



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: West Side Transit Facility Construction Project
Transit Department
03-110

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations reviewed the Transit Department's (Transit) West Side Transit Facility construction project and its administration of the related federal grants which paid for the majority of the project.

The original purpose of the West Side Transit Facility project was to construct an additional location where the City's fleet of compressed natural gas (CNG) buses would be maintained and fueled. At the start of the project, Transit anticipated that it would replace all of its diesel-fueled buses with CNG-fueled buses. However, after the initial CNG-fueled buses were placed into operation, Transit made a decision not to purchase additional CNG-fueled buses, due to significant operating problems. Transit then decided to use the West Side Transit Facility for the maintenance and fueling of the City's diesel-fueled buses, and to use the older facility on Yale Boulevard to maintain and fuel the CNG-fueled buses.

As of April 2004, \$28.4 million had been appropriated for the West Side Transit Facility construction project. Federal grants account for \$22.7 million of this total appropriation. The remainder of the appropriation is from matching City monies.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Were the expenditures charged to this project and related federal grants properly documented and allowable under the terms of the grants?
- Did the award of the various agreements related to the project, such as architectural/engineering contracts and construction contracts, comply with City procurement requirements?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the Westside Transit Facility construction project and related federal grants. Our audit test work was limited to a review of expenditures during the period October 1994 through December 2003. The first federal grant relating to this project was approved by the federal government on September 30, 1994.

This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of expenditures through the completion of fieldwork and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, which requires an external quality review.

METHODOLOGY

We reviewed an audit sample of \$3.8 million of judgmentally selected expenditures out of a total population of \$10.1 million of expenditures that had been made through December 2003. The audit sample was comprised of 24 items out of a total population of 522 items.

We reviewed the award of the architectural contract and two construction contracts to determine if they were awarded in compliance with City requirements for competitive bidding. One construction contract was for site preparation/utilities infrastructure and the other construction contract was for the building construction. These three contracts accounted for the majority of the contractual costs. At December 2003 there were nine contracts related to this project.

Additionally, we interviewed key personnel and performed analytical procedures. This audit, and its conclusions, is based on information provided through interviews, tests and reviews of current procedures.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. TRANSIT SHOULD COMPLY WITH CITY AND STATE RULES REGARDING THE TRACKING AND INVENTORY RECORD KEEPING FOR CAPITALIZED FIXED ASSETS.

As noted earlier, in February 2003 Transit made a purchase of 139 electronic fareboxes from a bus supplier at a cost of \$3,310 each. According to Transit personnel, these are a basic model of electronic farebox that were purchased to replace the out-dated units on buses, which were purchased more than 15 years ago. Transit personnel further indicated that the useful life of a farebox could be equated to that of a bus, i.e., 12 years service life.

The City uses a capitalization threshold of \$1,000 to determine whether or not to capitalize an item. Administrative Instruction No. 6-4 (Revised) states, "Accounting standards require Governments to maintain detailed records for each fixed asset by classification . . . Fixed assets are defined as assets that have a useful life of greater than two years after the date of acquisition . . . It is the policy of the City to charge all disbursements in amounts of more than \$1,000 per item for furniture and equipment to the capital outlay expenditure accounts . . . These items are assigned a city tag number(s) by Property Accounting with identifying numbers and are capitalized by Accounting as fixed assets."

With regard to the purchase of the fareboxes, we noted the following:

- These items were not included on Transit's detailed fixed asset listing.
- As a result, Transit can not perform a physical inventory of these fixed assets. This is required by State Statute NMSA 12-6-10, which requires that, "The governing authority of each agency, shall at the end of each fiscal year, conduct a physical inventory of all movable chattels and equipment costing more than one thousand dollars (\$1,000) and under the control of the governing authority."
- Additionally, City tag numbers were not issued to these fixed assets, as required by Administrative Instruction 6-4.

Transit originally charged these items to a capital outlay account. The Department of Finance and Administrative Services (DFAS) then made a journal entry to reclassify the costs to an operating supplies expense account. As a result, the items were not issued City tag numbers. DFAS did subsequently capitalize these costs through a capital project work-in-process schedule for financial statement purposes.

RECOMMENDATION

Transit and DFAS should comply with City and State rules regarding the tracking and inventory record keeping for capitalized fixed assets.

EXECUTIVE RESPONSE FROM TRANSIT

“Background:

***“The West Side Facility project started in 1992. Over the last 13 years there have been several grant awards on this project. There have been several modifications to these grants, all properly authorized by FTA (File electronically on TEAM Web) or authorized within the grant scope. Over the life of this project, the FTA has authorized and paid numerous quarterly drawdowns. The FTA, in two different Triennial reviews, has audited the West Side Facility project with no findings. In May of this year FTA sent four independent auditors to do a procurement audit and there is no finding in the preliminary draft relating to the West Side Facility.*”**

“Transit concurs with the recommendation. Transit will work with DFAS to ensure that the fare boxes are included on the fixed asset listing, as well as obtaining identification tags to be attached. This task will be completed by December 31, 2005.”

EXECUTIVE RESPONSE FROM DFAS

“DFAS recognizes the importance of proper recording of all transactions. The confusion related to this particular transaction was the result of a lack of clarity about whether actual tangibles or some sort of software upgrade was being purchased.”

2. TRANSIT SHOULD PERFORM A PRELIMINARY ANALYSIS TO DETERMINE IF IT WOULD BE COST BENEFICIAL TO HAVE A COST SEGREGATION STUDY PERFORMED TO REDUCE THE GROSS RECEIPTS TAX PAYABLE ON THE WEST SIDE TRANSIT FACILITY CONSTRUCTION PROJECT.

The City is required to pay New Mexico Gross Receipts Tax (NMGR) on the costs associated with construction projects. However, the City is not required to pay NMGR on the costs associated with the purchase of tangible personal property which are incorporated into a construction project.

State Statute NMSA 7-9-54 specifies that "Receipts from selling tangible personal property to the United States or New Mexico or a governmental unit, subdivision, agency, department or instrumentality thereof may be deducted from gross receipts or from governmental gross receipts."

The New Mexico Taxation and Revenue Department allows governments to apply a methodology referred to as a cost segregation study to reduce its NMGR payable on construction projects.

This cost segregation study methodology determines the costs of a construction project that are related to the installation of equipment in the building, versus the costs of the building shell itself. The construction costs of the building shell are subject to NMGR. However, the construction costs related to items necessary to allow the installation of equipment in the building are considered by the Department of Taxation and Revenue to be tangible personal property, and therefore, not subject to NMGR.

A construction project such as the West Side Transit Facility may have significant construction costs associated with the installation of the equipment that is to be placed in the buildings. Transit could potentially reduce the amount of the NMGR that is payable related to this construction project. This would require that a cost segregation study be performed that would determine the construction costs associated with the building shell, versus the construction costs associated with the installation of the equipment in the building. Transit has not considered having a cost segregation study performed, because the fiscal personnel were not aware that this could be done.

RECOMMENDATION

Transit should perform a preliminary analysis to determine if it would be cost beneficial to have a cost segregation study performed to reduce the gross receipts tax payable on the West Side Transit Facility construction project.

EXECUTIVE RESPONSE FROM TRANSIT

“Transit respectfully declines to proceed with the recommended study. Transit believes that a cost segregation study, and funding for it, is not within the scope of the grants for this project. The City receives a distribution of the state portion of gross receipts tax, plus all locally imposed gross receipts tax options, paid on City construction projects. This “rebate” would have to be factored into any cost/benefit analysis related to a cost segregation study. Transit will suggest that the CAO’s Office explore this issue further as time allows.”

3. MISCELLANEOUS FINDING

The following finding does not require a response, but should be considered as an additional way to improve the management of construction projects by Transit.

During a one and half year period of this construction project, Transit did not have a project engineer to oversee the City’s involvement in the project. The position of a project engineer is important in protecting the City’s interests in a large project. When Transit is involved in large dollar value construction projects, it should have a project engineer to oversee the City’s involvement in the project.

CONCLUSION

Transit should implement a thorough review process to ensure that charges to federal grants fall within the project budget item descriptions. Transit and DFAS should comply with City and State rules regarding the tracking and inventory record keeping for capitalized fixed assets. Transit should ensure that its use of change orders complies with the City’s Standard Specifications for Public Works Construction. When Transit is involved in large dollar construction projects, it should determine if it would be cost beneficial to have a cost segregation study performed to reduce the gross receipts tax payable on the construction project.

We appreciate the assistance and cooperation of Transit personnel during the audit.

Principal Auditor

Senior Auditor

REVIEWED:

Budget Auditor

APPROVED:

Carmen Kavelman, CPA, CISA, CGAP
Acting Director

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

MANAGEMENT AUDIT REPORT

OF

**WEST SIDE TRANSIT FACILITY
CONSTRUCTION PROJECT**

REPORT NO. 03-110



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