

**MANAGEMENT AUDIT REPORT**

**OF THE**

**PASEO DEL NORTE EXTENSION**  
**DEPARTMENT OF MUNICIPAL DEVELOPMENT**

**REPORT NO. 09-108**



**City of Albuquerque**  
**Office of Internal Audit and Investigations**

**Management Audit of the Paseo Del Norte Extension**  
**Department of Municipal Development**  
**Report No. 09-108**  
**Executive Summary**

**Background:** The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the Paseo Del Norte Boulevard (Paseo) extension. The audit was a special request by City Council and was included in the approved fiscal year (FY) 09 audit plan.

Salls Brothers Construction, Inc (Salls Brothers) provided construction services to extend Paseo from the existing intersection of Golf Course Road to a connection with Universe Boulevard, approximately 2.4 miles west. The construction included an escarpment crossing and mesa top alignment for a two-lane, limited access, principal arterial roadway and associated infrastructure. The cost of this project was approximately \$18 million, and funding was provided by the State of New Mexico (NM) and the City. Portions of the Paseo extension are adjacent to the Petroglyph National Monument and within the Las Imagines Archaeological District (LIAD), a property listed on the National Register of Historic Places and the NM State Register of Cultural Properties. The City developed and the Cultural Properties Review Committee approved protection measures to mitigate harm to cultural resources in the Petroglyph National Monument and the LIAD. The Paseo extension opened for public use in June 2007. The project was overseen by the Department of Municipal Development (DMD).

**Objective:** Was the contract to Salls Brothers awarded in accordance with City rules and regulations?

The amounts of the performance bond and material & labor bond submitted by Salls Brothers were \$10,490 less than the contract.

**Recommendation:** DMD should ensure the amounts of the performance bond and labor & material payment bond submitted by contractors agree with the contract.

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

Was the contract administered in accordance with City rules, regulations, and contract documents?

Was the project's construction compliant with all applicable local, state, and federal regulations, ordinances, resolutions, and laws?

**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

October 6, 2010

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

Audit: Management Audit  
Paseo Del Norte extension  
Department of Municipal Development  
09-108

**FINAL**

INTRODUCTION

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#### AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Was the contract to Salls Brothers awarded in accordance with City rules and regulations?
- Was the contract administered in accordance with City rules, regulations, and contract documents?
- Was the project's construction compliant with all applicable local, state, and federal regulations, ordinances, resolutions, and laws?

#### SCOPE

Our audit did not include an examination of all functions and activities related to the Paseo extension. Our scope included a review of documents and records relating to the Paseo extension for the time period of January 2006 through March 2010.

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, May 27, 2010 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 personnel, NM Department of Transportation personnel and the contracted project manager responsible for overseeing the Paseo extension. Documents and processes reviewed included the following:

- Bid and award documentation
- Contracts, Change Orders, Invoices, Progress Reports
- Technical Specifications
- Unser Middle Transportation Study - Final Environmental Impact Statement
- Purchasing Ordinance § 5-5-10 through 5-5-12
- City Standard Specifications for Public Works Construction
- DMD Project Managers Handbook
- City Council Resolutions – R-04-78 and R-04-143
- New Mexico State Highway and Transportation Department – Revised Noise Policy
- New Mexico Administrative Code (NMAC) 4.10.8 Permits To Conduct Archaeological Investigations On State Land
- NMAC 4.10.16 Standards for Excavation and Test Excavation
- New Mexico Statutes Annotated 1978 § 18-6-1 through 18-6-17 Cultural Properties Act
- Administrative Instruction (AI) No. 1-1-A Signature Authority
- AI No. 3-4 Vendor Performance Evaluation

City Council requested an audit of the contract entered into by the City for the provision of vegetation and the construction of the sound wall along the Paseo Extension. OIAI performed test work relating to audit objectives and determined the following results:

**Objective:** Was the contract to Salls Brothers awarded in accordance with City rules and regulations?

**Test work:**

OIAI performed the following:

- Interviewed DMD personnel and the project manager.
- Reviewed bid documentation for compliance with the Regulation Governing the Award and Rejection of Bids/Offer and Debarment of Contractors for Public Works Projects of the City of Albuquerque.

**Results:** The Salls Brothers contract was awarded in accordance with City rules and regulations with the exception of the amounts of the performance bond, and labor and material payment bond being different than the amount of the contract (see Finding #1).

**Objective:** Was the Salls Brothers contract administered in accordance with City rules, regulations and contract documents?

**Test work:**

Change Orders

OIAI tested the change order process by:

- Obtaining an understanding of controls from discussions with DMD personnel.
- Reviewing change order procedures in the City of Albuquerque Standard Specifications for Public Works Construction.
- Reviewing DMD Capital Implementation Program (CIP) Fiscal Contract Aide Procedures.
- Reviewing the eight change orders and supporting documentation issued for the Paseo extension.

Progress Payments

OIAI tested progress payments by determining if:

- Applications for Payment were completed by the Architect/Engineer (A/E) and certified as correct by the City Project Manager, Contractor, A/E, and CIP personnel.
- The amounts on the Applications for Payment matched amounts paid to the vendor reported in the City financial systems.
- The Contractor submitted to the A/E a progress schedule and a schedule of values of the work performed in the period.
- Costs incurred during the period matched the payment request estimate on the applications for payment.
- The A/E and DMD Construction Inspector reviewed actual work performed to ensure that the percentage completed was accurate and that work performed conformed to contract specifications.

**Results:** The Salls Brothers contract was administered in accordance with City rules and regulations with respect to change orders and progress payments.

**Objective:** Was the project's construction compliant with applicable local, state and federal regulations ordinances, resolutions, and laws?

**Test work:**

Low Noise Asphalt and Sound Wall

To determine if low noise asphalt was used for the Paseo extension, OIAI reviewed:

- Progress payments
- Project inspector notes
- As-built plans

OIAI performed the following test work of the sound wall constructed for the Paseo extension:

- Read the noise study of the proposed Paseo, as part of a Final Environment Impact Statement for the City.
- Identified Noise Sensitive Areas (NSA) tested in the noise study.
- Identified noise abatement measures recommended for the NSAs by the noise study.
- Reviewed As-Built plans for the construction of the berm as part of the Paseo extension.
- Researched the Federal Highway Administration (FHWA) website, [www.fhwa.dot.gov](http://www.fhwa.dot.gov) and FHWA noise abatement criteria.
- Discussed noise regulations with New Mexico Department of Transportation (NMDOT) personnel.
- Researched NMDOT Noise Policy.

Landscaping

OIAI reviewed the As-Built plans, and visited the Paseo extension site to determine what landscaping materials were used.

Bicycle Lanes and Trails, Pedestrian Trails and Connections to Existing Trails

OIAI reviewed the As-Built plans and visited the Paseo extension site to determine if bicycle lanes and trail, pedestrian trails and connections to existing trails were constructed.

Environmental Scientist and Archaeologist

OIAI reviewed the report issued by the environmental scientist and archaeologist to verify that such professionals had been consulted regarding preservation of the natural drainage and ecological corridors for the Paseo extension.

Artifacts/Boulders with Etchings

OIAI reviewed documentation and information for the time period April 1990 through October 2006 to determine if artifacts/boulders with etchings were relocated in accordance with applicable laws.

Art projects

OIAI performed the following test work to determine if one percent of each bond purpose was used for art projects that are environmental, cultural and archaeological aspects of the area of the Paseo Extension:

- Verified amounts spent on artwork agreed with the Artwork Features - Actual Cost and the Allowance #2 through #5 totals on the Final Monthly Progress Report.
- Verified that at least one percent of each bond purpose was used for art projects.
- Reviewed the DMD Public Art Program - Guiding Principles for Roadway Design

**Results:** The construction of the Paseo extension was compliant with applicable local, state, and federal regulations, ordinances, resolutions, and laws.

FINDING

The following finding concerns an area that we believe could be improved by the implementation of the related recommendation.

1. DMD SHOULD ENSURE THE AMOUNTS OF THE PERFORMANCE BOND AND LABOR & MATERIAL PAYMENT BOND SUBMITTED BY CONTRACTORS AGREE WITH THE CONTRACT.

OIAI reviewed the bid and award documentation of the Salls Brothers construction contract and determined the amounts of the performance bond and material & labor bond did not agree with the contract. According to Wikipedia, a performance bond is a surety bond issued by an insurance company or a bank to guarantee satisfactory completion of a project by a contractor. According to [BusinessDictionary.com](http://BusinessDictionary.com), *performance bonds* ensure payment of a sum of money in case the contractor fails in the full performance of the contract. *Material & labor bonds* are issued usually with performance bonds and cover payment for all equipment, labor, materials, and services in the event the contractor does not pay for them under the terms of the contract.

	<b>Amount Insured (1)</b>	<b>Contract Amount</b>	<b>Difference</b>
Performance Bond	\$14,562,384	\$14,572,874	\$10,490
Labor & Material Payment Bond			

(1) Each bond was issued in the amount of \$14,562,384

The bid submitted by Salls Brothers had two unit price miscalculations. The calculations and the total bid amount were later corrected. The corrections did not change the rank of any of the bids. The contract was issued to Salls Brothers for the corrected amount, but the performance and material & labor bonds submitted by Salls Brothers were in the amount of the initial uncorrected bid. DMD management stated that when Salls Brothers submitted the bonds it was determined that they were substantially similar and would continue with the project instead of having the bonds resubmitted for the contract amount.

The Regulation Governing the Award and Reject of Bids/Offer and Debarment of Contractors for Public Works Projects of the City of Albuquerque, § 13.2 requires the successful bidder to furnish a performance bond and labor and material payment bond each in the amount of the contract.



If the contractor does not:

- Complete the project, the City will only be guaranteed compensation for any monetary loss up to the amount of the performance bond.
- Pay for all equipment, labor, materials, and services; the amount covered will be up to the amount of the labor and material payment bond resulting in a loss to the City.

RECOMMENDATION

DMD should ensure the amounts of the performance bond and labor & material payment bond submitted by contractors agree with the contract.

RESPONSE FROM DMD

***“DMD concurs.”***

CONCLUSION

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

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Senior Information Systems Auditor

REVIEWED AND APPROVED:

APPROVED FOR PUBLICATION:

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Carmen Kavelman, CPA, CISA, CGAP  
Director  
Office of Internal Audit & Investigations

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Chairperson, Accountability in Government  
Oversight Committee