The division should work with councilmembers and council staff to update code requirements to reduce the number of required reports if possible.

The WTD has evaluated its data collection and reporting system. The division has developed methods for defining, capturing, and controlling data quality. The division will provide training to its staff in January 2005 so that data across projects will be reported in a more consistent manner. The division will be developing a variety of reports that capture individual project scope, schedule, and budget data as

well as program-wide summary performance information. The council's Natural Resources and Utilities Committee 2005 staff work program will likely include activities to support this effort.

Conclusion

The WTD and OMB have undertaken substantive activities to implement the recommendations of the 2003 performance audit. Many of these activities will be ongoing into the future and should improve the county's cost-effectiveness and accountability by:

- Optimizing the utility of existing assets.
- Conducting consistent and complete analysis of capital project alternatives
- Providing meaningful capital project scope, schedule, and budget information to councilmembers and the public.

We would like to express our appreciation to staff from the Wastewater Treatment Division and the Office of Management and Budget for their cooperation during our follow-up review. If you have any questions regarding this letter or the issues discussed, please contact Valerie Whitener or me at 296-1655.

CB:yr

cc: Ron Sims, County Executive
Steve Call, Director, Office of Management and Budget
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