

FOLLOW-UP OF
WEST SIDE TRANSIT FACILITY
CONSTRUCTION PROJECT
REPORT NO. 07-03-110F



City of Albuquerque
Office of Internal Audit and Investigations



City of Albuquerque
Office of Internal Audit and Investigations
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November 28, 2007

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

Follow-Up: West Side Transit Facility
Construction Project
07-03-110F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a follow-up of Audit No. 03-110, West Side Transit Facility Construction Project, issued August 31, 2005. The purpose of our follow-up is to report on the progress made by ABQ Ride management in addressing our findings and recommendations.

As of April 2004, \$28.4 million had been appropriated for the West Side Transit Facility Construction Project. Federal grants accounted for \$22.7 million of the total appropriation. The remainder of the funding was from matching City monies.

SCOPE, OBJECTIVES, AND METHODOLOGY

Our follow-up procedures consist of inquires of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations. The audit was conducted in accordance with Government Auditing Standards.

The scope of the follow-up did not include an examination of all the functions and activities related to the West Side Transit Facility Construction Project. We limited our scope to actions taken to address our audit recommendations from the period of August 31, 2005 to September 20, 2007.

RECOMMENDATION NO. 1:

ABQ Ride

In February 2003, ABQ Ride purchased 139 electronic fareboxes from a bus supplier at a cost of \$460,090. ABQ Ride personnel 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 and a minimum of two years useful life to determine whether or not to capitalize an item. Administrative Instruction (AI) No. 6-4 (Revised) requires City entities to maintain detailed records for each fixed asset by classification. The AI also requires that each fixed asset is assigned a City tag number and is capitalized.

The audit determined that the fareboxes:

- Were not included on ABQ Ride's detailed fixed asset listing;
- Would not be included when ABQ Ride performed a physical inventory; and
- Were not issued City tag numbers. ABQ Ride originally charged these items to a capital outlay account.

The Department of Finance and Administrative Services (DFAS) made a journal entry to reclassify the fareboxes from the capital outlay account to an operating supplies expense account. DFAS did subsequently capitalize these costs through a capital project work-in-process schedule for financial statement purposes.

The audit recommended that ABQ Ride comply with City and State rules regarding the tracking and inventory record keeping for capitalized fixed assets.

ABQ Ride responded that it would work with DFAS to ensure that by December 31, 2005, the fareboxes would be included on the fixed asset listing and assigned identification tags.

DFAS

The audit recommended that DFAS comply with City and State rules regarding the tracking and inventory recordkeeping for capitalized fixed assets.

DFAS responded that it recognized the importance of proper recording of all transactions, and 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.

ACTION TAKEN

The audit recommendations have been fully implemented. The 139 electronic fareboxes were added to ABQ Ride's detailed fixed asset listing in August 2005. In May 2006, ABQ Ride provided DFAS Accounting Division (Accounting) with the serial numbers of the 139 electronic fareboxes to be included on the detailed fixed asset listing. This information was added to the fixed asset listing in June 2006.

RECOMMENDATION NO. 2:

The City is required to pay New Mexico Gross Receipts Tax (NMGRT) on the costs associated with construction projects. The City is not required to pay NMGRT on the costs associated with the purchase of tangible personal property incorporated in a construction project.

The New Mexico Taxation and Revenue Department allows governments to apply a methodology referred to as a cost segregation study to reduce NMGRT payable on construction projects. This methodology determines the costs of a construction project 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 NMGRT. The construction costs related to items necessary to allow the installation of equipment in the building are considered to be tangible personal property, and not subject to NMGRT.

ABQ Ride fiscal personnel were not aware that a cost segregation study could be performed. If the study would have been performed, NMGRT could have been reduced.

The audit recommended that ABQ Ride 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.

ABQ Ride responded that it declined to proceed with the recommended study. ABQ Ride believed that a cost segregation study, and funding for it, was not within the scopes of the grants for this project. ABQ Ride further responded that it would suggest the Chief Administrative Officer explore this issue further as time allowed.

ACTION TAKEN

The audit recommendation is considered resolved. ABQ Ride did not perform a preliminary analysis to determine if it would be cost beneficial to have a cost segregation study

performed. However, the Chief Financial Officer (CFO) informed OIAI that the City continues to be of the opinion that cost segregation studies would normally be outside of the authorized scope of most construction projects, particularly state or federal grant funded projects.

The CFO did inform OIAI that the City believes it would be prudent for the Department of Municipal Development (DMD) to be aware of the potential for cost savings in a construction project that incorporates a significant amount of equipment. Readily-identifiable equipment components should be handled in such a way to minimize the City's obligation to pay NMGRT.

CONCLUSION

The recommendations have been implemented or resolved.

We appreciate the assistance and cooperation of ABQ Ride personnel during the audit.

Principal Auditor

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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