

City of
ALBUQUERQUE
Office of Internal
Audit

STRATEGIC REVIEW
19-304

CAPITAL
IMPLEMENTATION
PLAN LABOR
RECOVERY

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STRATEGIC REVIEW REPORT
CAPITAL IMPLEMENTATION PLAN LABOR RECOVERY
REPORT NO. 19-304

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INTRODUCTION

In March 2019, the Office of Internal Audit (OIA) received a request from a City Councilor to review the process for calculating and recording the Capital Implementation Plan (CIP) labor recovery charges for the Department of Municipal Development (DMD) and Parks & Recreation Department (PRD).

Specifically, the Councilor requested that the review address and include the following:

1. A review of the process and methodology used by the CIP Fiscal Division, DMD and PRD for calculating, tracking, reporting, verifying, and recording of labor cost recovery charges for CIP projects;
 - a. The respective DMD Divisions include - Construction Management, the 3-percent for Energy Conservation Section of Facilities Management, and Street Maintenance,
 - b. The respective PRD Divisions include - Park Design, and Planning and Construction Services, and
2. How the CIP Fiscal Division understands and implements their oversight responsibilities and reconcile CIP projects relative to labor recovery.

SCOPE

The work performed for this strategic review was limited to the identified objective and was not an audit or an investigation in response to allegations of fraud, waste, or abuse. The City's Office of Inspector General is responsible for the investigation of possible fraud, waste, or abuse and would be notified if such events were identified.

EXECUTIVE SUMMARY

The City is currently recovering CIP direct labor costs, indirect administrative labor and overhead expenses through labor recovery entries charged to various capital projects. This labor recovery is in addition to the indirect administrative labor and overhead expenses included in the CIP Indirect Overhead (IDOH) pool used to assess indirect overhead as authorized under Administrative Instruction (AI) 2-1.

In practice, costs directly related to capital projects including allowable labor can be directly allocated to specific projects, and indirect costs, when appropriate, can be allocated on a reasonable and beneficial basis to capital projects. However, the City's current processes and systems are not adequate to ensure labor hours directly related to capital or non-capital projects (e.g., labor for operation and maintenance) are properly calculated, tracked, verified, recorded, and reported.

Labor recovery entries include direct labor cost for employees working on a project and an allocation of indirect cost for administrative labor and non-payroll operating costs. Sources of labor recovery expense transactions include payroll, manual, and CIP IDOH journal entries. For example, DMD's labor recovery entries consists of:

- Payroll - Direct labor,
- Manual - Non-payroll operating costs, and
- Manual - Inspection fees.

PRD labor recovery entries consists of:

- Payroll - Direct labor,
- Manual - Non-payroll operating, and
- Manual - Administrative labor.

CIP IDOH is charged to all CIP project activities and is the only approved method of recovery outlined in the City's approved allocation plan that was developed in accordance with AI 2-1.

Summary of Recommendations

OIA makes the following recommendations to DMD and PRD for improving the labor recovery process.

- 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.
- Review the 166 CIP positions, 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 respective Department should consider transferring such cost to the appropriate final cost objective.
- Establish processes to ensure:
 - 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.
 - Indirect operating costs and administrative labor are allocated to the final cost objective based on a reasonable and beneficial basis as well as reviewed and approved by management.
 - The engineering inspection fee (e.g., \$39 hourly rate) is properly established and is appropriate relative to the cost associated with providing the service.
- Review labor recovery recorded to projects funded by bond proceeds to ensure use is limited to capital expenses and not for non-capital items such as maintenance and operating expenses and consider risks, if any, to the bonds tax exempt status.

OBJECTIVE

The objective of the strategic review was to review the process for calculating and recording CIP labor cost recovery charges for DMD and PRD, and 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.

The scope of the strategic review included the period from July 1, 2018 through March 31, 2019. Information pertaining to the methodology used by OIA to complete the strategic review can be found in **Appendix A**. In addition, definitions of terms used throughout the report can be found in **Appendix B**.

BACKGROUND

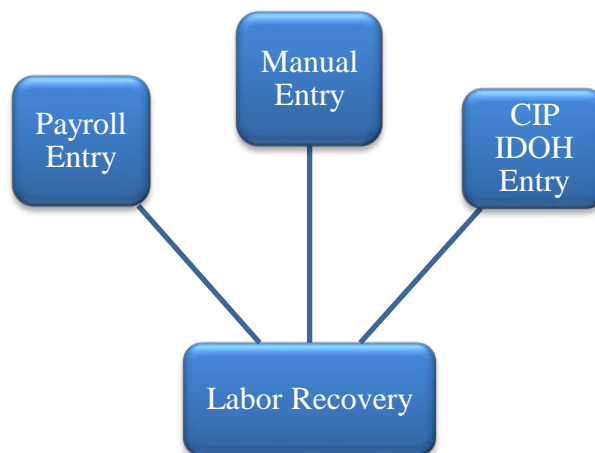
Calculating, Tracking, Verifying, Recording, and Reporting CIP Labor Recovery

The fiscal year (FY) 2019 approved budget authorizes funding for CIP labor recovery totaling \$14.4 million for 166 CIP positions. This is comprised of \$11.8 million identified as transfers for 141 CIP positions and \$2.6 million of administrative labor costs recovered through the CIP IDOH rate allocation for 25 DMD CIP positions.

Labor recovery includes direct labor cost for employees working on a project and an allocation of indirect cost for administrative labor and non-payroll operating costs. The \$14.4 million is recovered through three primary accounting entries as explained and shown below:

- Payroll Entries – direct labor for payroll of employees assigned to a project posts directly to the assigned project activity number,
- Manual Entries - entries that post labor recovery costs, which includes a combination of direct and indirect costs (i.e., direct labor, indirect non-payroll operating, and indirect administrative labor) to the project activity number, and
- CIP IDOH Entries – CIP IDOH allocation consisting of CIP indirect administrative labor costs that are allocated across all CIP projects based on an established rate.

Accounting Entry Sources of CIP Labor Recovery



Source: DMD and PRD

The table below summarizes the steps performed by DMD and PRD for determining labor recovery accounting entries. For example, manual entries are:

- Initiated via an information download from the City’s financial system,
- Calculated in a spreadsheet (methods of how direct labor is assigned, and administrative labor and operating costs are allocated varies by department and division),
- Verified by the CIP Fiscal Analysts for appropriation funding availability but no verification of appropriateness of underlying labor recovery support or methodology,
- Recorded to the project activity number and the general ledger, and
- Reported in the CIP Financial Status Report (FSR) after balances are reconciled to the general ledger by project activity number.

Summary of Calculating, Tracking, Verifying, Recording and Reporting CIP Labor Recovery Entries

Description	Payroll Entry	Manual Entry	IDOH Entry
Calculate	Assign Position to Project (1)	Download/Spreadsheet (2)	Formula/Rate Set by AI 2-1 (1)
Track	Download/Spreadsheet	Download/Spreadsheet	Download/Spreadsheet
Verify	Not Fully Verified	Not Fully Verified	Not Fully Verified
Record	Project Activity/General Ledger	Project Activity/General Ledger	Project Activity/General Ledger
Report	FSR	FSR	FSR

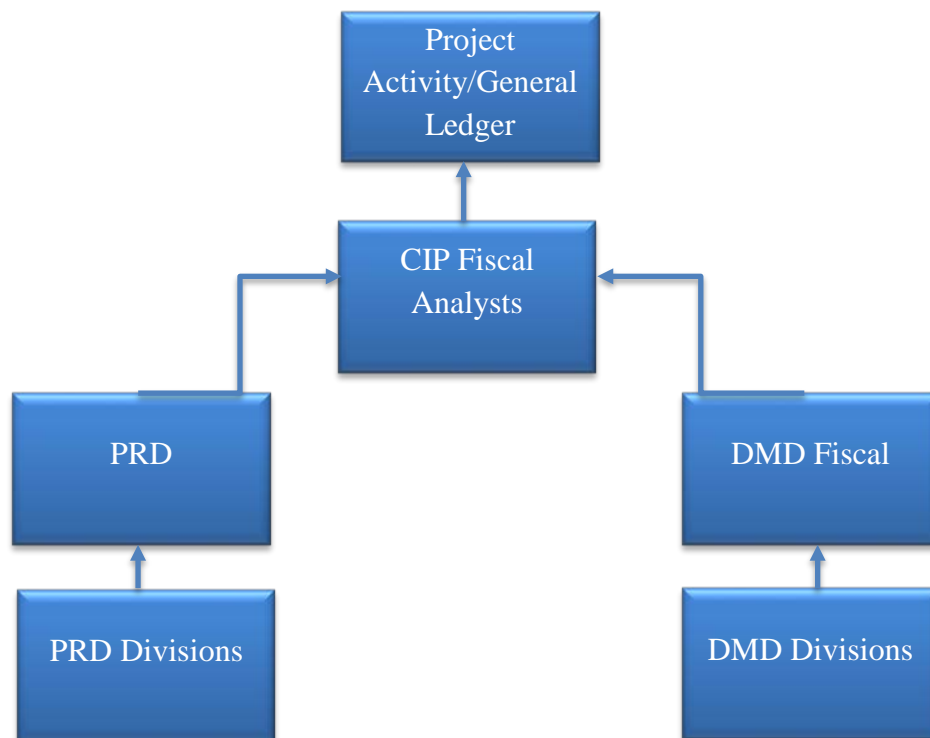
(1) – Actual Wages

(2) – Method varies by Division – May include actual wages, operating costs, and inspection fee.

Source: DMD and PRD

Labor recovery flows through various Divisions of both departments. For example, DMD and PRD receive payroll and financial information from their divisions to calculate and track labor recovery transactions, which the CIP Analysts review to ensure they are within the scope of the project and do not exceed the project activity appropriation. If they are within the appropriation, they are posted to the project activity/general ledger, and reported in the FSR. If there is no funding available for the entry, a similar project activity with available funding is identified and the cost is posted to the alternative project. The following graphic summarizes the flow of labor recovery transactions.

Summary of Labor Recovery Flow



Source: DMD and PRD

RESULTS

The results presented are based on information obtained through interviews with City personnel and related parties, as well as a review payroll and operating expense reports generated from the City's financial reporting system.

While labor recovery costs may be allocated to specific CIP projects, the current processes and systems are not adequate to ensure labor hours directly related to capital or non-capital projects (e.g., labor for operation and maintenance) are properly calculated, tracked, verified, recorded, and reported. The following sections describe the methodologies and processes performed by DMD and PRD to determine labor recovery as well as how the CIP Fiscal Division reconciles CIP projects and performs its oversight responsibilities. In addition, the sections describe inconsistencies and concerns identified by OIA during the review.

Overall Labor Recovery

As March 2019, DMD and PRD posted approximately \$6.1 million of the \$11.8 million appropriated for transfers for CIP positions for FY2019. The table below summarizes the \$6.1 million consisting of the following:

- DMD payroll is directly posted to CIP projects totaling approximate \$4.3 million,
- DMD manually posted approximately \$835 thousand in labor recovery via journal entries, and
- PRD manually posted approximately \$925 thousand in labor recovery via journal entries.

Labor Recovery Posted by DMD and PRD during FY2019 YTD March 2019

Description	Amount
Payroll Entries by DMD	\$4,333,174
Manual Entries by DMD	\$835,315
Manual Entries by PRD	\$925,239
Total	\$6,093,728

Source: PeopleSoft

DMD Division Payroll Posted to CIP Projects

Approximately \$1.7 million of \$4.3 million of DMS's in payroll entries is for the Street Maintenance, Construction Management, and Facilities Management Divisions are summarized in the table below.

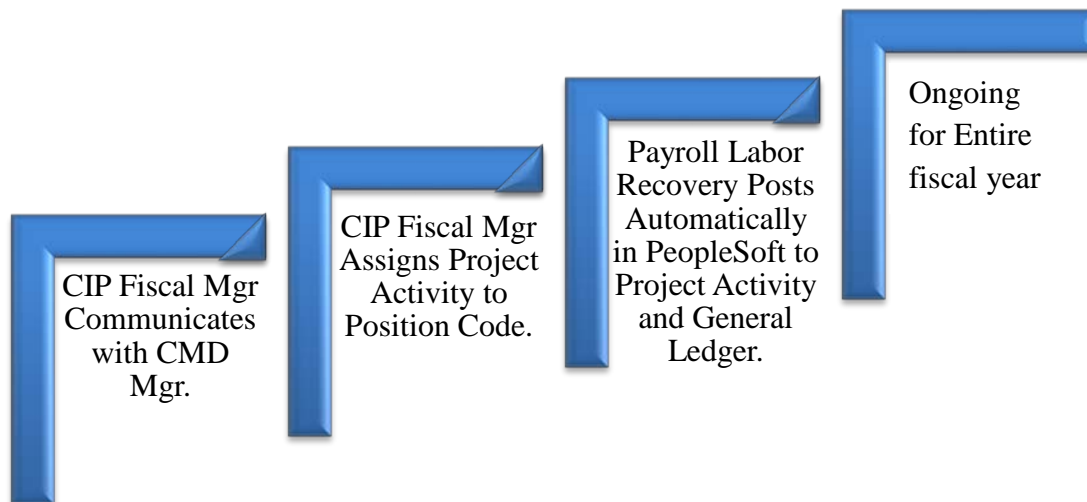
Primary DMD Division Payroll Posted Directly to CIP Projects FY2019 YTD March 2019

Division	Amount
Street Maintenance	\$834,465
Construction Management	\$577,615
Facilities Management - 3% Energy Conservation	\$315,999
Total	\$1,728,079

Source: PeopleSoft

According to the CIP Fiscal Manager, each CIP project activity number receives an allocation of funds reduced for payroll recoveries for DMD employees who are working on the project. At the beginning of each fiscal year, the CIP Fiscal Manager communicates with each Division Manager to identify the projects employees are assigned to. Based on the discussion, the CIP Fiscal Manager assigns the CIP project activity numbers to the employees' position numbers. Once this is established, the payroll recovery transactions post directly in the City's financial system to the project activity number throughout the fiscal year. It is assumed that the employee works solely on the project assigned and will remain assigned to for the entire fiscal year. The DMD payroll recovery process is summarized in the graphic below.

Summary of DMD Payroll Labor Recovery



Source: CIP Fiscal Manager

According to the CIP Fiscal Manager, other DMD Divisions follow this same process. However, OIA interviewed the division managers and two managers stated that were unaware of their divisions' payroll entries posting to CIP projects, and one vaguely recalled a telephone discussion with CIP Fiscal Manager, but no supporting documentation was retained.

The three divisions, nor the CIP Fiscal division could provide evidence of documentation to support the Divisional approval to assign staff to a project activity or for posting of DMD division payroll entries to CIP projects. Additionally, employees assigned to projects are not required to submit timesheets or track time at the project activity level. Without supporting documentation for direct labor hours worked by project activity number, (e.g., timesheets or time system that supports where the employee is working) it is not clear if employees are directly working on the project from which they are being paid. Funding intended for the project might instead be used to supplement general fund payroll resulting in the completion of fewer projects.

DMD - Street Maintenance

OIA identified approximately \$834 thousand in DMD Street Maintenance payroll directly charged to Street Maintenance CIP projects. The Division Manager is under the impression that his employees are paid from the general fund, and that only overtime is charged to CIP projects. The Division Manager also said that if his employees are paid out of a fund other

than the general fund that it must happen after the fact, and he is not aware of it. The table below summarizes the DMD Street Maintenance Division payroll identified by position.

**Payroll Recovered through Street Maintenance
Projects FY2019 Year-To-Date March 2019**

Position	Amount
O&M Superintendent	\$77,767
Ops/Maint Supervisor	\$71,401
Systems Programmer	\$66,196
Street Maint Worker	\$61,414
Urban Proj Supervisor	\$56,282
Urban Proj Supervisor	\$56,038
Street Maint Worker	\$52,334
Admin Supervisor	\$52,002
Street Maint Worker	\$50,597
Street Maint Worker	\$49,691
Street Maint Worker	\$45,039
Construction Inspector	\$44,630
Street Maint Worker	\$43,295
Construction Inspector	\$42,679
Street Maint Worker	\$36,734
Street Maint Worker	\$28,366
Total	\$834,465

Source: PeopleSoft

According to the DMD-Street Maintenance division manager, it is his understanding that only labor related to overtime is charged to CIP projects. Otherwise, employee labor is paid from the general fund. However, as noted above, all employee time is being charged to CIP projects, instead of only overtime. Labor hours are not tracked on timesheets or recorded on a timekeeping system at a project activity level.

Furthermore, the table identifies that the full payroll amounts for a Superintendent, Supervisors, Systems Programmer, Administrative Supervisor, and Inspectors are directly charged to CIP projects. These positions may be considered administrative since they involve supervision and support that may be beneficial to the project as well as other operating activities, and should be considered for allocation between DMD-Street Maintenance operations and CIP projects on a reasonable and beneficial basis.

DMD – Construction Management

OIA identified approximately \$577 thousand in DMD Construction Management payroll directly charged to Construction CIP projects. The Division Manager recalls a telephone discussion with the CIP Fiscal Manager regarding some of his employees, their assigned duties, and project activity numbers. The table below summarizes the DMD Construction Management Division payroll identified by position.

Payroll Recovered through Construction Projects FY2019 YTD March 2019

Position	Amount
Principle Engineer	\$96,515
Traffic Control Coordinator	\$76,513
Engineering Assistant	\$67,108
Construction Inspector	\$63,096
Urban Traffic Control Spec	\$62,877
GIS Specialist	\$51,134
Administrative Assistant	\$45,271
Accounting Assistant	\$41,376
Construction Inspector	\$34,800
Engineering Project Mgr	\$31,868
Construction Inspector	\$7,057
Total	\$577,615

Source: PeopleSoft

The table identifies Engineering, Administrative, and Accounting Assistants as well as a GIS Specialist. These positions may be considered administrative since they involve support that may be beneficial to the project as well as other operating activities, and should instead be considered for allocation between Construction Management operations and CIP Construction projects on a reasonable and beneficial basis.

DMD - Facilities Management - 3-Percent Energy

OIA identified approximately \$316 thousand in DMD Facilities Management Division payroll directly charged to 3-Percent Energy Conservation projects. The Division Manager did not know why the payroll was charged to the projects and could not provide supporting documentation to support the direct labor charges (e.g., timesheets or time system that supports where the employee is working). The table below summarizes the payroll by position.

Payroll Recovered through 3% Energy Projects FY2019 Year-To-Date March 2019

Position	Amount
Energy & Sustainability Prg. Mgr.	\$99,463
Sr. Administrative Asst.	\$57,824
Energy Specialist	\$56,038
Plumber	\$35,297
Management Analyst I	\$33,351
General Maintenance Worker	\$30,798
Building Maintenance Worker	\$2,113
Accountant I	\$1,115
Total	\$315,999

Source: PeopleSoft

Neither the CIP Fiscal Analysts nor the CIP Fiscal Manager review the specific details of the payroll recovery transactions posted to the CIP projects. Instead, the CIP Analysts review the project activity appropriation to the actual expenses to ensure they do not over spend. If a project, activity is identified to spend more than the appropriated amount, a similar project activity number with available funding is identified and the overage is transferred. According to the CIP Fiscal Manager, old funding is spent first (i.e., 2015 General Obligation (G.O.) bonds are exhausted before 2017 G.O. bonds are applied).

Manually Posted DMD Labor Recovery

The \$835 thousand of manually posted DMD labor recovery entries are summarized in the table below. There is no evidence of supervisory review and approval of the hours used to calculate the combined direct labor and inspection fee. Additionally, the hours are not reconciled to the KRONOS timekeeping system.

Manually Posted DMD Labor Recovery FY2019 YTD March 2019

Description	Amount
Combined Direct Labor and Indirect Operating Cost Recovery	\$476,545
Indirect Operating Costs	\$279,755
Inspection Fee	\$79,015
Total	\$835,315

Source: PeopleSoft

Combined Direct Labor and Indirect Operating Cost Recovery

The Construction Management Division (CMD) employees are not assigned to one CIP project and work on several CIP projects. Employees such as project managers and coordinators enter their time and associated project activity number into the project-billing module developed by CMD. Furthermore, these individuals may be considered administrative labor since they supervise and oversee projects, and not all of their time is spent on CIP projects. Each month the CIP Fiscal Manager queries the hours by employee by project activity number, and performs the following to determine the indirect operating/direct labor cost recovery amount by employee per project activity:

- Calculates the associated indirect non-payroll operating costs by employee consisting of a ratio of monthly employee labor costs to total division direct labor costs multiplied by monthly indirect non-payroll operating costs. Non-payroll operating costs include supplies, telephone, vehicle, and insurance.
- Calculates the ratio of hours worked on projects by employee,
- Multiplies the ratio for each employee by the employees direct labor expense added to the associated indirect non-payroll operating cost, and
- Allocates the indirect operating/direct labor cost recovery amount to the corresponding project activity number through a manual accounting entry.

For example, if during the month of July CMD has indirect non-payroll operating costs of \$5,000, total direct labor costs of \$30,000 and employee A had \$3,000 in direct labor cost, employee A's associated indirect non-payroll operating costs would be as follows:

- Labor Ratio = \$3,000 divided by \$30,000 = 10%

- Associated Operating Costs = 10% multiplied by \$5,000 = \$500

Furthermore if employee A enters 80 hours in total for the following projects into the Project Billing module: Project 1 = 40 hours, Project 2 = 30 hours, and Project 3 = 10 hours; the operating/labor cost recovery would be determined as summarized in the table below:

Summary of Example of Operating/Labor Cost Recovery Calculation

Project	Labor Cost	Operating Cost	Labor/Operating	Hours	Total	Ratio	Allocation
Project 1	\$3,000	\$500	\$3,500	40	80	50.00%	\$1,750
Project 2				30		37.50%	\$1,313
Project 3				10		12.50%	\$437
Total							\$3,500

Source: DMD

Indirect Operating Costs (only)

Each month the CIP Fiscal Manager calculates the associated indirect non-payroll operating costs by employee consisting of a ratio of monthly employee labor costs to total division direct labor costs multiplied by monthly indirect non-payroll operating costs. Non-payroll operating costs include supplies, telephone, vehicle, and insurance.

For example, if during the month of July the CMD has indirect non-payroll operating costs of \$5,000, and total direct labor costs of \$30,000 while employee A had \$3,000 in direct labor cost, employee A's associated indirect non-payroll operating costs would be \$500 $((\$3,000/\$30,000)*\$5,000)$.

Inspection Fee

The CIP Fiscal Manager also determines the inspection fee to charge to each CIP project activity by employee. The inspection fee calculation multiplies the hours entered by the employee into a CIP project activity number multiplied by an inspection fee rate of \$39 per hour. For example, if an employee spent 30 hours inspecting a project, \$1,170 is allocated as cost recovery to the project activity. OIA inquired about the \$39 rate with several City employees, but no one could provide information on the initial establishment of the rate or support to determine if the inspection fee rate was set at a level approximately equal to the City's cost of providing the service including the overhead cost or to ensure compliance with fee establishment requirements in the City's Code of Resolutions Section 3-2-10 - Establishment and Revision of City Fees.

CMD employees enter their own time in the Project Billing Module that is used to calculate the recovery allocation of labor and/or operating costs, and the inspection fees. However, there is no evidence of supervisory review for accuracy or a reconciliation between the KRONOS timekeeping system and the Project Billing Module. If time is not reviewed and/or reconciled, then more or less hours could be entered to the Project Billing Module than worked. For example, an employee might work an 8-hour day, but enter 10 hours to the Project Billing Module, which would overcharge the project equivalent to 2 hours of labor.

Manually Posted PRD Labor Recovery

Of the \$6.1 million in labor recovery posted during FY 2019 (YTD March 2019), \$925 thousand consisted of payroll and operating costs for PRD as summarized in the table below.

Manually Posted PRD Labor Recovery

Description	Amount
PRD Labor	\$483,470
PRD Administrative Payroll	\$340,487
PRD Operating	\$101,282
Total	\$925,239

Source: PeopleSoft

PRD Labor

Labor of the three PRD Construction Services Division (CSD) crews consisting of: 1) Construction, 2) Irrigation, and 3) Landscaping is recovered. The process involves the following:

- PRD-CSD Accounting Assistant creates and maintains timesheet templates, for each crew, in MS Excel,
- Employees direct labor hours worked on each project are tracked on the timesheets,
- Supervisors complete the timesheets for themselves and employees daily,
- PRD-CSD Accounting Assistant sends the completed timesheets to the PRD Fiscal Accountant weekly,
- PRD Fiscal Accountant reconciles the direct labor time entries to the labor distribution report,
- PRD Fiscal Accountant allocates the supervisor and crew member direct labor wages to various CIP project activity numbers based on the number of direct labor hours worked on the project using an MS Excel spreadsheet, and
- PRD Fiscal Accountant creates a manual accounting entry to re-classes labor from the general fund to CIP Project Activities worked on by the CSD employees.

Since supervisors complete the timesheets for the employees, there is no review or approval process. In addition, the posting of labor recovery entries has been delayed by a few months and the last entry posted was for the pay period ending December 21, 2018. The delay is due to a misunderstanding between PRD Fiscal and PRD-CSD regarding how often timesheets should be submitted. According to PRD-CSD management, the misunderstanding has been resolved.

PRD Operating Costs

Operating costs consist of indirect non-payroll expenses, such as telephone, vehicle, and insurance. According to the PRD Senior Landscape Architect, at the beginning of the fiscal year, he provides the PRD Fiscal Accountant a spreadsheet of proposed PRD indirect operating costs by project activity number and amount.

OIA interviewed DMD CIP Fiscal Analysts and determined that the PRD Fiscal Accountant e-mailed the Analyst a request to allocate funds for a list of project activity numbers and amounts for FY2019 cost recovery. The list was very similar to the list of proposed indirect operating costs provided by the PRD Senior Landscape Architect as mentioned in the background section above. Based on the review of the request, the PRD indirect operating costs are predetermined and not allocated based on a reasonable and beneficial basis, such as labor hours.

PRD Administrative Labor

Indirect administrative labor costs consist of CSD management and administrative wages as well as Design and Planning Division wages. According to the Senior Landscape Architect, indirect administrative costs are allocated to one project at a time based on available funds. The PRD Senior Landscape Architect stated that he was told approximately 10 years ago by a previous DMD director to follow this allocation process.

If indirect operating and administrative recovery costs are not allocated based on a reasonable and beneficial basis, such as labor hours worked, the overall project costs will not be accurate.

A comparison of PRD direct labor, indirect administrative payroll, and indirect operating costs identified projects in which administrative payroll and operating recovery allocations do not correlate with labor recovery allocations and are not correctly represented. For example, the comparison table below identifies 22 PRD CIP projects, in which:

- Ten are allocated indirect administrative payroll/operating, but not direct labor recovery Costs,
- Ten are allocated only direct labor recovery,
- One is allocated 54-percent of total labor recovery, and
- One is allocated 42-percent of total Administrative Payroll.

OIA understands that some contracts may not include internal City labor, but instead only contract labor. PRD needs to consider a method of tracking and allocating time for project supervision to ensure it is accurately allocated to the final cost objective on a reasonable and beneficial basis.

Comparison of PRD Labor Recovery by Project Activity

Project Activity	Admin Payroll	% of Admin Payroll	Operating	% of Operating	Labor	% of Labor	Total
7514080 - Neighborhood Park Development	\$30,524	8.96%	\$914	0.90%	\$0	0.00%	\$31,438
7514320 - SW Willow Flycatcher Habitat	\$6,189	1.82%	\$6,189	6.11%	\$0	0.00%	\$12,378
7514340 - River, Bosque Restore & Trail	\$75,458	22.16%	\$15,027	14.84%	\$0	0.00%	\$90,485
7529160 - West Side Parks	\$1,704	0.50%	\$0	0.00%	\$0	0.00%	\$1,704
7529190 - District 4 Parks & Rec Projects	\$0	0.00%	\$0	0.00%	\$11,645	2.41%	\$11,645
7529200 - District 5 Parks & Rec Projects	\$0	0.00%	\$0	0.00%	\$25,000	5.17%	\$25,000
7529290 - Los Poblanos Field Water Right	\$0	0.00%	\$25,532	25.21%	\$0	0.00%	\$25,532
7532010 - Median and Trail Renovation	\$2,575	0.76%	\$1,472	1.45%	\$0	0.00%	\$4,047

Project Activity	Admin Payroll	% of Admin Payroll	Operating	% of Operating	Labor	% of Labor	Total
7542030 - Swimming Pool Renovation	\$0	0.00%	\$0	0.00%	\$3,063	0.63%	\$3,063
7542050 - Balloon Fiesta Park Improvements	\$16,427	4.82%	\$487	0.48%	\$0	0.00%	\$16,914
7542060 - New Park Develop & Land Acq.	\$3,245	0.95%	\$5,798	5.73%	\$0	0.00%	\$9,043
7542130 - District 1 PRD & Rec Projects	\$0	0.00%	\$0	0.00%	\$23,378	4.84%	\$23,378
7552130 - District 9 PRD	\$20,000	5.87%	\$0	0.00%	\$0	0.00%	\$20,000
7552170 - Westside Memorial	\$0	0.00%	\$0	0.00%	\$38,289	7.92%	\$38,289
7557010 - Park Irrigation System Reno	\$42,799	12.57%	\$11,618	11.47%	\$259,900	53.76%	\$314,317
7557020 - Open Space Bosque Restoration	\$0	0.00%	\$20,000	19.75%	\$0	0.00%	\$20,000
7557060 - Recreation Facility Renovation	\$0	0.00%	\$0	0.00%	\$23,125	4.78%	\$23,125
7557080 - Balloon Fiesta Park Improvements	\$0	0.00%	\$0	0.00%	\$52,742	10.91%	\$52,742
7557090 - New Pk Development & Land Acq	\$0	0.00%	\$0	0.00%	\$5,043	1.04%	\$5,043
7557100 - Pool Renovation	\$0	0.00%	\$0	0.00%	\$9,991	2.07%	\$9,991
7557110 - Park Amenity and Forestry Rehab	\$0	0.00%	\$0	0.00%	\$30,608	6.33%	\$30,608
7600300 - Trails & Bikeways 341	\$141,566	41.58%	\$14,245	14.06%	\$686	0.14%	\$156,497
Total	\$340,487	100.00%	\$101,282	100.00%	\$483,470	100.00%	\$925,239

Source: PeopleSoft

The data above suggests operating and administrative recovery costs are not allocated based on a reasonable and beneficial basis, such as labor hours.

CIP Oversight

Section 4.2 of the DMD Project Manager Handbook (Handbook) states, the CIP Fiscal Division oversees the budgets and expenditures of each capital project. The Handbook does not include policies or guidelines specific to labor recovery.

Based on discussions with CIP Fiscal Division personnel, oversight responsibilities regarding labor recovery costs for CIP projects involves reviewing the funds allocated to and the scope of each specific project activity. Furthermore, the CIP Fiscal Analysts make sure that the labor recovery transactions fit the corresponding project activities scope. For example, if a department, such as PRD submits the labor recovery transaction for its project, the CIP Fiscal Analyst will not look at the details of the transaction. Instead, the CIP Analyst assumes the department confirmed the labor was completed on the respective project. CIP then reviews to ensure appropriations are available for use.

The CIP Fiscal Analysts reconcile CIP projects by project activity number monthly. The reconciliation process includes:

- Identifying and reviewing total expenses paid year-to-date posted in the PeopleSoft system;
- Identifying, reviewing, researching, and verifying transactions to be paid (encumbrances);
- Reviewing journal entries, such as labor recovery for mislabeling, misnaming, and correct project activity to verify payment from the correct funding source;

- Subtracting the expenses and encumbrances from the project activity appropriation to determine the remaining balance; and
- Reducing the remaining balance by indirect overhead to identify the remaining project balance.

The following table summarizes an example of a reconciliation of one project activity, 7557010 Park Irrigation System Renovation.

Example of a Reconciliation of Project Activity 7557010 as of March 31, 2019

Description	Amount
Project Activity Appropriation	\$1,802,000
Less: Project Activity Expenses posted to PeopleSoft YTD	(\$1,135,947)
Less: Project Encumbrances - Identified, Researched, and Verified	(\$603,226)
Remaining Balance	\$62,827
Less Indirect Overhead	(\$12,357)
Remaining Project Balance	\$50,470

CIP IDOH

OIA included CIP IDOH in this analysis because the allocation of CIP IDOH labor is applied to CIP projects within the DMD and PRD Divisions, which are included in the scope of this strategic review.

The process for calculating and allocating IDOH is included in the City's allocation plan. OIA obtained a copy of the FY2019 IDOH calculation, which included CIP administrative labor of \$2.6 million, and overhead costs of \$1.4 million.

The CIP IDOH appropriation includes approximately \$2.6 million of labor recovery for 25 DMD employees' salaries that will be allocated to CIP projects based on an approved IDOH rate throughout the year. OIA reviewed the list of 25 employees with CIP Fiscal Manager and determined that there is also no system or timesheet to track where these individuals have worked throughout the year. For example, one of the 25 employees was identified as spending 50-percent of their time on operations and 50-percent on CIP projects, but 100-percent of the employee's salary is allocated to CIP projects through CIP IDOH entries. Furthermore, while some of the 25 employees do spend 100-percent of their time on CIP projects, including grant-funded projects, IDOH is not allocated to certain grant funded projects.

Recommendations

OIA makes the following recommendations:

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.

- 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.
- Establish processes to ensure:
 - 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.
 - Indirect operating costs and administrative labor are allocated to the final cost objective based on a reasonable and beneficial basis.
 - The engineering inspection fee (e.g., \$39 hourly rate) is properly established and is appropriate relative to the cost associated with providing the service.
- Review payroll entries periodically to ensure:
 - 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.
 - Time entered to the Project Billing Module is reviewed and approved by the supervisor.
 - Time entered to the Project Billing Module is reconciled to time entered to the KRONOS time system.
- Review all labor recovery recorded to bond projects and access bond risk. Specifically - In February 26, 2016. The State of New Mexico Office of the State Auditor issued a report titled *City of Santa Fe 2008 Parks Bond Special Audit* that identified risk related to using general obligation bond proceeds on non-capital labor and expenses. In general, the report notes that projects funded with bond proceeds should be limited to use on capital project expenses and not for working capital, maintenance or other operating expense items. Using funds for non-capital expense poses a risk to a bond's tax exempt status. The report contains important points that the City should consider, including:

State law prohibits and federal law discourages the expenditures of bond proceeds on noncapital items. Practically speaking, capital items are those expenditures in excess of \$5,000 and having a useful life in excess of one year or items that would qualify for capitalization under federal income tax regulations.

An Attorney General opinion 10-004 (2010) provided authority for schools issuing bonds for capital projects to change expenditures from specific items originally presented to voters to new items as long as the new items are consistent with the intent and purposes of the bond issuance. This opinion provides an authority to the City of Santa Fe to change the specifics of the park plans as long as all changes are consistent with the intent and purposes of the bond issue.

Attorney General opinion 51-5426 (1951) provides authority for the utilization of internal labor on governmental projects as long as the government is constructing the project itself. The expenditures of bond funds for internal labor are permissible as long as the labor is directly connected to the construction of capital projects.

PRD should:

- Work with DMD and the City's Economist 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.
- 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.
- Ensure that CIP Park Construction Renovation Crewmembers complete their own timesheets and implement a review and approval process performed by the Crew supervisors.
- Ensure that operating and administrative costs are allocated based on a reasonable and beneficial basis.
- Ensure the timely posting of labor recovery entries.

CONCLUSION

Opportunities exist for improving the existing processes for calculating, tracking, reporting, verifying and recording of labor cost recovery charges for CIP projects. Implementation of the recommendations will help DMD and PRD ensure that overall CIP labor recovery project costs are accurately allocated.

We greatly appreciate the cooperation and participation of the DMD and PRD personnel involved during this review. Their active participation and openness to recommendations demonstrates their dedication and commitment to the citizens of Albuquerque.

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Appendix A

METHODOLOGY

To complete this strategic review, OIA performed the following:

- Interviewed key personnel from DMD and PRD;
- Determined and documented DMD's and Park's processes for calculating, tracking, and reporting labor recovery costs;
- Reviewed and reconciled the annual labor recovery
- Determined and documented how the CIP Fiscal Division verifies and posts labor recovery costs;
- Determined and documented how the CIP Fiscal Division understands and implements their oversight responsibilities of labor recovery costs for CIP projects;
- Reviewed the DMD Project Managers handbook and considered if the DMD Fiscal Managers responsibilities are consistent with the documented process;
- Considered if the Project Managers handbook includes policies specific to labor recovery;
- Determined and documented the CIP Fiscal Division's process for reconciling labor recovery costs;
- Researched ordinances, regulations, guidelines and best practices relative to calculating, tracking, and reporting labor recovery; and
- Prepared a final report summarizing results.

Appendix B – Definition of Terms

Source: 2 CFR Part 200, Uniform Grant Guidance

Cost objective means a function, organizational subdivision, contract, Federal award, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Facilities and Administration Classification. “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. “Administration” is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable).

Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

Indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives.

Indirect cost proposal means the documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs. This proposal provides the basis for the review and negotiation leading to the establishment of an organization's indirect cost rate.

Operation and maintenance expenses. The expenses under this heading are those that have been incurred for the administration, operation, maintenance, preservation, and protection of the organization's physical plant. They include expenses normally incurred for such items as: janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; environmental safety; hazardous waste disposal; property, liability and other insurance relating to property; space and capital leasing; facility planning and management; and central receiving. The operation and maintenance expenses category must also include its allocable share of fringe benefit costs, depreciation, and interest costs.