## MANAGEMENT AUDIT REPORT

**OF** 

## TRANSIT DEPARTMENT

### **USE OF TRANSPORTATION INFRASTRUCTURE TAX FUNDS**

**REPORT NO. 01-120** 



CITY OF ALBUQUERQUE OFFICE OF INTERNAL AUDIT



# City of Albuquerque

# P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103 Office of Internal Audit

Martin J. Chavez, Mayor

September 24, 2002

Internal Audit Committee City of Albuquerque Albuquerque, New Mexico

Audit: Transit Department

Use of Transportation Infrastructure Tax Funds

01-120

#### FINAL

#### **INTRODUCTION**

The Office of Internal Audit performed a management audit of the Transit Department (Transit), Use of Transportation Infrastructure Tax Funds. The City Administration requested this audit.

A special election was held on March 31, 1999 in which City residents voted to "... impose, for a ten-year period; one-quarter (½) of one percent municipal gross receipts tax to be dedicated to the establishment of a maintenance and rehabilitation program for the existing transportation infrastructure including road deficiencies, rehabilitation and maintenance of existing road systems and programs for trails and bikeways, and programs for transit." Twenty percent of the revenues from the Transportation Infrastructure Gross Receipts Tax (Tax) were to be dedicated to expanding transit service in the city.

The Tax funds collected for fiscal year (FY) 2000 that are applicable to the Transit department totaled \$2,026,254. The tax funds collected for FY 2001 that are applicable to the Transit department totaled \$5,297,164. The Transit quarter cent tax funds amount appropriated for FY 2002 was \$5.1 million, and through April 2002 the amount collected was \$4,445,691.

Council Bill No. R-27 F/S (the Bill) effective February 23, 2000, identified a three-phase implementation to be followed by the Transit Department. The Bill identified the expansion of

service that was to take place in an attachment. Phase 1 was to be implemented on April 1, 2000. Phases 2 and 3 were to be implemented September 1, 2000.

Council Bill No. R-30 C/S, dated April 17, 2000, was a resolution approving and authorizing the filing of an application with the U.S. Department of Transportation for a Capital Assistance Grant. In part, this grant asked for Federal funds for expanding the Transit Department bus fleet. The City of Albuquerque had to provide matching funds for the purchase of the bus fleet in the amount of \$1.1 million. The Bill states that by delaying implementation of major route expansions until September 1, 2000, R-27 F/S assured savings of \$1.1 million in Tax revenues that could be used for acquisition of expansion and replacement buses.

Our fieldwork was completed on March 27, 2002. The audit report is based on our examination of the auditee's activities through the completion date of our fieldwork and does not reflect events or accounting entries after that date.

#### **SCOPE**

Our audit did not include an examination of all the functions, activities, and transactions of the Department. Our audit test work was limited to the following areas:

- Evaluate the availability of Transportation Infrastructure Tax funding for the past two fiscal years.
- Determine how the funds were used for expansion of the transit system.
- Estimate the funds available for the next fiscal year (FY 2002).
- Evaluate whether there are sufficient funds to implement further expansion as mandated by the City Council in resolutions passed during FY00 and FY01.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.33, which requires an external quality control review.

#### **FINDINGS**

The purpose of an internal audit is to identify changes in the auditee's activities that would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports. The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

## 1. THE TRANSIT DEPARTMENT SHOULD REEVALUATE THE ESTIMATES USED FOR THE PROPOSED EXPANSION.

The Administration proposed expansion in transit service by extending the time bus routes operated and the frequency that buses arrive. The proposal also included adding to the service available on Saturdays and Sundays. The legislation passed by the City Council made some changes to the Administration's proposal that required longer hours and more frequent arrivals in several routes. These specific route schedules were an attachment that was referenced in the Bill.

The additional funding received from the Tax was to fund the additions to the existing service. We compared the route changes proposed by the Administration, the changes included as part of the legislation and the actual route schedules as of August 2002. The present route schedules do not meet the route expansions required by the Bill. Eight of the 15 Sunday routes, 14 of the 20 Saturday routes, and 15 of the 40 weekday routes do not meet the specific requirements of the Bill. See Attachment 1.

There are several possible reasons the required route expansions have not occurred.

#### A. Inaccurate Cost Estimates

The Administration developed the expansion proposal based on cost estimates produced by Transit. The estimates used the cost per route hour of operating the existing routes, using FY99 actual cost figures. The number of new route hours proposed was based on the estimated annual revenue received from the Tax divided by the cost per route hour. Transit may have made a miscalculation in the cost per route hour. The calculation did not include indirect overhead. Additionally, the expansion proposal developed using FY99 cost figures may no longer be valid.

### **B.** Costs Not Directly Related to Expansion

Expenditures that were added using the Tax may not have been directly related to the expansion. Of the 121 positions added as part of the expansion plan, less than half were for drivers (50). Sixty-two positions were for support positions that included Supervisors, Security Officers, Customer Services Specialists, Custodian Bus Hostlers, Mechanics, Mechanics Helpers, Parts Workers, Accounting Assistants, and Office Assistants.

Based on the additional work incurred as the result of the expansion of services 23 positions have been identified as not attributable to the Transportation Infrastructure

Tax expansion. For instance, the ratio of Transit Supervisors to drivers prior to the expansion was one supervisor for every 30 drivers; after expansion the ratio was one supervisor for every 20 drivers. The ratio of Customer Service Supervisors to drivers increased from one for every 44 drivers prior to expansion to one for every 19 drivers after the expansion. We used the ratios that existed prior to expansion to identify positions that should not have been added as directly attributable to the expansion. These positions are as follows:

	Grade	Rate	Salary and Benefits	Positions	Annual Cost
Transit Supervisors	M14	13.49	1.35	3	\$ 113,640
Security	J12	7.00	1.35	6	117,936
SunVan Supervisors	M14	13.49	1.35	3	113,640
Customer Services Specialists	C22	8.87	1.35	6	149,442
Maintenance Bus Hostler	B13	8.51	1.35	5	119,480
TOTAL ANNUAL COSTS					\$614,138

#### C. Unfilled Positions

Fifty Driver positions were added as a result of the expansion. Transit has been unable to fill many of the additional driver and other positions. As a result of the vacancies, the existing employees were working overtime to operate the expansion routes. Transit's overtime expenditures were as follows.

FY1999	\$ 747,793
FY2000	\$ 1,255,676
FY2001	\$ 1,609,889
FY2002	\$ 911,685

Transit may have paid more overtime than was anticipated as a result of the positions that were unfilled.

#### D. Increased Repairs and Maintenance

Transit has stated that the additional mileage on the aging fleet of buses because of the expansion has increased repairs and maintenance expenses. Repairs and maintenance, fuels and lubricants, and tires and tubes expenses were as follows.

FY1999	\$ 2,154,324
FY2000	\$ 2,436,284
FY2001	\$ 3,637,181

FY2002 \$ 2,643,425

#### E. Fare Revenues Constant

The fare revenues have not increased as much as expected as a result of the expansion. Fare revenue, excluding the State Fair and Luminaria Tour revenue, has increased only minimally. There is a significant increase in the ridership from FY2000 to FY2001.

Fiscal Year	Fare Revenue	Number of Riders (ridership)
2000	2,677,928	6,224,264
2001	2,702,008	7,593,276
2002	2.854.335	Not available vet

FY 2001 revenues were less that 1% higher than FY 2000, while ridership increased by approximately 22% during the same period. Reasons for the modest increase in revenue despite the significant increase in ridership may be the increase in free passes and reduced cost passes distributed to encourage bus ridership during the Big I reconstruction.

Transit was given the responsibility to manage the ACT (Alternative Commute Transportation) Now Program. The program's goal was to reduce traffic through and around the Big I in order to make traffic manageable during the reconstruction period. Transit made agreements with numerous employers in the city to sell bus passes at a reduced price for their employees. The Special Discount Passes revenue increased four percent from FY99 to FY2001; however, this revenue decreased more than eight percent from FY2001 to FY2002.

Transit also distributed free passes as an incentive to introduce individuals to bus transportation. Transit records indicate that over 238,268 passes were used from August 2000, through May 2002. Based on the adult fare price, this would equal \$178,701 in fare revenue that was not earned, assuming that the individual who received the free pass would pay full fare to ride the bus. This is approximately three percent of the fare revenue for FY2001 and FY2002. The Transit Marketing Manager stated that this total might be incomplete, as some of the free passes given are not deposited in the fare box. Some free passes are given directly to the drivers, and may not make it into the fare box.

Transit does not have complete records that show how many free passes were distributed. Without the comparison of the number of passes distributed to the number used, Transit cannot evaluate the success of the free pass promotion. Transit did not have free pass data prior to August 2000, therefore, it cannot evaluate if the use of free passes changed as a result of the promotion.

### F. Transit Operating Fund Overspent

In FY2000, the Administration proposed a reduction of the general fund transfer to Transit by \$578,000 in the mid-year clean up. The former Transit Director stated that the department could maintain the present level of service with the reduction. Transit overspent its appropriation in FY 2000 by \$746,933, and by \$1,622,352 in FY 2001. This amount does not take into consideration the appropriated transfer to the vehicle replacement fund that was not completed as required. Transit may not have made the legislated route enhancements because it could not manage the regular operations of the department with the existing appropriations.

#### **RECOMMENDATION**

The Transit Department should reevaluate the cost per route hour and determine if the estimate developed in 1999 is still valid. Transit should submit data to the Council with its annual budget proposal that amends the enhancement that can be made with the Tax funds each year.

The Transit Department should perform an analysis to determine what positions are related to the service enhancements based on normal operating ratios.

Transit should determine the amount of overtime and additional repairs and maintenance that may be necessary to service the added route hours. This should become part of the estimate used to determine an amended expansion plan.

The Transit Department should maintain complete records on the free passes distributed and perform an analysis on the effect of these passes on the fare revenue. Transit should perform an analysis to determine the reason for the discrepancy between the increase in ridership and the smaller increase in fare revenue.

Transit should develop procedures that ensure that the Tax is used for route expansion as required by the Bill. Transit should develop procedures to ensure that the Tax is not used to supplement expenditures for regular operations.

### **EXECUTIVE REPONSE FROM TRANSIT**

"The Transit Department agrees with this recommendation. When the Infrastructure Tax started in FY2000 the cost per route hour was determined by using FY1999 as a starting point for that year only. Transit reviews its hourly operating costs on an annual basis. Transit uses the previous year's expenditures, as well as estimated inflationary factors to develop a current year projection.

"The Transit Department agrees with this recommendation. Transit will develop appropriate staffing ratios.

"When Transit develops it's annual operating costs, we attempt to project overtime and additional repairs and maintenance that may be necessary to service the route hours on a system wide basis. Transit is in the process of reviewing its cost estimates for proposed service expansion, which would include the amended expansion plan.

"Transit is now tracking all free passes and doing an analysis on the free passes program. Transit is also performing an analysis to determine the reason for the discrepancy between the increase in ridership and increase in fare revenues.

"The Transit Department agrees with this recommendation. Transit will develop procedures to identify how the Tax is used. Once these procedures are finished, Transit would like to have the Internal Audit Department review and make recommendation for these procedures."

# 2. TRANSIT SHOULD REQUEST APPROVAL BY COUNCIL TO CHANGE THE USE OF APPROPRIATED FUNDS.

Council Bill No. R-30 C/S (R-30), dated April 17, 2000, was a resolution approving and authorizing the filing of an application with the U.S. Department of Transportation for a Capital Assistance Grant. In part, this grant asked for Federal funds for expanding the Transit Department bus fleet. The City of Albuquerque had to provide matching funds for the purchase of the bus fleet in the amount of \$1.1 million. R-30 states, "WHEREAS, by delaying implementation of major route expansions until September 1, 2000, R-27 F/S assured savings of \$1.1 million in Transportation Infrastructure Tax Revenues that can be used for acquisition of expansion and replacement buses; and WHEREAS, the City Attorney has indicated that it is legal to use Transportation Infrastructure Tax revenues for acquisition of buses and that it 'would seem reasonable to assume that enhancing the system over a ten

year period (the life of the [Transportation Infrastructure] Tax) necessarily means vehicles will be added to the fleet'."

R-30, Section 10 states, "The Transit Department shall issue an RFP to acquire 20 mid-sized (under 27-feet long) buses by April 28, 2000. The RFP shall give preference, without unreasonable additional cost, to vendors who can deliver the buses by September 1, 2000, so that the Transit expansion plan adopted in R-27 F/S can be implemented on schedule." The Tax was not used to purchase buses, but instead was used to resolve the Transit Operating Fund over expenditures in FY 2001. This increased the need for repairs and maintenance expenses to keep the existing bus fleet operating. The mid-sized (under-27-feet long) buses specifically mentioned in R-30 C/S, were not purchased.

The City Council (Council) appropriates funds to accomplish the established goals of the City. In this case, the goal was to accomplish the legislated Transit expansion plan. Transit should not unilaterally decide to use appropriate funds for another purpose. When appropriated amounts are not used for the purpose established, it circumvents the authority given to the Council to allocate resources, as it believes best serves the City. Transit did not purchase the buses as appropriated by the Council, and did not meet the goals established.

#### **RECOMMENDATION:**

Transit should request approval by Council when it wishes to change the use of appropriated funds.

#### EXECUTIVE RESPONSE FROM TRANSIT

"Transit Department goal is to follow City Council's appropriation of funds. If the need should arise for any changes to this appropriation, Transit Department will request approval from Council of these changes through a resolution or the mid-year budget clean up."

#### **CONCLUSION**

By implementing these recommendations, the Transit Department will better fulfill its responsibilities to provide expansion of Transit services with Transportation Infrastructure Tax funds in an effective manner

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We appreciate the assistance and cooperation of Transit Department personnel during the audit	We app	preciate the	assistance and	cooperation o	f Transit De	partment	personnel	during	the au	adi
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