



# *City of Albuquerque*

## **Office of Internal Audit**

FOLLOW-UP OF THE STRATEGIC REVIEW CAPITAL  
IMPLEMENTATION PLAN LABOR RECOVERY  
DEPARTMENT OF MUNICIPAL DEVELOPMENT

Report #22-19-304F

Date: April 27, 2022

### **INTRODUCTION**

The Office of Internal Audit (OIA) issued Strategic Review No. 19-304, Capital Implementation Plan Labor Recovery– Department of Municipal Development on June 27, 2019. OIA completed a follow-up to determine the corrective actions that the Department of Municipal Development (DMD) has taken in response to the report. The report contains five recommendations, of which one is closed, one is contested and three remain open and in progress. OIA will follow up on the open recommendations as part of its continuous monitoring efforts.

### **BACKGROUND**

The City of Albuquerque's (City) Capital Implementation Plan (CIP) is a division of DMD. CIP is responsible for administering approved capital expenditures for systematically acquiring, constructing, replacing, upgrading, and rehabilitating the City's built environment. The City's General Obligation (GO) bond program is one element of CIP. GO bonds may be used to finance capital improvements approved by the voters. These bonds are referred to as "General Obligation" because the City's general income from all sources is pledged to the payment of principal and interest on the bonds. It is required by law that voters approve GO bonds by purpose and once approved by voters, bond proceeds can only be used for their approved purpose. The City's major capital improvements have traditionally been funded using GO bond funds, including street repair, facility renovation and library automation.

As a result of the City's municipal election held on October 6, 2015, Albuquerque voters authorized approval of \$119 million in GO bonds to fund CIP projects. Subsequently, in 2016, City Council authorized the issuance and sale of \$84.9 million GO Bonds consisting of \$71.5 million General Purpose GO Bonds, series 2016A; \$6.5 million GO Storm Sewer Bonds, series 2016B; and \$6.9 million short-term GO Bonds, series 2016C. Furthermore, in 2017, City Council authorized the issuance and sale of \$34.1 million GO Bonds consisting of \$22.9 million General Purpose GO Bonds, series 2017A, and \$11.3 million short-term GO Bond, series 2017B.

In theory, costs directly related to capital projects, including allowable labor, can be directly allocated to specific projects. Indirect costs, when appropriate, can be allocated on a reasonable and beneficial basis to capital projects. In June 2019, OIA completed a strategic review of the process for calculating and recording CIP labor cost recovery charges for DMD. Labor recovery entries include direct labor costs for employees working on a project and an

Follow-Up  
Capital Implementation Plan Labor Recovery-  
Department of Municipal Development  
April 27, 2022

#21-19-304F

allocation of indirect costs for administrative labor and non-payroll operating costs.

Sources of labor recovery expense transactions include payroll, manual, and CIP Indirect Overhead (IDOH) journal entries.

The strategic review was completed at the request of a City Councilor and was not included in OIA's fiscal year 2020 audit plan. The strategic review objectives were to determine how the CIP Fiscal Division:

- Calculates, tracks, verifies, and records CIP labor cost recovery charges
- Reconciles labor cost recovery charges for CIP projects, and
- Performs its oversight responsibilities

Further information pertaining to the audit scope, limitations and methodology can be found in Appendix A of the original report. Additionally, the Office of the Inspector General (OIG) completed an investigation on payroll costs related to CIP in March 2021. The report found no evidence of fraud, waste or abuse citing no appearance of a malicious and knowing error in applying and charging bond funds.

### **OBJECTIVE**

The objective of this follow-up was to determine whether DMD has taken the corrective actions recommended in OIA's June 27, 2019 report. Consistent with Government Auditing Standards, Section 9.08, promulgated by the U.S. Government Accountability Office, the purpose of audit reports includes facilitating a follow-up to determine whether appropriate corrective actions have been taken. This field follow-up is a non-audit service. Government Auditing Standards do not cover non-audit services, which are defined as professional services other than audits or attestation engagements. Therefore, DMD is responsible for the substantive outcomes of the work performed during this follow-up and is responsible to be in a position, in fact and appearance, to make an informed judgment on the results of the non-audit service. OIA limited our scope to actions taken to address our audit recommendation from the original strategic review dated June 27, 2019 through the submission of actions on January 26, 2022.

### **METHODOLOGY**

To achieve the objective, OIA:

- Requested documentary evidence from DMD.
- Interviewed DMD staff to understand and verified the status and nature of the corrective actions taken.

Follow-Up  
Capital Implementation Plan Labor Recovery-  
Department of Municipal Development  
April 27, 2022

#21-19-304F


**RESULTS**

Of the five recommendations included in the original report, three remain open and in progress. One recommendation has been implemented and is considered closed. One recommendation is contested by the Department. See ATTACHMENT 1 for further details. OIA will follow up on the open recommendations as part of its continuous monitoring efforts.

Follow-Up  
Capital Implementation Plan Labor Recovery-  
Department of Municipal Development  
April 27, 2022

#21-19-304F


SUBMITTED:

DocuSigned by:  
  
0F462D006A1E4C8...

---

Marisa Vargas, Audit  
Manager Office of Internal  
Audit

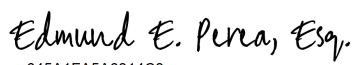
REVIEWED & APPROVED:

DocuSigned by:  
  
07E2FA5E2FAD4AC...

---

Nicole Kelley, City Auditor  
Office of Internal Audit

APPROVED FOR PUBLICATION:

DocuSigned by:  
  
645A1FA5A6314C3...

---

Edmund E. Perea, Chairperson,  
Accountability in Government Oversight Committee

## ATTACHMENT 1

Recommendations	Responsible Agency	Department Response	OIA Conclusion	OIA Use Only Status Determination
<p><u>Recommendation 1:</u> DMD should establish specific documented policies and procedures to ensure the proper record keeping, classification of costs, approval and monitoring of labor recovery and related administrative labor, and non-payroll operating costs.</p>	<p>Department of Municipal Development</p>	<p>DMD uses the Financial and Payroll system to capture cost. DMD Fiscal runs the MV_GL_Transaction_all and Labor Distribution table on the monthly basis. Records are kept on the City's Share X drive under MD-Fiscal.</p> <p>DMD's Fiscal is in the process of updating its Job Aide on how to do the CIP Recovery. We will have the update completed by the end of FY22.</p>	<p>DMD acknowledged that policies and procedures to ensure the proper record keeping, classification of costs, approval and monitoring of labor recovery and related administrative labor, and non-payroll operating costs are outdated and indicated that management is in the process of revising them.</p> <p>Further, DMD stated that the department is in the process of updating job aides related to CIP Recovery with an estimated completion date of June 2022.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p><u>Recommendation 2:</u> DMD should review the 166 CIP positions, the detail supporting the associated indirect administrative labor operating costs and underlying methodology for recovering labor with the City's Economist and determine how to properly account for labor recovery costs in the future. If during the review it is determined by the City's Economist that certain labor and cost recovery should not have been charged to a project, the Department should consider transferring such cost to the appropriate final cost objective.</p>	<p>Department of Municipal Development</p>	<p>DMD has been in contact with the office of OMB and the Administration on an annual basis to move those CIP positions to the General Fund when possible.</p> <p>The 166 CIP positions do not change from year to year other than when a division is moved to another department. This happened when Parks Design and Construction was moved from DMD to the Parks and Recreation department. There are currently 96 actual CIP project recovered positions. (See Attachment). From year to year the projects from which they are charged changes. When reviewing distribution of wage cost, periodic changes are fixed to match the actual hours contributed to the project.</p> <p>DMD does not consult with City Economist to determine how to properly account for the labor recovery. The City Economist helps Main Accounting in determining the IDOH rate to recover those divisions in 241000; Admin CIP IDOH and 24290000; CIP IDOH projects. DMD does not have any evidence or review by the City's Economist that certain labor and cost recovery should not have been charged to a project, nor have any transferring cost out to the appropriate final cost objective since we do not meet with the Economist.</p>	<p>This recommendation is considered contested based on the response originally provided by the department.</p>	<p><input type="checkbox"/> Open <input type="checkbox"/> Closed <input checked="" type="checkbox"/> Contested</p>

## ATTACHMENT 1

Recommendations	Responsible Agency	Department Response	OIA Conclusion	OIA Use Only Status Determination
<p><u>Recommendation 3:</u> DMD should establish processes to ensure:</p> <ul style="list-style-type: none"> <li>- Direct labor time worked on projects is recorded by the employee on a timesheet or into a time tracking system, acknowledged and approved by the employee, and reviewed and approved by the supervisor and charged to the appropriate final cost objective.</li> <li>- Indirect operating costs and administrative labor are allocated to the final cost objective based on a reasonable and beneficial basis.</li> <li>- The engineering inspection fee (e.g., \$39 hourly rate) is properly established and is appropriate relative to the cost associated with providing the service.</li> </ul>	Department of Municipal Development	<p>DMD is working with DTI and the Grants Management team to work out a solution so that each employee could charge their time to the projects that they are working on. It is a large endeavor to accomplish this task due to the large amount of programming needed on the back end of setting and monitoring the activities. This would require one extra person to monitor the process and assist the employees and supervisors.</p> <p>The project with DTI has been placed on hold while the Administration determines whether a general fund source can be established for labor cost.</p> <p>Indirect operating cost is calculated on a percentage to the salary of the employee and distributed to the project activity through a journal entry. Indirect operating cost and labor is distributed by a percentage of the effort provided by the personnel associated with the project.</p> <p>The engineering inspection fees are charged according to how many hours personnel spend inspecting during the pay period.</p> <p>The \$39.00 rate was established several years ago which was based on an average of the inspector's hourly rate. DMD intends to recalculate the hourly rate due to increases in salaries by the end of the calendar year 2022.</p>	<p>As of February 2022, DMD has not established procedures for direct labor time allocation recorded by the employee on a timesheet or into a time tracking system. DMD acknowledged working with the Technology and Innovation Department (DTI) and the Grants Management team to work out a solution. However, the project has currently been placed on hold while City Administration works to determine if a General Fund can be established for labor costs.</p> <p>OIA further noted DMD calculates the indirect operating cost on a percentage of the employee salary and distributes the cost to the proper project activity through journal entries. This process was verified by OIA by testing a sample of payroll entries.</p> <p>In addition, OIA noted that the engineering inspection fee is charged in accordance with the time spent on a project inspection within a pay period. However, DMD acknowledges that the rate of \$39 was established several years ago and is in need of re-calculation. DMD plans to recalculate the engineering inspection hourly rate by December 2022.</p>	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

## ATTACHMENT 1

Recommendations	Responsible Agency	Department Response	OIA Conclusion	OIA Use Only Status Determination
<p><u>Recommendation 4:</u> DMD should review payroll entries periodically to ensure:</p> <ul style="list-style-type: none"> <li>- Payroll entries posting to CIP projects are supported by approved time records and that allocations of indirect labor and costs are properly allocated to the appropriate beneficial final cost objectives.</li> <li>- Time entered to the Project Billing Module is reviewed and approved by the supervisor.</li> <li>- Time entered to the Project Billing Module is reconciled to time entered to the KRONOS time system.</li> </ul>	Department of Municipal Development	<p>DMD is in constant contact with the Division Manager(s) on assigning the correct time to the project activity.</p> <p>Journal entries are made on a monthly basis to the projects with the approval by the Division Managers allocation request that is done on an annual basis or changed when needed.</p> <p>Time is entered into KRONOS and is approved by the supervisor. At this time the employee is unable to select the project that they are working on. This is done by the Division Manager and is preprogrammed in HRM and the charge is made to the project automatically in the system.</p> <p>As noted in response to recommendation number 3, the Administration is working to establish a general fund source for labor costs.</p>	<p>OIA noted that in walkthroughs conducted with DMD Fiscal staff, revised procedures for monthly payroll journal entry were verified and deemed appropriate. However, DMD has not established procedures for indirect labor time allocation recorded by the employee on a timesheet or into a time tracking system.</p> <p>Furthermore, DMD management stated that these efforts have been placed on hold while City Administration works to determine if a General Fund can be established for labor costs.</p>	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
<p><u>Recommendation 5:</u> DMD should review all labor recovery recorded to bond projects and assess bond risk.</p>	Department of Municipal Development	<p>As mentioned above labor recovery is reviewed monthly before the journal entry are entered. DMD insures that expenses to projects stays within scope and budget in relation to the bond. All contracts and expenses to bonds are scrutinized to affirm they fall within the scope and the purpose of the bond at all levels of procurement and personnel efforts.</p>	<p>OIA noted that in walkthroughs conducted with DMD Fiscal staff, procedures for reviewing all labor recorded to bond projects are performed on a monthly basis and are deemed appropriate. OIA further verified through testing that DMD performs a review of project expenses as they relate to the scope and budget to ensure compliance. Further, OIA noted that contracts related to bond expenditures are reviewed by DMD to ensure the purpose of the bond is in alliance with the contract costs and scope.</p>	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested