



GFOA BEST PRACTICE

Capital Project Monitoring and Reporting (2007) (CEDCP)

Background. The financial management of capital projects requires a substantial commitment of organizational time and resources. Given their scale and cost, capital projects can represent a significant risk for local governments. Consequently, governmental entities should establish policies and procedures to support effective capital project monitoring and reporting to mitigate such risks. Such efforts can improve financial accountability, enhance operational effectiveness and promote citizens' confidence in their government.

In many jurisdictions, finance officials are called upon to oversee or directly perform capital project monitoring and reporting activities. To successfully perform those activities, finance officials should be familiar with project management practices, software systems for project management and project accounting, and capital project reporting procedures.

Recommendation. The Government Finance Officers Association (GFOA) recommends that jurisdictions establish policies and processes for capital project monitoring and reporting. GFOA advises officials to:

1. Identify and incorporate legal and fiduciary requirements into capital monitoring and reporting.

Because finance officials are typically entrusted with ensuring that capital project activity is consistent with applicable laws and organizational rules and procedures, initial efforts should focus on understanding requirements related to:

- Auditing and financial reporting consistent with generally accepted accounting principles and jurisdictional accounting and grant requirements.
- Arbitrage regulations, bond covenants, and/or bond referenda requirements related to long-term debt.
- State and local laws, including such areas as debt capacity limits, voter authorization, as well as public bidding and reporting requirements.
- Capital project contract language and the jurisdiction's contracting practices.
- The relationship between each project and the jurisdiction's planning processes, including specific plans and master plans.

2. Identify external and internal stakeholder information needs. Finance officials may be called upon to compile cost and performance data for diverse stakeholders. With this in mind, financial officials responsible for capital monitoring and reporting should:

- Identify key audiences involved in capital projects, for example, project engineers, contractors, finance and budget staff, executive management, elected officials, and constituents.
- Identify the business needs of key participants, including timing status, cost activity, and project scope.
- Establish project performance measures based on stakeholder needs and legal and fiduciary requirements.
- Collaborate with participants to determine the content of reports and the preferred reporting tools of various stakeholders, including the depth and frequency of information, established expectations and notable variances.

3. Plan and design systems to collect, store, and analyze project data and to report results. Often, more than one system or technological solution is required to properly address all informational requirements. To simplify this process, responsible officials should:

- Decide which system will be the main system for storing capital project financial and operational data.

- When establishing a data system specifically for capital projects, take the following factors, (at minimum) into consideration:
 - The appropriate technological solutions for project accounting, scheduling and reporting. Solutions may include spreadsheets, customized databases, ERP systems, or project management software.
 - Positional roles, including access, input and editing privileges for system users who will be charged with compiling, analyzing and reporting financial and management information.
 - The process for controlling and managing project changes.
 - Accountability and data integrity within the financial management system.
 - Data accuracy. This is particularly important when there are interfaces between separate information systems, such as geographic information systems, project management systems and financial systems. Careful consideration should be given to avoid duplicative data among these different systems.
 - Triggers and protocols for identifying and addressing project cost overruns.
- Assure that appropriate system controls and security have been incorporated, consistent with the jurisdiction's technology standards.
- Strive for consistency and standardized language when compiling information from various sources.

4. Regularly monitor capital projects' financial and project activity information. Once legal, fiduciary, and informational requirements have been established and information systems are in place, finance officials should monitor capital project activity on a regular basis. At a minimum, such monitoring should include:

- Confirmation that a project plan exists that identifies all required resources and milestone work products and assurance that the project plan is being followed.
- Confirmation that the project's scope has been clearly identified upon completion of final design and that the project stays within scope or that changes to scope have been made consistent with an established process.
- A review of project-related financial transactions to support budget review, auditing and asset management.
- A review of expenditures, both in relation to the current budget, and over the entire project life.
- Review of encumbrances and estimates of planned expenditure activity.
- Confirmation of continued availability and appropriateness of revenue sources identified in the capital budget.
- Confirmation of the adequacy of cash flow in relation to project requirements.
- Review of the timing of investment maturities compared to planned project disbursements.
- Review of sources and project uses of bond proceeds and grants.
- Results compared to established measures of performance.

5. Report on project status and activities. Producing project status reports will help officials make informed decisions regarding scheduling and cost. (In establishing report content and frequency it is important for officials to keep in mind that high profile projects often require more extensive reporting of activity compared to a jurisdiction's more routine capital projects.) It is important to be consistent and use plain language when compiling information from various sources and reporting it to multiple stakeholders. Meaningful reports should provide straightforward project information for executive leadership and internal staff as well as citizens and the media, and, at minimum:

- Provide a comparison of actual results to the project plan, including:
 - Percent of project completed
 - Percent of project budget expended
 - Progress on key project milestones
 - Contract status information
 - Revenue and expenditure activity
 - Cash flow and investment maturities
 - Funding commitments
 - Available appropriation

- Comparison of results in relation to established performance measures
 - Highlight significant changes to project scope or costs.
- 6. Project close-out.** Upon project completion, ensure that actions are taken to finalize project activity, including, at minimum:
- Confirming that the project is closed out appropriately within all systems used to manage, monitor and report on the project.
 - Confirming that the established procedures for user acceptance of project work and final project completion have been followed.
 - Confirming that new infrastructure assets are properly recorded.
- 7. Evaluate monitoring and reporting activities.** In order to assure that capital project monitoring and reporting practices continue to be effective and relevant to the organization, jurisdictions should conduct a periodic review of these practices, including at minimum:
- An inspection of reporting data for accuracy and completeness.
 - The existence and adequacy of measures used for quality assurance and control in each phase of capital projects.
 - Solicitation of feedback (using surveys, interviews and other feedback mechanisms) from stakeholders on the adequacy and relevance of reports and reporting tools, including the extent to which business needs are being addressed.
 - A comparison of the organization's report format and content to other agencies' practices.
 - An assessment of the adequacy of communication between various organizational units.

References

- *Capital Improvement Programming: A Guide for Smaller Governments*, GFOA, 1996
- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, National Advisory Council on State and Local Budgeting, 1998.
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- *Capital Budgeting and Finance: A Guide for Local Governments*, ICMA, 2004.
- *Preparing High Quality Budget Documents*, GFOA, 2006.
- "Staying on Track: Crafting a Capital Program Reporting System," *Government Finance Review*, GFOA, 2006.
- Distinguished Budget Presentation Awards Program, *Awards Criteria and Explanations of the Criteria*, GFOA.

Approved by the GFOA's Executive Board, October 19, 2007.