January 28, 2015

Performance Audit

Traffic Engineering Division Capital Implementation Program Payroll and Staffing

Department of Municipal Development

Report No. 15-103

CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT

PERFORMANCE AUDIT REPORT
TRAFFIC ENGINEERING DIVISION CIP PAYROLL AND STAFFING
DEPARTMENT OF MUNICIPAL DEVELOPMENT
REPORT No. 15-103

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Executive Summary

Background
The Traffic Engineering Division in the Department of Municipal Development (DMD) is comprised of three main sections:

- The Traffic Engineering section (Engineering section), which handles inter-agency and citizen issues, performs traffic studies, and coordinates projects;
- The Traffic Management section (Management section), which is responsible for traffic signal operations and maintenance; and
- The Traffic Operations section (Operations section), which is responsible for the fabrication, installation, and maintenance of street signs and markings.

The audit focused on the Management and Operations sections only, and did not review processes for the Engineering section. The employees in the Management and Operations sections are responsible for completing Capital Implementation Program (CIP) projects and repair and maintenance (R&M) jobs. CIP projects are new, upgraded, or repaired assets costing $5,000 or more, or assets that must be entirely replaced regardless of cost. R&M jobs are the daily upkeep of the Traffic Engineering Division assets. Work orders must be completed for all CIP projects and R&M jobs. Employees may work on CIP projects, R&M jobs, or both. During fiscal year (FY) 2014 the Division had 24 CIP funded positions and 30 General Fund (GF) funded positions.

Findings
The Traffic Engineering Division should implement an electronic work order system for the Management section, and should start requiring employees to indicate on the Management and Operations work orders whether the work performed is CIP or R&M. Currently, the Management section uses hard copy work orders that are not effective in tracking the resources used in the division. Also, at no point in the process does the information from the work orders get recorded into any type of tracking system. The hard copy work orders make it nearly impossible to analyze information or identify issues. In addition, employees in both the Management and Operations sections are not required to indicate whether the type of work performed was a CIP project or an R&M job. Due to this, the Traffic Engineering Division is not able to determine how much time and resources are spent on CIP versus R&M, and may not know how much personnel funding is actually needed for each type of work.

The Traffic Engineering Division should record payroll expense to the CIP fund and GF based on the type of work performed. Instead, the Traffic Engineering Division employees' payroll expense is either charged 100 percent to the CIP fund or 100 percent to the GF, regardless of whether the employee works on CIP projects, R&M jobs, or both. Based on testing of a sample of 46 work orders, 16 exceptions were noted where the work performed was CIP, but the employees' payroll expense was covered by the GF. In addition, five exceptions were noted where the work performed was R&M, but the employees' payroll expense was covered by the CIP fund. As a result, the payroll expense in the fund financial statements may not reflect how resources were actually used.

Recommendations and management responses are included in the audit report.

City of Albuquerque

Office of Internal Audit

January 28, 2015

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Performance
Traffic Engineering Division Capital Implementation Program Payroll and Staffing
Department of Municipal Development
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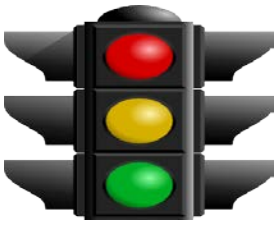
FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the Traffic Engineering Division CIP payroll and staffing. The audit was included as part of OIA's FY 2015 audit plan. Information pertaining to the audit objectives, scope, and methodology can be found in **Appendix A**.

Traffic Engineering is a division in DMD, and is comprised of three sections:

- The Engineering section is responsible for responses to citizen issues, crash analysis, project review, inter-agency coordination, warrant studies, speed limits, traffic engineering guidelines, traffic counts, and travel time studies.



- The Management section is responsible for maintaining the traffic signal system in the City. Management section staff performs routine maintenance and emergency repairs to all traffic signals, signal systems, school zone flashing beacons, and warning lights. In addition, the section installs new signals, and upgrades deficient or outdated signal systems.

- The Operations section fabricates, installs, and maintains signs and pavement markings. Operations section staff is responsible for fabricating and installing stop signs, yield signs, no-parking signs, street name signs, and pavement markings on City streets.

The audit focused on the Management and Operations sections only, and did not review processes for the Engineering section. The Management and Operations sections of the Traffic Engineering Division are the sections responsible for performing CIP projects and R&M jobs. Currently there is not a clear definition used by the Traffic Engineering Division to distinguish between what is considered a CIP project versus an R&M job. However, based on information obtained from DMD and the Traffic Engineering Division management, work should be considered CIP when a new, upgraded, or repaired asset costs $5,000 or more, or assets must be entirely replaced regardless of cost. R&M jobs are the daily upkeep of Traffic Engineering assets.

The Management and Operations sections handle work orders in two different manners. The Management section uses hand written hard-copy work orders. Once complete, the Management section work orders are filed by intersection location of where the work was performed. The image below is an example of a Management section work order.

CITY OF ALBUQUERQUE
SIGNAL MAINTENANCE REPORT

FUND: C_____
O_____

DATE 11-19-13 VEHICLE NUMBER _____ CONTROL CARD NUMBER _____
LOCATION Constitution & Louisiana NOTIFIED BY 39
TIME NOTIFIED 8:00 TIME ARRIVED 9:00 TIME DEPARTED 12:00
PROBLEM(S) NOTED Cable in mast arm is brittle & too short
CORRECTIONS MADE Install new cable in mast arm and side mount signals and ped heads for E.B.
MATERIALS USED _____
REMARKS _____
REPAIR: FINAL X TEMPORARY ____ UNIT 39 SIGNATURE _____

The Operations section uses a system called VueWorks, which electronically records and tracks work order information. Employees in the field have toughbooks, which are durable laptops that have VueWorks loaded on them. This enables the employee to create, update, and close work orders in VueWorks while still in the field. VueWorks can also be used as a reporting tool to

analyze data about the type of work done, employee time spent per work order, and number of work orders completed in a specific time period.

Most work orders for both the Management section and the Operations section originate from calls received through the City's 311 information system. The 311 information system is an Oracle database of citizens' complaints and reports of problems in the City. The 311 operators take the requests, and then forward the information to the appropriate department or division.

In prior years, the City did not allow employee payroll expense to be budgeted against CIP funds. The Office of Management and Budget (OMB) budgeted all of the Traffic Engineering Division employees, regardless of whether they are CIP funded or GF funded, to the GF for FY 2014. During FY 2014 the Traffic Engineering Division had 24 CIP funded positions and 30 GF funded positions. The amount of payroll costs that was budgeted in the GF were approximately $2.5 million for CIP funded employees, and $2.1 million for GF funded employees.

OIA performed a similar audit in 1994 that analyzed how the Traffic Engineering Division determined if work done was considered CIP or R&M, how employee time spent on CIP projects or R&M jobs was tracked, and how employee labor costs were funded. The 1994 audit report stated that the Traffic Engineering Division did not have clear definitions of what was CIP versus R&M, and that employee time was not tracked by the Division. In addition, the report found that employee payroll expense was covered entirely by either the CIP fund or the GF, regardless of the type of work performed throughout the year. The findings noted in the 1994 report still exist, and are included in the findings section below.

FINDINGS

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

1. <u>THE TRAFFIC ENGINEERING DIVISION SHOULD IDENTIFY WHETHER THE WORK PERFORMED WAS CIP OR R&M ON ALL WORK ORDERS.</u>

   The Management and the Operations sections of the Traffic Engineering Division do not require that the employees completing the work orders mark whether the work performed was a CIP project or an R&M job. In addition, the supervisors reviewing the work orders after they have been completed also do not indicate if it was CIP or R&M. According to Traffic Engineering Division management, the employees who perform the work and complete the work orders do not currently have the proper training to be able to identify if what they are working on would be considered CIP or R&M.

According to the Governmental Accounting Standards Board (GASB) Concepts Statement No. 1, financial reporting should enable users of the information to assess service efforts, costs, accomplishments of the governmental entity, and provide information about the sources and uses of financial resources. However, because work orders are not being identified as CIP or R&M at any point in the process, there is no way to determine how much time and resources are actually spent on CIP projects versus R&M jobs. By properly recording whether work performed is CIP or R&M, and then recording that information in an electronic work order system that can be used to analyze the data, Traffic Engineering will be able to accurately assess the financial and personnel needs of the Division.

RECOMMENDATIONS:

The Traffic Engineering Division should:

- Ensure that work orders include a section that indicates if the work performed was CIP or R&M.
- Provide training to all employees on what is considered CIP projects compared to R&M jobs.
- Require either the employee performing the work, or the employee's supervisor to indicate on all work orders if the work performed was CIP or R&M.

RESPONSE FROM THE TRAFFIC ENGINEERING DIVISION:

1. ***"Traffic agrees to this recommendation and will investigate and work with ITSD in utilizing VueWorks, 311 or other systems to implement this recommendation.***
2. ***Traffic agrees to train employees on how to properly fill out the work order correctly so the determination of whether an expense is capital or repair and maintenance can be easily determined.***
3. ***Either a program will be developed to make the Capital/R&M determination or that determination will be made by the employee or his supervisor."***

ESTIMATED COMPLETION DATE:

"Traffic will investigate available systems for implementation by the start of FY16. Traffic will modify the system to include the required fields for CIP vs R&M, run trials and fully implement by FY17."

2. THE TRAFFIC ENGINEERING DIVISION SHOULD IMPLEMENT AN ELECTRONIC WORK ORDER SYSTEM FOR THE MANAGEMENT SECTION.

Currently the Management section of the Traffic Engineering Division does not use an electronic work order system to track CIP projects and R&M jobs. Instead, the employees fill out paper work orders that, once completed, are filed by intersection location. At no point in the process does the information from the Management section work orders get entered into any type of electronic tracking database.

The Operations section uses an electronic work order system, VueWorks, but the Traffic Engineering Division has not implemented it for the Management section because of the large number of work orders. The Management section completes approximately 500 work orders per month. The majority of the Management section work orders originate from calls received through the City's 311 system. However, due to the software version of the 311 system currently used by the City, it does not have the capabilities to interface with VueWorks. Therefore, if the Traffic Engineering Division were to use VueWorks for the Management section, they would have to close two separate work orders, one from the 311 system and a second from VueWorks. In addition, the Traffic Engineering Division would have to invest in additional toughbooks for the employees in the field.

The 311 system does have a work order function that can be used by the Traffic Engineering Division. The 311 system work order function was used by the Traffic Engineering Division until 2010 when it was determined by management that doing the work orders through the 311 system was too time consuming and burdensome. Therefore, due to the difficulties of finding a work order system that would meet their needs, the Management section returned to using paper work orders.

By not implementing an electronic work order system for the Management section, the Traffic Engineering Division is not able to analyze information, or monitor employee time and work. According to the Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control Integrated Framework*, "where appropriate, monitoring activities identify and examine expectation gaps relating to anomalies and abnormalities, which may indicate one or more deficiencies in an entity's system of internal control." The Management section is currently unable to hold employees accountable for their time since there is no efficient or effective way to review all work orders by individual employee.

By using an electronic work order system for all sections, the Traffic Engineering Division will be able to evaluate if time and resources are being used as efficiently and effectively as possible. The Traffic Engineering Division will also be able to determine the exact amount of time and inventory that was used on CIP projects versus R&M jobs. Having electronic work orders for all CIP projects and R&M jobs will help the Traffic Engineering Division achieve increased accountability.

RECOMMENDATIONS:

The Traffic Engineering Division should:

- Implement the use of work orders through the VueWorks system in the Management section; or
- Explore using the work order function in the 311 system; or
- Work with the Department of Finance and Administrative Services (DFAS) to obtain an upgrade for the 311 system so that it can interface with VueWorks; or
- If VueWorks or the 311 system is not possible at this time, work with the 311 Division management and information technology personnel to implement another type of electronic work order system that can track the type and location of work performed; date and time work was performed; who performed the work; whether the work performed was CIP or R&M; what inventory was used; etc.
- Once an electronic work order system is implemented, use it for developing a process for analyzing the resources needed for the Traffic Engineering Division.

RESPONSE FROM THE TRAFFIC ENGINEERING DIVISION:

"As stated above, Traffic plans to investigate and implement an electronic work orders system in the Management Section. Implementation is expected to begin by the start of FY17".

ESTIMATED COMPLETION DATE:

"No response."

3. THE TRAFFIC ENGINEERING DIVISION SHOULD RECORD EMPLOYEE PAYROLL EXPENSE BASED ON ACTUAL WORK PERFORMED.

The Traffic Engineering Division does not track employee time by the type of work actually performed. Instead, Employees are either categorized as GF employees and 100 percent of their payroll expense is paid out of the GF, or as CIP employees and 100 percent of their payroll expense is paid out of the CIP fund. If employees work on a CIP project their payroll expense for that time should be charged against the CIP fund, and if employees work on an R&M job or clerical work, that time should be charged against the GF. However, the way the system is set up now, regardless of whether the employee works on CIP projects, R&M jobs, or clerical work, their entire payroll expense will be charged against the fund they are assigned to, and not based on the type of work they perform.

A sample of 23 Operations section work orders, and a sample of 23 Management section work orders were selected from the period of July 1, 2013 through June 30, 2014. The work orders were tested to see if the type of work performed (CIP or R&M) corresponded to the fund (CIP fund or GF) that the employees' payroll expense was charged against. The following details the total exceptions noted for both sections:

- Sixteen work orders were identified as being CIP projects, but the employees' payroll expense was offset against the GF.
- Five work orders were identified as being R&M jobs, but the employees' payroll expense was offset against the CIP fund.

In addition, the Traffic Engineering Facilities Office Manager's payroll expense was charged 100 percent against the CIP fund, even though the employee performs in-office clerical duties. The Traffic Engineering Division does not currently have a way to track employee payroll time to correspond to the type of work employees are performing. The reason for this is that employees are not required to keep track of what type of work they perform throughout the day. In addition, when entering their time, employees do not have to code their time to a specific fund, since all of their payroll expense was predetermined to be covered by either the CIP fund or the GF.

Incorrect tracking of payroll costs does not properly reflect actual use of resources. According to GASB Concept Statement No. 1, financial reporting should enable users of the information to assess service efforts, costs, accomplishments of the governmental entity, and provide information about the sources and uses of financial resources. In addition, the City's Conditions of Employment state, "all City records, including reports, vouchers, requisitions, payroll and personnel records must be prepared factually and accurately."

If the Traffic Engineering Division requires the employees to track the type of work they perform (CIP, R&M, clerical) in the electronic work order systems, then that information can be used to more accurately allocate payroll costs for the next fiscal year. It will also help the Traffic Engineering Division to be more accountable with the financial resources it receives. Finally, it can assist in the justification of funds needed, whether through the GF or CIP fund, to appropriately run the Division.

RECOMMENDATIONS:

The Traffic Engineering Division should:

- Utilize data obtained through the electronic work order system from the previous fiscal year to allocate labor costs to the CIP fund and the GF for the next fiscal year.

RESPONSE FROM THE TRAFFIC ENGINEERING DIVISION:

"Traffic agrees that the use of data from the prior year should be used as a guide for subsequent funding."

ESTIMATED COMPLETION DATE:

"At year end FY17 we will have percentage data for a full year to estimate future year expenditures by CIP and R&M."

CONCLUSION

The Traffic Engineering Division is a vital component to the successful operation and maintenance of the City. Through the years the Division has tried to find the best way to operate and track data. However, there are still opportunities to improve the accountability and accuracy of information recorded.

If the Traffic Engineering Division were to implement an electronic work order system for all sections in the Division, it could more closely monitor employee time and quickly address any issues or discrepancies noted. An electronic work order system would help to analyze the amount of resources and time used on CIP projects compared to R&M jobs. With this data the Division would be able to justify the need for personnel funding.

The Traffic Engineering Division should also require employees to track the time spent on CIP projects and R&M jobs by indicating on all work orders which kind of work was performed. By doing this, the Division will be able to accurately report on how much payroll expense and time was used to complete CIP projects versus R&M jobs. In addition, the payroll expense recorded in the fund financial statements will appropriately represent the resources used in each fund.

We wish to thank DMD, the Traffic Engineering Division, the Accounting Division, and the Office of Management and Budget for provided their time and assistance during the Traffic Engineering Division CIP payroll and staffing audit.

_____
Principal Auditor

REVIEWED and APPROVED:

_____
Debra Yoshimura, CPA, CIA, CGAP, CICA
Director, Office of Internal Audit

APPROVED FOR PUBLICATION**:**

_____
Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVES

The objectives of the Traffic Engineering Division CIP payroll and staffing audit were to determine:

- Is the Traffic Engineering Division accurately tracking employee time spent working on CIP projects?
- Do the Traffic Engineering Division CIP payroll expenses in fund 110 and fund 305 accurately record the underlying transactions?

SCOPE

OIA's responsibility is to offer reasonable and not absolute assurance as to the operating effectiveness and efficiency of the Traffic Engineering Division CIP payroll and staffing processes. Therefore, our audit did not include an examination of all functions, activities, and transactions related to DMD or the Traffic Engineering Division. Our scope was limited to the objectives above for the period of July 1, 2013 through June 30, 2014.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of transactions and activities through the completion of fieldwork on December 3, 2014 and does not reflect events or transactions after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include, but are not limited to the following:

- Reviewing State and City regulations, GASB, and other standards applicable to the Traffic Engineering Division CIP payroll and staffing.
- Interviewing key personnel and performing walkthrough observations to gain a better understanding of the Traffic Engineering Division CIP payroll and staffing processes.

- Identifying key internal controls over the Traffic Engineering Division CIP payroll and staffing processes.
- Testing of key functions and processes over the Traffic Engineering Division CIP payroll and staffing to ensure rules, regulations, GASB, and other applicable standards were being followed.
- Summarizing all findings and providing the auditees with recommendations that will help to strengthen internal control, and increase operating efficiency and effectiveness.

Judgmental and haphazard sampling was used to select the Traffic Engineering Division work orders for testing, and a full analysis was performed over the Traffic Engineering Division payroll journal entries. The population data was derived from the VueWorks system and from Decision Support System (DSS).