

MANAGEMENT AUDIT REPORT

OF

TRANSPORTATION INFRASTRUCTURE TAX
FISCAL YEARS 06 and 07

DEPARTMENT OF MUNICIPAL DEVELOPMENT
TRANSIT DEPARTMENT

REPORT NO. 09-105



City of Albuquerque
Office of Internal Audit and Investigations

**Management Audit of Transportation Tax Fiscal Years 06 and 07
 Department of Municipal Development and Transit Departments
 Report No. 09-105
 Executive Summary**

Background: The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the Transportation Infrastructure Tax (TransTax) for Fiscal Years (FY) 06 and 07. The audit was included in the FY09 approved audit plan.

A special election was held on March 31, 1999, in which City of Albuquerque (City) residents voted to impose a one-quarter of one percent municipal gross receipts tax for a ten year period. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication, the revenue from the TransTax will be used to fund the improvement of transportation systems for the benefit of the City, and is to be dedicated to the following purposes in the specified percentages:

Purpose	Specified Percentage	Responsible Department
Road Rehabilitations	Not less than 32%	Department of Municipal Development (DMD)
Road Deficiencies	Not more than 32%	
Road Maintenance	12%	
Trails and Bikeways	4%	
Transit	20%	Transit Department (Transit)

The TransTax was projected to raise \$280 million over its ten year life. As of June 30, 2008, TransTax revenues collected since inception is approximately \$265.7 million. The TransTax became effective January 1, 2000 and expires December 31, 2009. An extension of the TransTax was passed by City residents on October 6, 2009.

Objectives: Have DMD and Transit complied with the percentages specified in City Ordinance § 4-3-7-5 ROA 1994: TransTax - Dedication?

Did the increased fund balance from \$16,887,634 at the beginning of FY06 to \$40,289,691 at the end of FY07 affect the accomplishment of the City Ordinance § 4-3-7 ROA 1994: TransTax - Purposes?

- TransTax revenue for FY06 and FY07 was \$34,951,367 and \$38,511,490, respectively. DMD spent \$13,430,750 (38%) in FY06 and \$14,466,918 (38%) in FY07 on Road Rehabilitation and Maintenance. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, not less than 32% of TransTax revenues should have been dedicated to Road Rehabilitations and 12% to Road Maintenance for a total of 44% or \$15,433,512 in FY06 and \$17,095,245 in FY07.

This may have been a contributing factor to the decline of projected street conditions from FY06 through FY09.

- DMD spent \$640,237 (2%) in FY06 and \$14,532 (.03%) in FY07 on Trails and Bikeways. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax -

Dedication, 4% of TransTax revenues should be dedicated to Trails and Bikeways or \$1,398,055 in FY06 and \$1,540,460 in FY07.

- In FY06 and FY07, Transit received the full 20% of TransTax revenue specified in the Ordinance. However, it has only received 19.8% for the cumulative period FY00 through FY07, which amounts to \$391,612 less than specified in the Ordinance.

Recommendations: DMD should ensure dedicated TransTax revenues are spent in the percentages specified by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication.

Transit should monitor its allocation of TransTax revenues and coordinate with DFAS and OMB to ensure that it receives 20% of TransTax revenues.

Objective: Are expenditures that DMD and Transit made from TransTax funds related to the uses specified in City Ordinance § 4-3-7 ROA 1994: TransTax? Were the payments made to contractors in accordance with the terms and conditions of the applicable purchase order or contract?

- One of 39 DMD invoices tested (3%) indicated additional work was performed without a written field directive.
- Three of 39 DMD invoices tested (8%) were paid without verifying if the vendor correctly billed the City in accordance with the terms and conditions of the purchase order or contract.
- Eleven of 15 DMD invoice line items tested (73%), did not have documentation to support that DMD personnel verified the quantities billed by the vendor. DMD stated the documentation of four of the 11 line items had been discarded three years after the vendor was paid.

Recommendations: DMD should:

- Comply with Administrative Instructions and City's Standard Specifications.
- Issue written field directives prior to the commencement of the work by the contractor.
- Ensure that vendors are paid in accordance with the terms of the contract.
- Implement controls to ensure evidence of receipt of goods and services is documented and retained for the required time period.

Objective: Has DMD (through the Mayor's Office) complied with City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports requirements?

- The FY06 and FY07 CIP Status Reports included cumulative instead of annual expenditures.
- The FY07 CIP Status Report provided FY06, instead of FY07, expenditure information. DMD did not submit corrected FY07 information.
- The FY06 and FY07 Resolutions submitted to City Council only showed the lump sum amount of \$10 million with the description *Road Rehabilitation* instead of listing each project with the associated estimated cost.

Recommendations: DMD should ensure:

- The annual report of expenditures contains the information required by City Ordinance § 4-3-7-6 ROA 1994: Trans Tax - Plans and Reports.
- Reports submitted to City Council have correct information.
- The annual listing required by City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports, includes each road rehabilitation project and the estimated cost for each project.

Objective: Did DMD accomplish its FY06 and FY07 performance measures, relating to City Ordinance § 4-3-7 ROA 1994: TransTax? Does DMD have documentation to support the accuracy of the performance measures reported for FY06 and FY07?

DMD could not provide supporting documentation of the actual figures reported for the four TransTax performance measures for FY06 and FY07.

Recommendation: DMD should prepare and maintain the supporting documentation for the performance measures reported in the annual performance plan.

Objective: Has DMD accomplished its FY06 and FY07 priority objectives?

The status report of the FY06 priority objective to the Mayor and the City Council was not submitted until the fourth quarter of FY07, one year after the due date.

Recommendation: DMD should report the status of priority objectives by the required due date.

Objective: Has Transit complied with the City Council Resolution F/S R-199 (2)?

OIAI determined that in FY06 and FY07 Transit complied with the Resolution requirements of spending 75% of new TransTax revenues on enhanced service and additional new routes and route segments. However, prior to the audit, Transit had not performed analysis to determine if it was in compliance.

Recommendation: Transit should perform a periodic analysis of its use of TransTax revenue to ensure it complies with Resolution F/S R-199 (2).

During our fieldwork, we noted no exceptions for the following objectives:

Has DMD complied with the requirements of City Ordinance § 4-3-7-5 ROA 1994: Trans Tax - Dedication that no more than 25% of the total amount available for Road Deficiencies and Rehabilitation is expended to enhance aesthetics on interstate highways for the next three FYs beginning with FY06?

Have new funds spent for Rehabilitation and Deficiency exceeded the average FY96 through FY98 expenditure amount, as required by City Ordinance § 4-3-7-5 ROA 1994: Trans Tax - Dedication?

Management responses are included in the audit report.



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

February 26, 2010

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

Audit: Transportation Infrastructure Tax
Fiscal Years 06 and 07
Department of Municipal Development
Transit Department
09-105

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the Transportation Infrastructure Tax (TransTax) for Fiscal Years (FY) 06 and 07. The audit was included in the FY09 approved audit plan.

A special election was held on March 31, 1999, in which City of Albuquerque (City) residents voted to impose a one-quarter of one percent municipal gross receipts tax for a ten year period. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication, the revenue from the TransTax will be used to fund the improvement of transportation systems for the benefit of the City, and is to be dedicated to the following purposes in the specified percentages:

Purpose	Specified Percentage	Responsible Department
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Transit	20%	Transit Department (Transit)

The TransTax was projected to raise \$280 million over its ten year life. As of June 30, 2008, TransTax revenues collected since inception is approximately \$265.7 million. The TransTax became effective January 1, 2000 and expires December 31, 2009. An extension of the TransTax was passed by City residents on October 6, 2009.

The following is an analysis of TransTax Revenues, Expenditures, Transfers and Fund Balance for FY06 and FY07:

	<u>FY06</u>	<u>FY07</u>
Revenue	\$ 35,076,163	\$ 38,852,830
DMD Expenditures	(16,425,075)	(19,902,035)
Transfers to Transit Department ¹	<u>(6,813,176)</u>	<u>(7,386,650)</u>
Net Increase in Fund Balance ²	11,837,912	11,564,145
Beginning Fund Balance	<u>16,887,634</u>	<u>28,725,546</u>
Ending Fund Balance	<u>\$28,725,546</u>	<u>\$40,289,691</u>

¹ Portion of TransTax allocated to Transit by Ordinance

² Unused TransTax

The TransTax Fund Balance increased by \$23,402,057 from \$16,887,634 on July 1, 2005 to \$40,289,691 on June 30, 2007. As of June 30, 2008 the Fund Balance is \$58,848,892.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Have DMD and Transit complied with the percentages specified in City Ordinance § 4-3-7-5 ROA 1994: TransTax - Dedication?
- Are expenditures that DMD and Transit made from TransTax funds related to the uses specified in City Ordinance § 4-3-7 ROA 1994: TransTax? Were the payments made to contractors in accordance with the terms and conditions of the applicable purchase order or contract?
- Has Transit complied with the City Council Resolution F/S R-199 (2)?

- Has DMD (through the Mayor's Office) complied with the following City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports, requirements of:
 - Submitting to the City Council:
 - A resolution for approving a listing of each rehabilitation and deficiency project to be initiated in the coming fiscal year and its estimated costs?
 - A plan for the expenditures for that fiscal year?
 - Submitting to the City Council and to the public an annual report on the expenditures for that fiscal year?
- Has DMD complied with the requirements of City Ordinance § 4-3-7-5 ROA 1994: TransTax - Dedication that no more than 25% of the total amount available for Road Deficiencies and Rehabilitation is expended to enhance aesthetics on interstate highways for the next three fiscal years beginning with FY06?
- Have new funds spent for Rehabilitation and Deficiency exceeded the average FY96 through FY98 expenditure amount, as required by City Ordinance § 4-3-7-5 ROA 1994: TransTax - Dedication?
- Has DMD accomplished its FY06 and FY07 priority objectives?
- Did DMD accomplish its FY06 and FY07 performance measures, relating to City Ordinance § 4-3-7 ROA 1994: TransTax? Does DMD have documentation to support the accuracy of the performance measures reported for FY06 and FY07?
- Did the increased fund balance from \$16,887,634 at the beginning of FY06 to \$40,289,691 at the end of FY07 affect the accomplishment of the City Ordinance § 4-3-7 ROA 1994: TransTax - Purposes?

SCOPE

Our audit did not include an examination of all functions and activities related to the TransTax. Our examination was limited to the objectives noted above during FY06 and FY07.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, August 5, 2009 and does not reflect events or accounting entries 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

OIAI interviewed DMD and Transit personnel. Documents and processes relating to the TransTax reviewed included the following:

- City Ordinance § 4-3-7 ROA 1994: TransTax
- Contracts, Change Orders, Invoices, Purchase Orders
- FY06 and FY07 Capital Implementation Program (CIP) Status Reports
- New Mexico Administrative Code (NMAC) 1.19.8 General Government Administration Local Government Records Retention and Disposition Schedule for New Mexico Municipalities
- City Council Resolutions F/S R-199 (2), R-05-247, R-05-286, R-05-392, and R-06-60
- Administrative Instruction (AI) 3-7: Payments to Vendors Doing Business with the City
- AI 3-4: Vendor Performance Evaluation
- AI 1-1-A: Signature Authority
- A-I No. 1-5: Records Retention and Disposition Committee
- City FY00 through FY07 Comprehensive Annual Financial Reports (CAFRs)
- City Standard Specifications for Public Works Construction (City Standard Specifications)
- City FY07 Approved Budget – Volume II: Performance Plan

FINDINGS

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

1. DMD SHOULD ENSURE DEDICATED TRANSTAX REVENUES ARE SPENT IN THE PERCENTAGES SPECIFIED BY CITY ORDINANCE § 4-3-7-5 (A) ROA 1994: TRANSTAX – DEDICATION.

The City’s FY00 through FY07 CAFRs show cumulative TransTax revenues and interest on investments of \$226,838,294. The cumulative amount of TransTax revenue spent on Road Maintenance and Trails and Bikeways has been less than the amounts based on the specified percentages in City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication. The following is a comparison of the actual amounts of TransTax revenue spent by DMD and what is specified to be dedicated in the Ordinance:

Purpose a Required Percentages	Amount Required To Be Dedicated Per Ordinance b	Amount Spent	% Spent	Difference c
Road Rehabilitations Not less than 32%	≥ \$ 72,588,254	\$ 84,464,520	37%	d
Road Deficiencies Not more than 32%	≤ \$ 72,588,254	\$ 29,160,367	14%	d
Road Maintenance 12%	\$ 27,220,595	\$ 23,643,626	10%	\$ 3,576,969
Trails and Bikeways 4%	\$ 9,073,532	\$ 3,891,231	2%	\$ 5,288,681

a – As defined in the City’s Ten Year Infrastructure Plan, which is an attachment to City Ordinance § 4-3-7 (A) ROA 1994: TransTax.

Road Rehabilitation projects extend the service life of an existing road.

Road Deficiency projects correct inadequate service and add system capacity.

Road Maintenance includes such measures as crack sealing, fog sealing, slurry sealing, and micro surfacing.

Trails and Bikeways plan will:

- Support the completion of most of the primary off-street trails
- Add trail connections to provide important links to existing trails
- Add several important sections of natural trails in City open space areas and arroyos

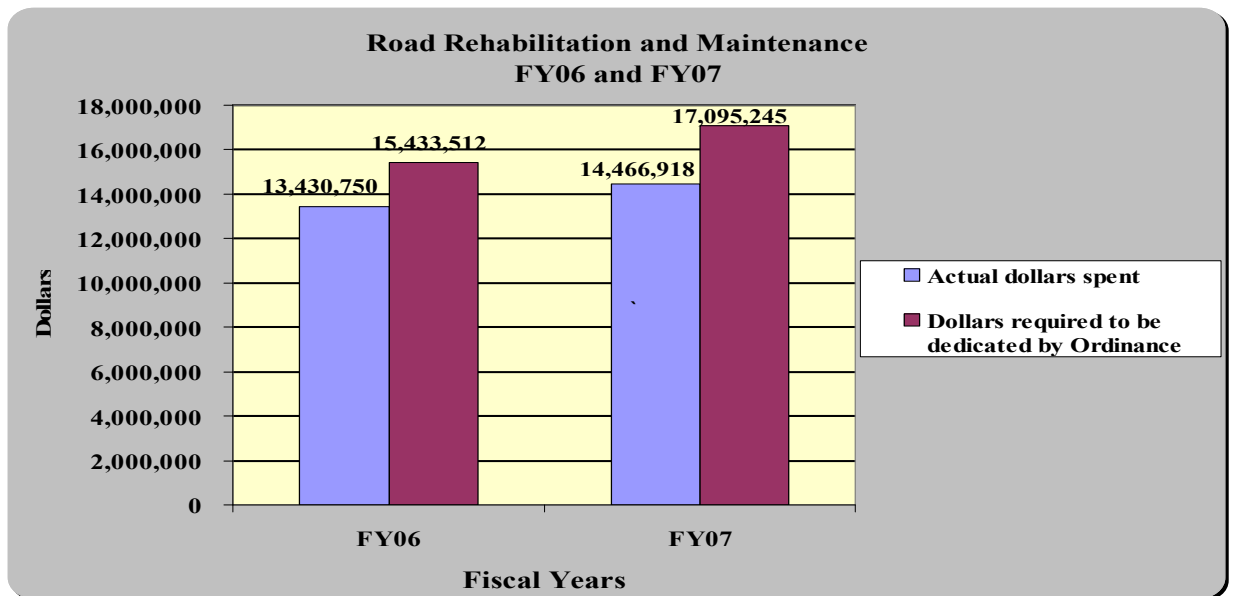
b – In accordance with City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, the TransTax shall be dedicated to the following purposes in the specified percentages of the tax revenue:

- Road Rehabilitations Not less than 32%
- Road Deficiencies Not more than 32%
- Road Maintenance 12%
- Trails and Bikeways 4%

c – Difference between the amount required to be dedicated per City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, and the amount actually spent through FY07.

d – Amount spent is within percentages required by Ordinance.

TransTax revenue for FY06 and FY07 was \$34,951,367 and \$38,511,490, respectively. DMD spent \$13,430,750 (38%) in FY06 and \$14,466,918 (38%) in FY07 on Road Rehabilitation and Maintenance. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, not less than 32% of TransTax revenues should be dedicated to Road Rehabilitations and 12% to Road Maintenance for a total of 44% or \$15,433,512 in FY06 and \$17,095,245 in FY07 (based on percentage of TransTax collected.)



The dedicated percentages of TransTax have not been spent on Road Rehabilitation and Maintenance. This may be a contributing factor to the decline of the projected street conditions from FY06 through FY09. The City’s FY07 Approved Budget – Volume II: Performance Plan shows the rating of street conditions reported by DMD for FY07. The FY08 Approved Budget did not report street conditions. DMD provided street conditions ratings for FY09. DMD used the Pavement Quality Index (PQI) rating to assess street conditions in FY07 and subsequent time periods:

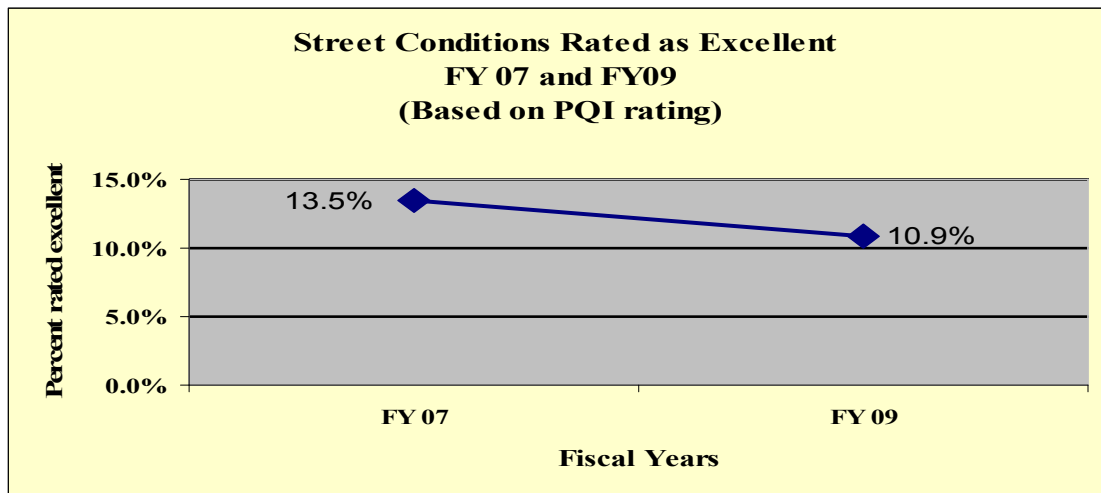
Time Period	Rating¹	Excellent	Good	Fair	Poor	Very Poor
FY09 ²	PQI	10.9%	28.4%	30.4%	21.5%	8.3%
FY07	PQI	13.5%	29.7%	27.2%	21.8%	7.8%

Time Period	Rating¹	Excellent	Good	Fair	Poor	Very Poor
FY07	SDI	36.1%	34.0%	14.6%	12.7%	2.6%
FY06	SDI	37.4%	37.0%	15.2%	9.5%	0.9%
FY99	SDI	11.0%	21.7%	35.4%	29.3%	2.7%

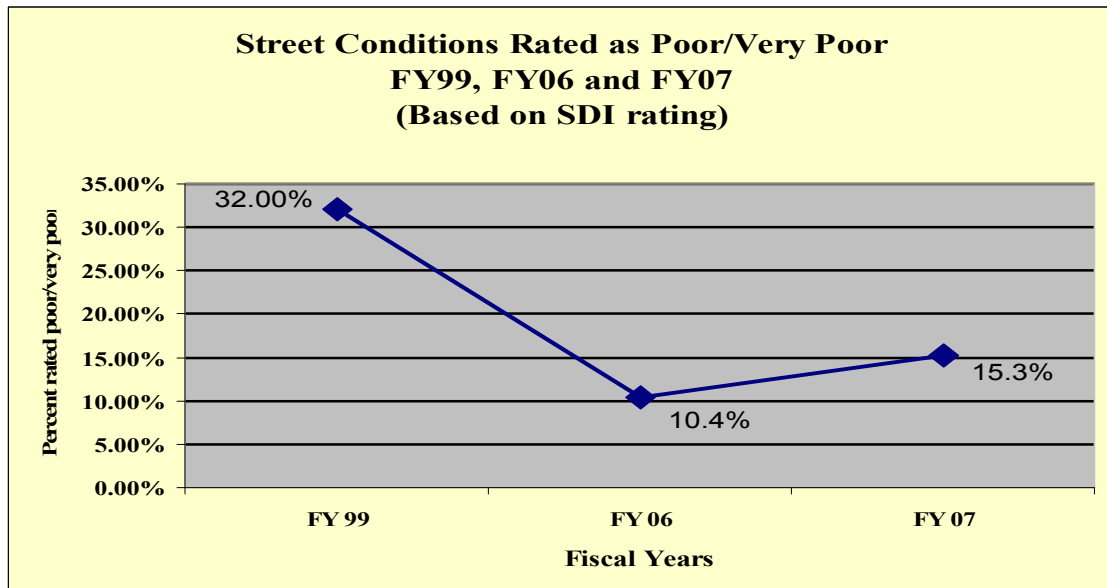
¹ The PQI identifies the overall assessment of pavement quality. The PQI model used by DMD is based on surface distress, riding comfort, and structural adequacy. In FY07, DMD reported street conditions using both PQI and the Surface Distress Index (SDI). The SDI is a measure of physical pavement cracking, deformations and surface defects collectively referred to as distresses. Since the PQI rating index was not used prior to FY07, OIAI was not able to use FY06 ratings in its comparison.

² Projected street conditions from DMD’s PQI computer model.

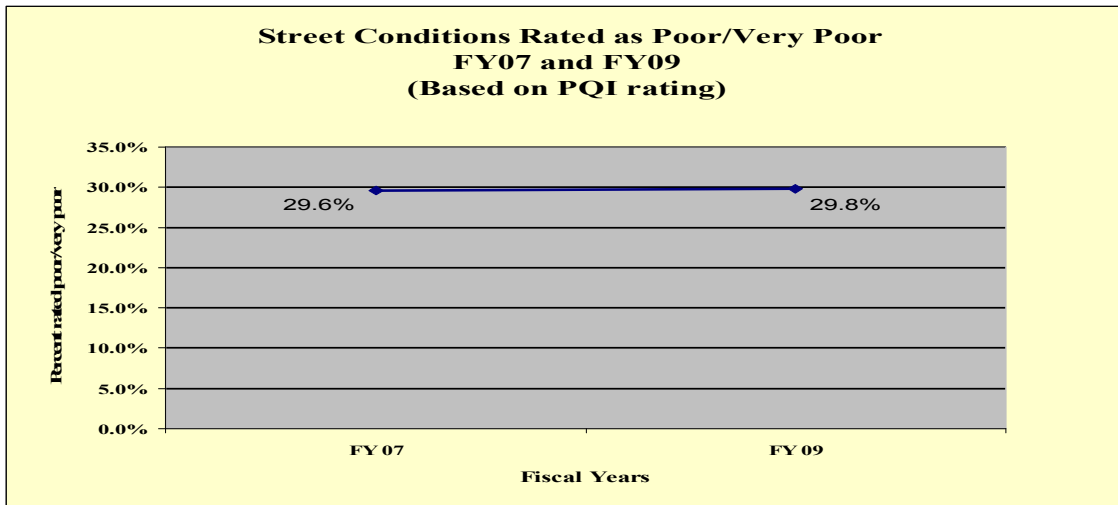
The percentage of streets with conditions rated as Excellent using the PQI rating decreased from FY07 to FY 09.



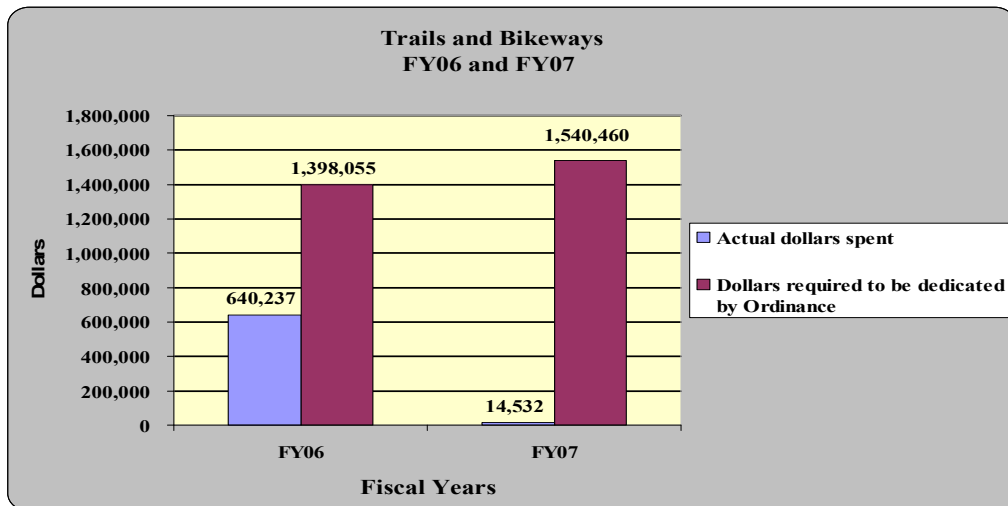
The percentage of streets with conditions rated as Poor/Very Poor using the SDI rating decreased from FY99 to FY06 and then increased from FY06 to FY07.



The percentage of street conditions rated as Poor/Very Poor using the PQI rating remained relatively unchanged from FY07 to FY09.



As previously stated, TransTax revenue for FY06 and FY07 was \$34,951,367 and \$38,511,490, respectively. DMD spent \$640,237 (2%) in FY06 and \$14,532 (.03%) in FY07 on Trails and Bikeways. According to City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, 4% of TransTax revenues should be dedicated to Trails and Bikeways or \$1,398,055 in FY06 and \$1,540,460 in FY07.



Taxpayers will not receive the intended benefit if the dedicated amount of TransTax revenue required by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication, is not spent in the specified percentages.

DMD management said that they will reach the Ordinance specified percentages by the time the appropriations are expended.

RECOMMENDATION

DMD should ensure dedicated TransTax revenues are spent in the percentages specified by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication.

RESPONSE FROM DMD

“From FY06 to FY09 different pavement rating methodologies were employed making comparisons difficult, if not impossible. The quality of street ratings for 2009 is solely based on projections. Comparison of actual measurements in 2007 with projected measurements in 2009 may not give an accurate representation. A new pavement rating contract is expected to be in place in 2010 at which time a true comparison can be conducted. DMD will implement dedicated transportation tax revenues per the percentages specified by the transportation tax ordinance.”

2. DMD SHOULD COMPLY WITH THE CITY’S STANDARD SPECIFICATIONS FOR PUBLIC WORKS CONSTRUCTION AND ADMINISTRATIVE INSTRUCTIONS.

DMD paid 558 invoices totaling \$37,015,044 during FY06 and FY07 for TransTax expenditures. OIAI tested a statistical sample of 39 of the invoices totaling \$2,581,869 to determine if the:

- Invoices related to the uses specified in City Ordinance § 4-3-7 ROA 1994: TransTax
- Payments made to contractors were within the terms and conditions of the purchase order or contract.

A. Change Orders and Field Directives

A review of one of the 39 invoices (3%) indicated additional work was performed without a written field directive. The following is a timeline of events:

Date	Event
July 28, 2005 a	The DMD project manager sent the division manager an e-mail discussing a potential change order for a storm drain at an estimated additional cost of \$1,018,367. This was not part of the original contract. The project manager requested permission to proceed. The response to the e-mail by the division manager gave approval to the project manager to proceed with the change order. The response stated, "That is a large change order that needs the CAO approval, but I am confident that everyone wants this storm drain done so please proceed."
September 19, 2005	The contractor had substantially completed the work, and sent DMD a notice of Substantial Completion.
January 20, 2006	The CAO approved the total change order, in the amount of \$1,101,145. The final cost of the storm drain portion was \$1,069,314.

a – The contractor began billing DMD for the change order on June 27, 2005. This billing was approved for payment by the City project engineer on June 30, 2005.

The City's Standard Specifications state additional work performed without authorization of a field directive or change order will not entitle the contractor to an increase in the contract price; and that the contract price may only be adjusted by a change order. The City's Standard Specifications defines a change order as a written order to the contractor authorizing an addition, deletion, or revision in the work or an adjustment in the contract price. The City's Standard Specifications are standard contract language which is included in all DMD construction contracts.

AI 3-7: Payments To Vendors Doing Business with the City, requires City departments to ensure that goods or services are not acquired before a purchase order or contract is finalized.

AI 1-1-A: Signature Authority, requires change orders to construction contract exceeding \$50,000 to be approved by the CAO. The DMD division manager acknowledged the change order required CAO approval, but did not follow AI 1-1-A.

When a contractor performs additional work without a written field directive being in effect, the contractor can later make unreasonable claims for compensation; because the work has already been performed. This puts the City at risk for having to pay an unreasonable price for change order work.

B. Purchase Orders and Contracts

DMD paid for three of the 39 invoices (8%) that did not comply with the terms and conditions of the purchase order or contract:

- An invoice totaling \$598,661 included a line item in which the contractor billed DMD \$111,342 for stored materials consisting of 5,061 linear feet of 24 inch sewer pipe. The contractor charged DMD the installation rate of \$22 per linear foot. The contractor only provided DMD with invoices from its suppliers showing that it had purchased 1,764 linear feet of 24 inch sewer pipe instead of the 5,061 linear feet. Section 14.2.1 of the City's Standard Specifications requires contractors billing the City for stored materials to provide invoices from its suppliers for materials that are being stored and have not yet been installed. DMD paid for \$72,534 (3,297 linear feet of sewer pipe at \$22 per linear foot) of materials, but never verified if the contractor purchased the materials from its supplier.
- A vendor charged DMD a lump sum of \$2,500 for a summary report of a parcel of vacant land. The purchase order stated that the City agreed to pay the vendor at specified hourly rates ranging from \$30 to \$150. The vendor did not provide DMD with documentation showing the hours worked or the rates billed, and DMD did not request this information. DMD could not verify if the vendor billed the City at the rates specified in the purchase order.
- A vendor submitted a subcontractor's payment request for \$6,621 to DMD; which stated that the total earned to date was on an attached worksheet. DMD did not have the attached worksheet. Without that worksheet, OIAI could not determine if the vendor billed the City according to the terms of the purchase order. DMD personnel stated that the invoice transaction took place before DMD required this vendor to provide supporting worksheets.

Although AI 3-7: Payments to Vendors Doing Business with the City, requires all vendors to be paid in accordance with the terms of the contract, DMD's written procedures do not require personnel to review vendor invoices to ensure payment is for items listed in purchase orders and contracts. This could result in paying for goods and services not received.

RECOMMENDATION

DMD should:

- Comply with Administrative Instructions and City's Standard Specifications.
- Issue written field directives prior to the commencement of the work by the contractor.
- Ensure that vendors are paid in accordance with the terms of the contract.

RESPONSE FROM DMD

"DMD concurs. DMD has drafted a significant revision to the Project Manager's Manual which will address these issues. The manual should be implemented by the end of the fiscal year."

3. DMD SHOULD ENSURE THE ANNUAL REPORT OF EXPENDITURES CONTAINS THE INFORMATION REQUIRED BY CITY ORDINANCE § 4-3-7-6 ROA 1994: TRANSTAX – PLANS AND REPORTS.

OIAI reviewed the FY06 and FY07 CIP Status Reports, submitted by DMD to City Council, to determine if they contained annual TransTax expenditure information as required by City Ordinance § 4-3-7-6 (A) ROA 1994: TransTax - Plans and Reports. The following was identified:

- Both CIP Status Reports included cumulative instead of annual expenditures.
- The FY07 CIP Status Report provided FY06, instead of FY07, expenditure information. DMD did not submit corrected FY07 information.

This is a repeat finding from Audit Report No. 05-106, Use of the TransTax, DMD. That audit noted that the annual report only provided the total cumulative amount expended on street maintenance and rehabilitation.

DMD management stated that they thought City Council had approved the reporting of cumulative, instead of annual expenditures, for meeting the Ordinance reporting requirement. DMD management referred to the reporting of FY06 instead of FY07 annual expenditures in the FY07 CIP Status Report as an error.

City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports, requires the Mayor to submit an annual report on expenditures for that fiscal year to City Council and the public. If City Council and the public are not provided the annual expenditure information, they will not be able to determine what was accomplished during that fiscal year with the TransTax funds.

RECOMMENDATION

DMD should ensure:

- The annual report of expenditures contains the information required by City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports.
- Reports submitted to City Council have correct information.

RESPONSE FROM DMD

“The CIP Annual Status Report represents an adequate description of DMD’s accomplishments.”

AUDITOR’S COMMENT

City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports, requires an annual report on expenditures for that fiscal year. The information provided by DMD in the annual CIP Status Report to City Council is cumulative.

4. DMD SHOULD IMPLEMENT CONTROLS TO ENSURE THAT EVIDENCE OF RECEIPT OF GOODS OR SERVICES IS DOCUMENTED AND THE DOCUMENTATION IS RETAINED.

OIAI judgmentally selected 15 invoice line items totaling \$973,602 from the statistically-selected sample of 39 invoices to determine how DMD verified and documented that the quantities billed by the vendor were accurate.

For 11 of the 15 invoice line items (73%) totaling \$548,131, DMD could not provide documentation to support that DMD personnel verified the quantities billed by the vendor. DMD personnel stated that the supporting quantity verification documentation of four of the 11 invoice items had been discarded three years after the vendor had been paid.

Although AI 3-4: Vendor Performance Evaluation, requires:

- Commodities and services purchased and received to be in accordance with all provisions set forth in the contract, and
- Inspection of goods and services provided should be conducted and documented,

DMD does not have any written procedures requiring employees who review vendors' invoices to ensure that they have documentation to verify the quantities billed by the vendors.

NMAC 1.19.8.109 D (1) Capital Project Files Retention: Fiscal or Contractual Documents, requires documentation to be retained ten years after completion of the project.

If DMD personnel do not verify quantities billed and document the verification, the City might pay for work not performed, or goods and services not received.

RECOMMENDATION

DMD should comply with AI 3-4, and implement controls to ensure that evidence of receipt of goods or services is documented.

DMD should ensure that documentation is retained for the required time period.

RESPONSE FROM DMD

“DMD concurs with both recommendations and believes that pursuant to NMAC 19.8.109 D3 that the time period for retention for such supporting documentation is 2 years.”

AUDITOR’S COMMENT

NMAC 1.19.8.109 D (1) Capital Project Files: Fiscal or Contractual Documents (e.g. bids, quotes, agreements, contracts, etc.): requires documentation to be retained ten years after completion of the project.

NMAC 1.19.8.109 D (3) Capital Project Files: All Other Documents: requires documentation to be retained two years after close of fiscal year in which the project was completed.

5. DMD SHOULD PREPARE AND MAINTAIN THE SUPPORTING DOCUMENTATION FOR THE PERFORMANCE MEASURES REPORTED IN THE ANNUAL PERFORMANCE PLAN.

DMD could not provide supporting documentation of the actual figures reported for any of the four TransTax performance measures for FY06 and FY07.

Performance Measures	FY06 Goal	FY06 Actual	FY07 Goal	FY07 Actual
Number of lane miles overlaid	87	89	85	95
Number of lane miles heater recycling or crack seal with micro surface (arterial)	26	16	25	46
Number of lane miles heater recycling or crack seal with slurry seal (residential)	79	104	70	109
Number of lane miles crack sealed	105	82	115	135

City Ordinance § 2-11-2 ROA 1994: Government City Budget – Definitions, states that performance measurement is a systematic approach to quantify and analyze activities. These measures help to determine the amount of service delivered, work performed and the impact of the division on the community and customer. The performance measures provide information regarding DMD’s efficiency and effectiveness.

The DMD employee who was responsible for calculating the actual figures retired from the City. His replacement tried to reconstruct the figures reported, but could not arrive at the same amounts reported. DMD management has since instructed staff to retain the:

- Methodology of how they calculated the accomplishment of performance measures.
- Documentation to support what was reported as the accomplishment of performance measures.

If supporting documentation is not available, the actual results of the performance measures cannot be verified.

RECOMMENDATION

DMD should prepare and maintain the supporting documentation for the performance measures reported in the annual performance plan.

RESPONSE FROM DMD

“DMD concurs with both recommendations and believes that pursuant to NMAC 19.8.109 D3 that the time period for retention for such supporting documentation is 2 years.”

6. DMD SHOULD REPORT THE STATUS OF PRIORITY OBJECTIVES BY THE REQUIRED DUE DATE.

OIAI reviewed the FY06 and FY07 priority objectives relating to the TransTax to determine if they had been accomplished. DMD had one priority objective for FY06, which included the following:

- Update the inventory of the condition of arterial and residential streets.
- Identify and implement a methodology that will allow for timely and regular monitoring of street conditions to facilitate the identification of priorities for rehabilitation, renovation and construction and reconstruction.
- Report the status to the Mayor and City Council by the end of the fourth quarter FY06.

The status report of the FY06 priority objective to the Mayor and the City Council was not submitted until the fourth quarter of FY07, one year after the due date.

DMD management stated that they hired a consultant to implement software to update the inventory of the street conditions, and work was not completed until the fourth quarter of FY07. OIAI determined the contract with the vendor was not executed until October 25, 2006, approximately four months after the status report was due.

If priority objective status reports are not submitted to the Mayor and City Council timely, legislative decisions regarding the TransTax could be impacted.

DMD had two priority objectives for FY07, in which the status was reported to the Mayor and City Council by the required due dates.

RECOMMENDATION

DMD should report the status of priority objectives by the required due date.

RESPONSE FROM DMD

“DMD agrees that it should report the status of priority objectives by the required due date, but states that in this circumstance it was attempting to gain real data as opposed to projected data to report, and kept Council informed of its efforts to implement and execute the contract to obtain the requisite data.”

AUDITOR’S COMMENT

DMD did not provide documentation of its communication to keep City Council informed of its efforts.

7. DMD SHOULD ENSURE THAT THE ANNUAL LISTING REQUIRED BY CITY ORDINANCE § 4-3-7-6 ROA 1994: TRANSTAX - PLANS AND REPORTS, INCLUDES EACH ROAD REHABILITATION PROJECT AND ITS ESTIMATED COST.

OIAI reviewed the FY06 and FY07 Resolutions R-05-247, R-05-286, R-05-392, and R-06-60, submitted by DMD to City Council, to determine if they listed each rehabilitation and

deficiency project, and the estimated cost for each project for the corresponding fiscal year as required by City Ordinance § 4-3-7-6 (A) ROA 1994: TransTax - Plans and Reports.

The Resolutions did list each *deficiency project* with the associated cost; however, it only showed the lump sum amount of \$10 million with the description *Road Rehabilitation* instead of listing each project with the associated estimated cost.

This is a repeat finding from Audit Report No. 05-106, Use of the TransTax, DMD. That audit noted the 2005 Streets – TransTax Expenditure Plan submitted to the Council by DMD listed road deficiencies by each project, but did not list road rehabilitation by each project.

DMD management stated that they thought City Council had approved the lump sum amount instead of a listing of road rehabilitation by project.

City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports requires the Mayor to submit a resolution 60 days prior to the beginning of each fiscal year, to City Council, listing each rehabilitation project along with the estimated cost of each project to be initiated in the coming fiscal year.

If City Council is not provided the rehabilitation project and expenditure information, they may approve the spending of TransTax funds without knowing the intended projects for the coming year.

RECOMMENDATION

DMD should ensure that the annual listing required by City Ordinance § 4-3-7-6 ROA 1994: Plans and Reports, includes each road rehabilitation project and the estimated cost for each project.

RESPONSE FROM DMD

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

AUDITOR’S COMMENT

City Ordinance § 4-3-7-6 ROA 1994: TransTax - Plans and Reports, requires a listing of each rehabilitation project along with the estimated cost of each project to be initiated in the coming fiscal year.

The Resolution provided by DMD to City Council only showed the lump sum amount of \$10 million with the description *Road Rehabilitation*. It did not list each project with the associated cost.

8. TRANSIT SHOULD MONITOR ITS ALLOCATION OF TRANSTAX REVENUE AND COORDINATE WITH DFAS AND OMB TO ENSURE THAT IT RECEIVES 20% OF TRANSTAX REVENUES, AS SPECIFIED BY CITY ORDINANCE § 4-3-7-5 (A) ROA 1994: TRANSTAX - DEDICATION.

In FY06 and FY07, Transit received the full 20% of TransTax revenue, in accordance with City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication. However, Transit has not received the full 20% for the cumulative period FY00 through FY07. It has received \$391,612 less than the amount specified by the Ordinance.

Fiscal Years	Total TransTax Revenue	Amount That Should Have Been Transferred	Total Amount Transferred to Transit*	%
00-07	\$220,764,331	\$44,152,866	\$43,761,254	19.8%

* Amount transferred only includes TransTax Revenues, not interest earnings. According to the Office of Management and Budget (OMB), the interest earnings are to be used for the purpose of improving transportation systems for the benefit of the City and are recorded in TransTax Fund 340. The Ordinance does not specify whether the interest has to be distributed in the same percentages as the TransTax revenue. Interest earnings in Fund 340 from FY00 through FY07 total \$6,073,963.

Transit personnel stated that they were not monitoring their allocation of TransTax revenues. If Transit is not allocated the specified percentage of TransTax revenue, bus riders may not receive the improvement of transportation systems as intended by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication.

RECOMMENDATION

Transit should:

- Monitor its allocation of TransTax revenue and
- Coordinate with DFAS and OMB to ensure it receives the 20% specified by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication.

RESPONSE FROM TRANSIT

***“For the time period of the Audit, Fiscal Years 2006 and 2007, the Transit Department received 20% of the Transportation Tax Revenue. For the expanded time period, Fiscal Years 2000 through 2007, the Transit Department would need to work with the Budget Office to determine if 20% of the Transportation Tax revenue during this time period was budgeted to the department.*”**

“Transit Department staff will work with staff from the department that is responsible for distribution of the transportation tax to establish a procedure for the monitoring of the distribution of these tax revenues to Transit. The establishment of these procedures should be completed by the end of January 2010. ”

9. TRANSIT SHOULD PERFORM A PERIODIC ANALYSIS OF ITS USE OF TRANSTAX REVENUES TO ENSURE IT COMPLIES WITH RESOLUTION F/S R-199 (2).

Resolution F/S R-199 (2) requires a minimum of 75% of the new revenues allocated to Transit from the TransTax be used for:

- Enhancing service on Transit routes and route segments in which bus ridership is at or greater than 20 passengers per revenue mile,
- Adding new routes and route segments in areas which have a concentration of transit dependent individuals.

Prior to the audit, Transit did not perform an analysis to determine if it was spending 75% of new TransTax revenues on enhanced service and additional new routes and route segments.

Transit maintains a bus schedule, by route, which includes the number of daily bus service hours. The schedule provided to OIAI compared FY00 to FY06 and FY07 daily bus service hours, which indicated an increase in service hours for both years. Transit also provided the average cost per bus service hour. This data, by itself, does not demonstrate compliance with the Resolution because it does not take into account the amount of TransTax revenue being spent on new and enhanced service.

At the request of OIAI, Transit prepared an analysis using the above information. OIAI reviewed this analysis and determined that in FY06 and FY07, Transit had complied with the Resolution requirements:

Fiscal Year	Amount of Transfer to Transit	Required Increase in Costs (75% of Transfer)	Estimated Increase in Costs¹
FY06	\$6,813,176	\$5,109,882	\$5,285,385 ²
FY07	\$7,386,650	\$5,539,988	\$9,180,865 ³

¹ Based on an increase in service hours for new and enhanced routes, after the implementation of the TransTax, multiplied by the average operating cost per bus hour.

² Based on FY06 increased service hours and FY05 cost per bus hour rate (Transit unable to locate FY06 cost per hour data).

³ Service hours increased from FY06 to FY07 by 481 hours per week.

If Transit does not perform an analysis of TransTax revenue use, bus riders may not receive the new and enhanced services intended by the Resolution.

RECOMMENDATION

Transit should perform a periodic analysis of its use of TransTax Revenues to ensure it complies with Resolution F/S R-199 (2).

RESPONSE FROM TRANSIT

“Transit agrees to perform a periodic analysis summary of its use of the TransTax Revenues. In FY06 Transit exceeded the required 75% expenditure of \$5,109,882 by over \$175,000 and in FY07 the required

expenditure of \$5,539,988 by over \$3,600,000. Transit has always maintained service hour records and service hour costs and these are always used when new routes are considered or existing routes are modified to ensure that Transit meets the requirements of Resolution F/S R-199 (2).

“During years of declining revenues to the city or when revenue increases to the city are significantly less than expenditure increases, the Transit Department will have difficulty meeting the requirements of any resolution that calls for an increase in service hours. Revenues will be needed to either maintain service levels or to minimize negative impacts to service levels.”

CONCLUSION

DMD should:

- Ensure dedicated TransTax revenues are spent in the percentages specified by City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax - Dedication.
- Comply with Administrative Instructions and City’s Standard Specifications.
- Comply with reporting requirements.
- Maintain supporting documentation for performance measures.

Transit should monitor its allocation of TransTax revenues to ensure compliance with City Ordinance § 4-3-7-5 (A) ROA 1994: TransTax – Dedication. Transit should perform a periodic analysis to ensure compliance with Resolution F/S R-199 (2).

We appreciate the cooperation and assistance of the DMD and Transit staff during the audit.

Principal Auditor/Investigator

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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