

MANAGEMENT AUDIT REPORT
OF
USE OF THE TRANSPORTATION INFRASTRUCTURE TAX
DEPARTMENT OF MUNICIPAL DEVELOPMENT
REPORT NO. 05-106



City of Albuquerque
Office of Internal Audit and Investigations



City of Albuquerque
Office of Internal Audit and Investigations
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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Use of the Transportation Infrastructure Tax
Department of Municipal Development
05-106

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the use of the Transportation Infrastructure Tax (Tax). The audit was included in the fiscal year (FY) 2005 approved audit plan.

A special election was held on March 31, 1999, in which City residents voted to impose a one-quarter ($\frac{1}{4}$) of one percent municipal gross receipts tax for a ten-year period. Seventy-six percent of the revenues from the Tax were to be dedicated to road rehabilitations, road deficiencies and road maintenance.

According to the Transportation Infrastructure Tax Ordinance (Ordinance):

- Not less than 32 percent of the Tax revenues were to be used for road rehabilitations,
- Not more than 32 percent of the Tax revenues were to be used for road deficiencies,
- Twelve percent of the Tax revenues were to be used for road maintenance,
- Twenty percent of the Tax be used for Transit, and
- Four percent for Trails and Bikeways.

The Tax was projected to raise \$280 million over the 10 year life of the tax. The Tax became effective January 1, 2000, and expires December 31, 2009. As of May 2005, approximately \$95 million had been spent for road rehabilitation, road deficiency and road maintenance.

During FY2005, the Public Works Department (PWD) was merged into the Department of Municipal Development (DMD.) PWD had been responsible for road rehabilitation and road maintenance.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Are the Ordinance requirements for road rehabilitations, road deficiency, and road maintenance being complied with?
- Are expenditures that have been charged to Transportation Infrastructure Tax Capital Improvement Program (CIP) directly related to the purpose of the Tax?
- Are City performance measures being met for road rehabilitation, road deficiency, and road maintenance?

SCOPE

Our audit did not include an examination of all functions and activities related to the Tax. We limited our scope to only those activities relating to road rehabilitation, road deficiency, and road maintenance. We examined expenditures from the period of initial Tax disbursements beginning on April 24, 2000 through May 2005. We also reviewed compliance with the reporting requirements of the Ordinance for the same period. Performance measures were reviewed for FY2004 and FY2005.

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 Tax activities through the completion of fieldwork and does not reflect events or accounting entries after that date. Our last day of fieldwork was October 18, 2005.

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

METHODOLOGY

We statistically and judgmentally selected 90 road rehabilitation, road deficiency, and road maintenance expenditures for testing. The dollar total of our test sample was \$7,869,181. Our expenditure tests included reviewing supporting documentation and determining that the expenditure met the purpose and intent of the Tax.

We performed interviews with DMD personnel, reviewed the Ordinance and reviewed documentation prepared by the DMD to verify compliance with the requirements.

FINDINGS

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

1. DMD SHOULD ENSURE THAT THE EXPENDITURES PAID FOR WITH THE TAX FUNDS ARE PROPERLY SUPPORTED, CLASSIFIED AND APPROVED.

We sampled 90 items that were charged as expenses to the Tax road rehabilitation, road deficiency, and road maintenance projects. Some of the charges were for payroll costs that had originally been paid out of the general fund, but the expenses were subsequently transferred by the department via journal voucher to Tax CIP projects. For the following payroll cost transfers, DMD stated that the documentation to support the journal voucher transfer of these expenditures could not be located.

<u>Amount</u>	<u>Date of Transfer</u>
\$405,095	June 2002
193,304	June 2002

The City's On-Line Journal Voucher Policy Statement requires that "For audit purposes, departments are required to retain these records for the following period of time: . . . At least five (5) years."

A memo from a prior CAO dated June 28, 2002 to Department Directors and Fiscal Managers regarding General Ledger – Journal Vouchers stated, "The support for each JV must immediately be available upon request by Financial Reporting, external auditors or Internal Audit."

DMD explained that responsibilities had been transferred from another department to DMD and some of the journal vouchers had been approved by individuals no longer working for the City.

Other Expenditures:

Two engineering fee expenditures of \$43,913 posted in March 2005 and \$33,010 posted in September 2002 were posted by DMD to a CIP cost category titled "additional services." However, when these expenses were rolled up into the general ledger system, they were posted to an account titled "attorney fees and bonds".

RECOMMENDATION

DMD should ensure that the expenditures paid with the Tax funds are properly supported.

DMD should ensure that when CIP engineering fee expenditures are rolled up into the general ledger system, they are correctly classified.

RESPONSE FROM DMD

"DMD agrees and is complying. DMD was unable to locate supporting documentation for one journal voucher that was processed in June 2002 by the 'old' Public Works Department. Current DMD procedures and policies ensure that all financial documents are appropriately filed. DMD will contact DFAS to coordinate the expense account names to ensure proper classification."

2. DMD SHOULD PERFORM AN ANALYSIS TO ENSURE IT HAS BEEN USING THE TAX FUNDS AS NET NEW MONIES.

The Ordinance states that "The funds spent for Rehabilitation and Deficiency shall be net new monies expended for these purposes. In order to establish the current level of spending, an average [of] expenditures in FY1996, FY1997, and FY1998 separately for Rehabilitation and Deficiency shall be calculated." The net new monies requirement is meant to have the Tax pay for additional rehabilitations and deficiencies, not replace the funds that were currently being used for this work.

DMD personnel did not have documentation that the average had been calculated. Consequently, the department never determined what the spending level was, prior to the Tax Ordinance being implemented, to establish that the use of the Tax was net new monies.

RECOMMENDATION

DMD should perform an analysis to ensure it has been using the Tax funds as net new monies to address additional rehabilitation and deficiencies.

RESPONSE FROM DMD

“An analysis was performed and it demonstrated that DMD is consistent in allocating General Obligation Bond funding per City Council mandate provided for each bond cycle. Transportation Infrastructure Tax funding continues to be net new money spent in excess of the provided General Obligation Bond funding.”

AUDITORS’ COMMENT

DMD provided a schedule of Capital Implementation Program expenditures for Fund 305, Transportation, for the years from FY1996 through FY2005 at the exit conference. This schedule indicated the following:

Year	CIP Transportation expenditures, Fund 305
FY1996	\$32,414,023
FY1997	\$28,371,318
FY1998	\$26,028,163

The average of the three years, referred to in the Ordinance, for CIP Transportation expenditures, was \$28,937,835.

The CIP Transportation expenditures, Fund 305, fell below the three year average, for the subsequent years:

Year	CIP Transportation expenditures, Fund 305
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FY1999	\$17,108,359
FY2000	\$16,730,130
FY2001	\$23,698,978
FY2002	\$16,668,067
FY2003	\$24,081,500
FY2004	\$25,528,958

Therefore, based upon the analysis provided by DMD, from FY1999 through FY2004 the net new monies requirement of the Ordinance was not complied with.

3. DMD SHOULD ENSURE THAT THE ANNUAL LISTING OF EACH ROAD REHABILITATION PROJECT AND ITS ESTIMATED COST IS SUBMITTED TO THE CITY COUNCIL.

The Ordinance states that “Sixty days prior to the beginning of each fiscal year, the Mayor shall submit to the Council in the form of a resolution for approval **a listing of each rehabilitation and deficiency project to be initiated in the coming fiscal year and its estimated costs**. The Mayor shall submit to the City Council a plan for the expenditures for that fiscal year (emphasis added).”

OIAI requested that DMD personnel provide a copy of the resolution submitted to Council for the FYs 2005, 2004, and 2003. DMD personnel stated that PWD had not sent the Mayor’s Office the information necessary to prepare and submit to the City Council, the annual listing of each road rehabilitation project and its estimated costs for the 2004 and 2003 periods.

The 2005 Streets – Transportation Tax Infrastructure Tax Expenditure Plan submitted to the Council by DMD listed road deficiencies by each project, but did not list road rehabilitation by each project.

In September 2005, DMD personnel provided OIAI a copy of a Resolution, R-2005-120. The resolution indicated that \$10,000,000 was appropriated for road rehabilitation for FY2006 using Tax funds. The resolution did not list each road rehabilitation project, and its estimated cost, as required by the Ordinance.

RECOMMENDATION

DMD should ensure that the annual plan for road rehabilitation expenditures and the listing of road rehabilitation projects submitted to the City Council include all the information required by the Ordinance.

RESPONSE FROM DMD

“DMD agrees. The semi-annual CIP clean-up resolutions appropriate the project funding and fulfill this requirement.”

4. DMD SHOULD EVALUATE WHETHER THE REPORTING REQUIREMENT OF THE ORDINANCE IS ACCOMPLISHED BY JUST REPORTING THE TOTAL AMOUNT OF ANNUAL EXPENDITURES.

The Ordinance states that “At the end of each fiscal year, the Mayor shall submit to the City Council and to the public an annual report on the expenditures for that fiscal year.” OIAI requested that DMD personnel provide a copy of the annual report of road rehabilitation projects expenditures that was submitted to the City Council and the public for the FYs 2004, 2003, and 2002. DMD personnel stated that PWD had not sent the Mayor’s Office the information necessary to prepare and submit to the City Council, the annual listing of each road rehabilitation project and its estimated costs for these years.

In September 2005, OIAI asked DMD personnel to provide a copy of the FY2005 annual report. The annual report only provided the total amount expended on street maintenance and rehabilitation.

RECOMMENDATION

DMD should consider whether reporting the total amount expended on street maintenance provides City Council and the public an adequate description of DMD accomplishments regarding road rehabilitation.

RESPONSE FROM DMD

“An evaluation was conducted and DMD believes that the CIP Annual Status Report represents an adequate description of DMD’s

accomplishments.”

AUDITORS’ COMMENT

The annual report that DMD submitted to City Council for FY2005, stated that \$25,895,127 was expended for street maintenance and rehabilitation. This annual report does not provide the City Council and the taxpayers any information regarding what was accomplished with these expenditures.

5. DMD SHOULD DETERMINE THE CAUSES OF THE DIFFERENCES BETWEEN PERFORMANCE GOALS AND ACTUAL PERFORMANCE.

The City utilizes performance based budgeting where inputs such as appropriations require certain outputs. The intent of performance based budgeting is to have the budget tie to the performance plan, which is approved annually in conjunction with the City of Albuquerque operating budget. A complete performance management system includes performance standards against which actual performance is reported, monitored, and compared. DMD management could not provide the basis upon which the Performance Plan goals were established. DMD had the following goals and reported actual miles for street miles resurfaced.

	<u>FY 2004</u>	<u>FY 2005</u>
Performance Plan output measure (goal)	330	330
Performance Plan actual	248	250
City Council Priority Objective (goal)	400	400
Approved Budget – prior year accomplishments - actual	234	289

DMD said that the reason for the discrepancies between the priority objective that was established by the City Council, the output measure projected in the Performance Plan, and the results that were achieved was that the Tax does not provide enough funding to accomplish the priority objective of 400 lane miles or the output measure of 330 miles.

If significant differences are identified between the goals and the actual performance, managers should determine the causes of the differences and either develop solutions to bring performance into line with the goal, or adjust the goal to make it more realistic and achievable. Management should consider performance measurement to be an ongoing process. An effective performance measurement system can serve to improve management and increase public confidence in government programs.

RECOMMENDATION

DMD should refine the measurement process to determine the causes of the differences between performance goals and actual performance, and either develop solutions to bring performance into line with the goal, or adjust the goal to make it more realistic and achievable.

DMD should ensure that consistent data is reported regarding the accomplishment of departmental performance measures.

RESPONSE FROM DMD

“DMD agrees and continues to refine the measurement process. The amount of Transportation Infrastructure Tax funding provided to DMD has remained consistent since its inception and this funding is being fully utilized for resurfacing roadways. DMD has generated new performance measures for FY 06 and FY 07 to match the allocated funding.”

CONCLUSION

DMD is required to comply with the Transportation Infrastructure Tax Ordinance. It is essential that DMD develop controls to ensure that the Ordinance requirements are met. In December 2005, an amendment to the Ordinance was enacted that changed the requirement for an independent audit firm to conduct audits of the Tax expenditures. The Office of Internal Audit and Investigations will now perform the required audits.

We appreciate the cooperation and assistance of the Department of Municipal Development staff during the audit.

Principal Auditor

Senior Auditor

REVIEWED:

Audit Supervisor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director

Chairperson, Accountability in Government
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