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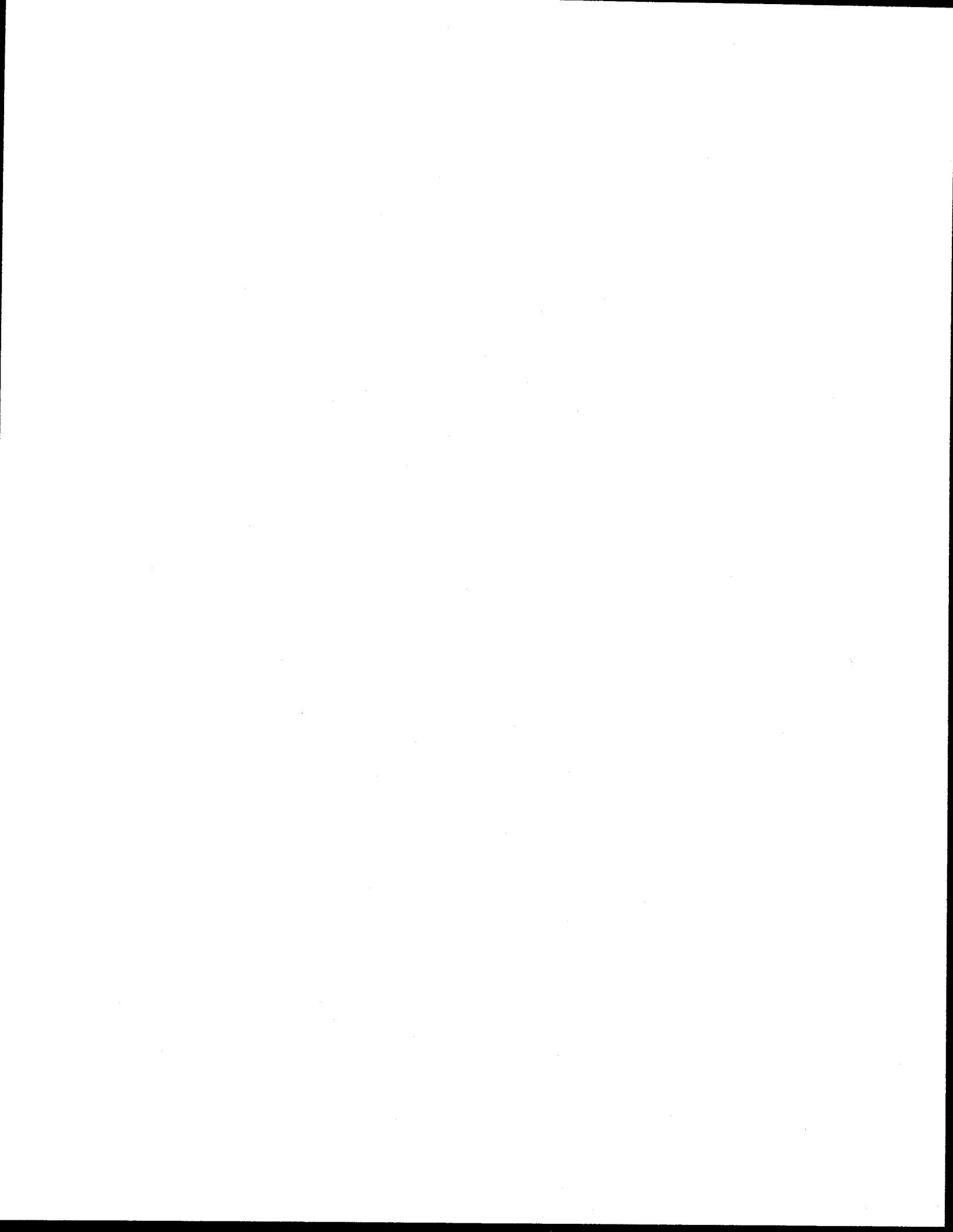
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS



Internal Audit

Capital Improvement Projects (CIP) and Grant Administration

August 2010





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Bernalillo County Internal Audit

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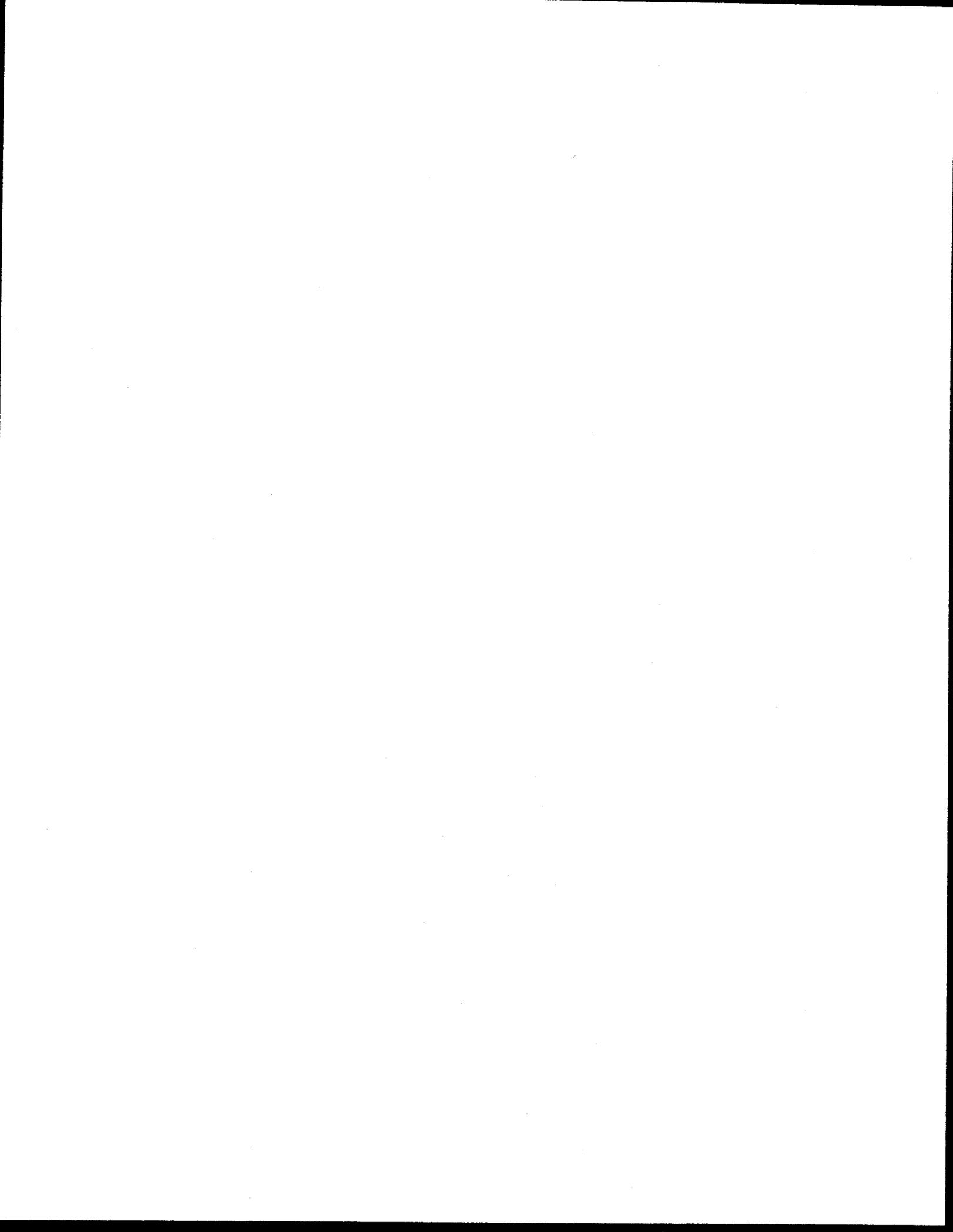
Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County Capital Improvement Projects (CIP). CIP represents Bernalillo County's plan for financing and implementing long-term public projects. CIP projects include the planning, purchase, design, rehabilitation, renovation, construction, and development of facilities and infrastructure that will yield benefits to County citizens for several years. Our internal audit focused on evaluating whether CIP projects are being adequately monitored and whether CIP projects are in compliance with the specific requirements of Legislative Grants, General Obligation (GO) Bonds and Gross Receipts Tax Bonds.

In order to determine compliance with Grant and Bond requirements and if reasonable controls are in place over projects administered by the Bernalillo County CIP department, we performed the following:

- Read Administrative Instructions No. 56 and 24 pertaining to CIP and Fixed Assets;
- Read State Statutes NMSA 16-19-9 and NMSA 7-20E-18 regarding GO Bond and Gross Receipt Tax Allocations.
- Read the 2009-2010 GO Bond Projects listing that was voted on by County constituents and approved by County Commissioners in 2008;
- Interviewed relevant department personnel;
- Selected a sample of current CIP projects and;
 - Read contractor minutes to determine that the projects were being monitored and deliverables were provided as scheduled;
 - Tested fiscal year (FY) 2010 expenditures for projects in our sample to determine compliance with allowable cost and reporting provisions set forth in grant agreements and/or bond requirements; and
 - Tested the projects for proper approval and authorization by grant agreements and/or County legislation.



- For those projects funded by State grants we tested that the County is current on the invoicing and reimbursement from the State.
- Tested those completed projects in our sample to determine that they were closed, settled, and properly capitalized based on the County Administrative Instructions.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We noted the following:

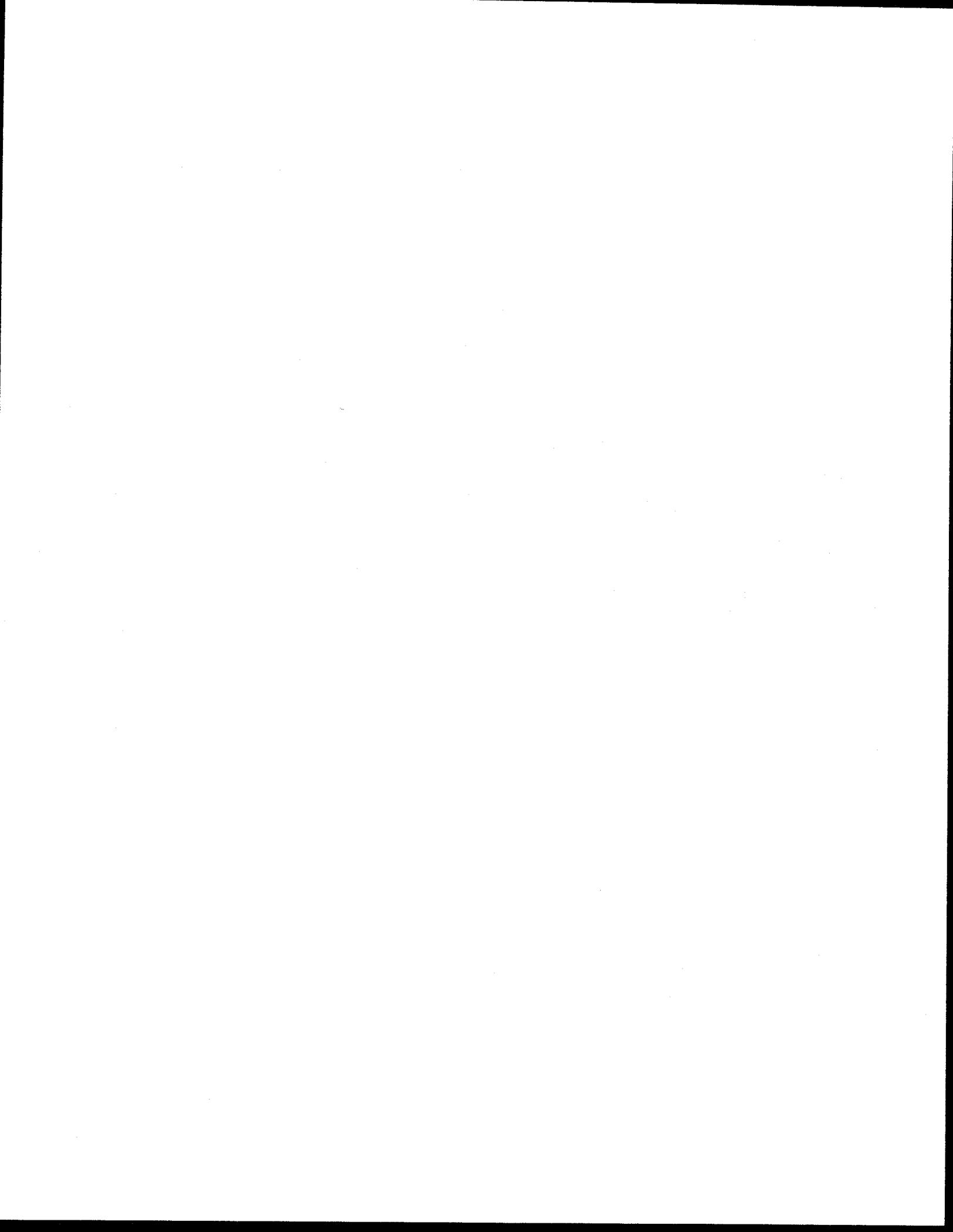
- **Capitalization of Completed Projects**—Capital Improvement Projects are not always being transferred out of assets under construction upon completion. Five out of twelve completed projects had assets that were not transferred to capital assets upon completion. We recommend that the County refine the closing procedures for capital improvement projects including better segregation of project phases so that assets placed in service are transferred out of construction in progress.
- **Monthly Reporting**—The CIP Department is not currently completing and submitting the monthly periodic reports that are required by the State Legislative Grants. All nine Grants tested for FY 2010 did not have these reports completed. We recommend that the CIP Department incorporate an additional reporting process for producing and submitting these required monthly reports in a timely manner.
- **Departmental Policies and Procedures**—The CIP Department does not have documented departmental policies and procedures. We recommend that the County create and implement procedures and workflows for the CIP department. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

October 13, 2010

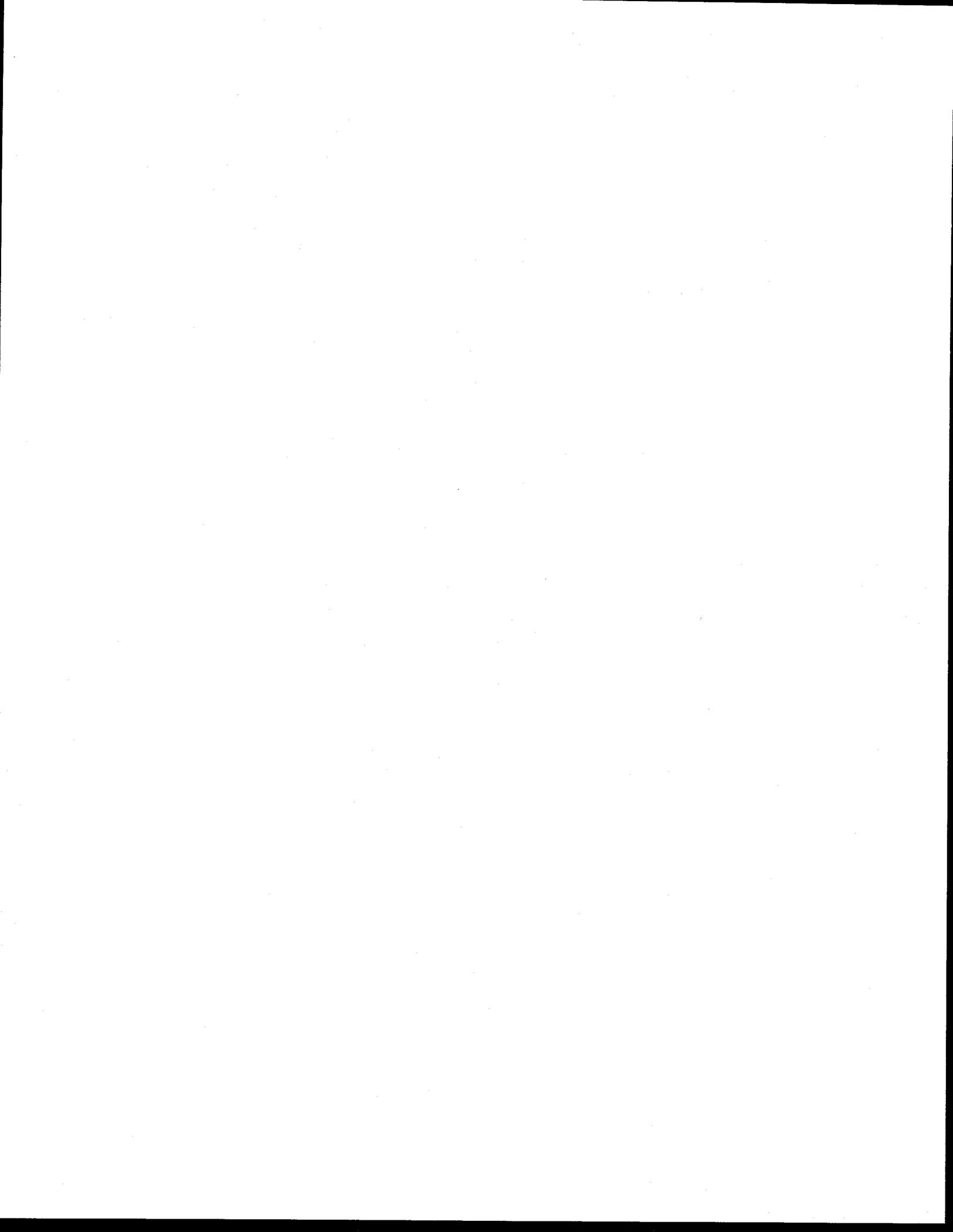


Bernalillo County Internal Audit

Capital Improvement Projects (CIP)

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Bernalillo County Internal Audit

Capital Improvement Projects (CIP)

Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the processes and procedures over the Capital Improvement Projects department which administers the County's Capital Improvement Projects (CIP) plan. The CIP plan is the County's strategy for financing and implementing the construction of public facilities and infrastructure that will benefit County citizens. The Capital Improvement Projects department is responsible for overseeing these capital improvement projects and ensuring that the County's objectives with regards to the construction of these projects are met. Our services were conducted in accordance with the *Consulting Standards* issued by the American Institute of Certified Public Accountants, generally accepted government auditing standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

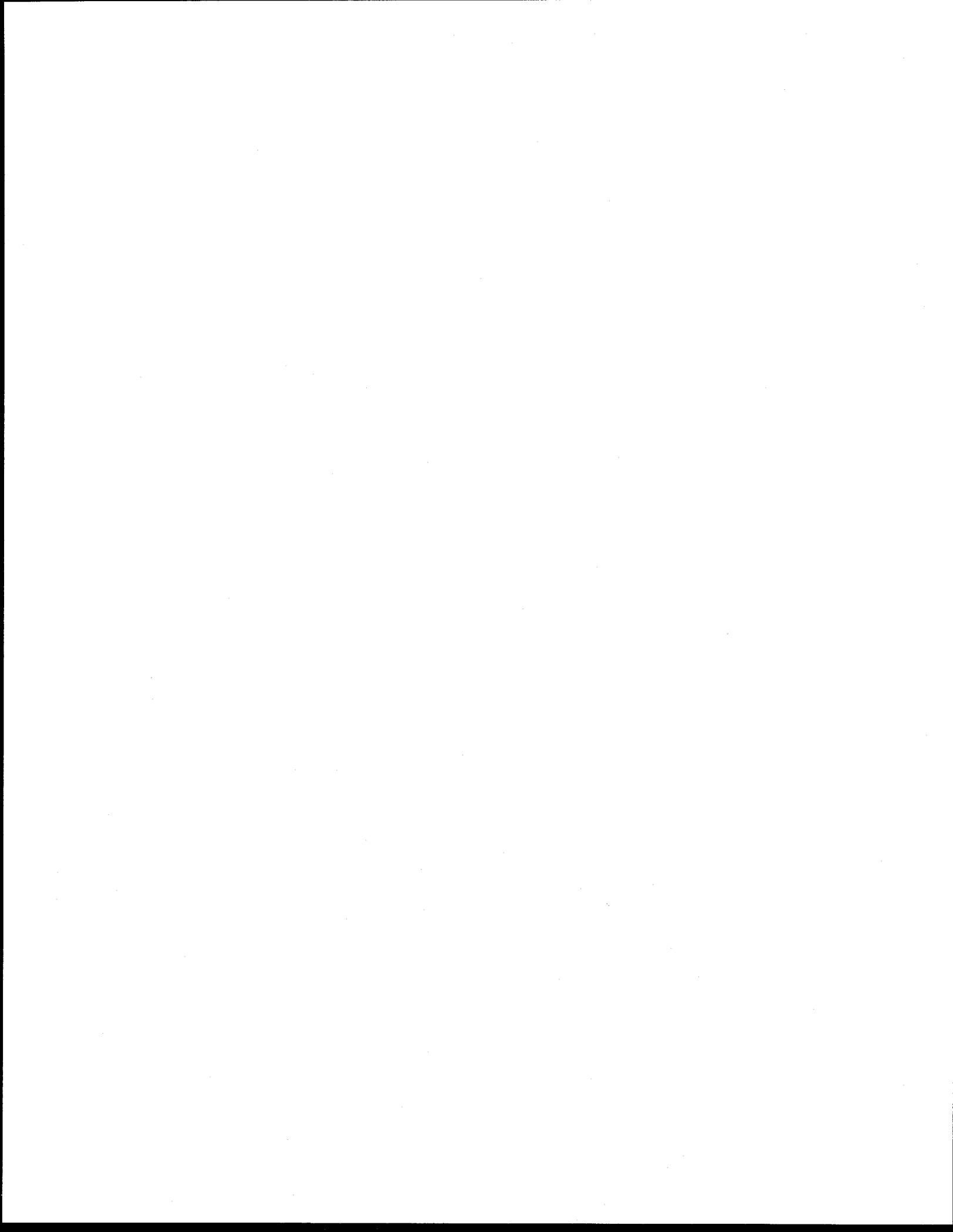
PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating whether CIP projects are being adequately monitored and whether CIP projects are in compliance with certain requirements of Legislative Grants, General Obligation (GO) Bonds and Gross Receipts Tax Bonds.

SCOPE AND PROCEDURES PERFORMED

Interviews: In order to gain an understanding of the processes and controls over operations, we interviewed the following personnel:

- Frank Marquez, CIP Director
- Julie Velasco, CIP Financial Coordinator
- Mary Salazar, CIP Legislative Funding Coordinator
- Bonnie Ulibarri-Romero, Financial Projects Coordinator



- Anthony Infantino, Financial Administrator

In order to understand CIP policies and procedures:

- We read County Administrative Instructions No. 56 and 24 regarding the CIP Projects and Fixed Assets.

In order to understand the Grant and Bond requirements:

- We read the approved 2009-2010 Bernalillo County GO Bond Projects, and
- We read New Mexico State Legislative Grants that pertained to projects in our sample.
- Read State Statutes NMSA 16-19-9 and NMSA7-20E-18 regarding GO Bond and Gross Receipt Tax Allocations.

We performed the following testwork:

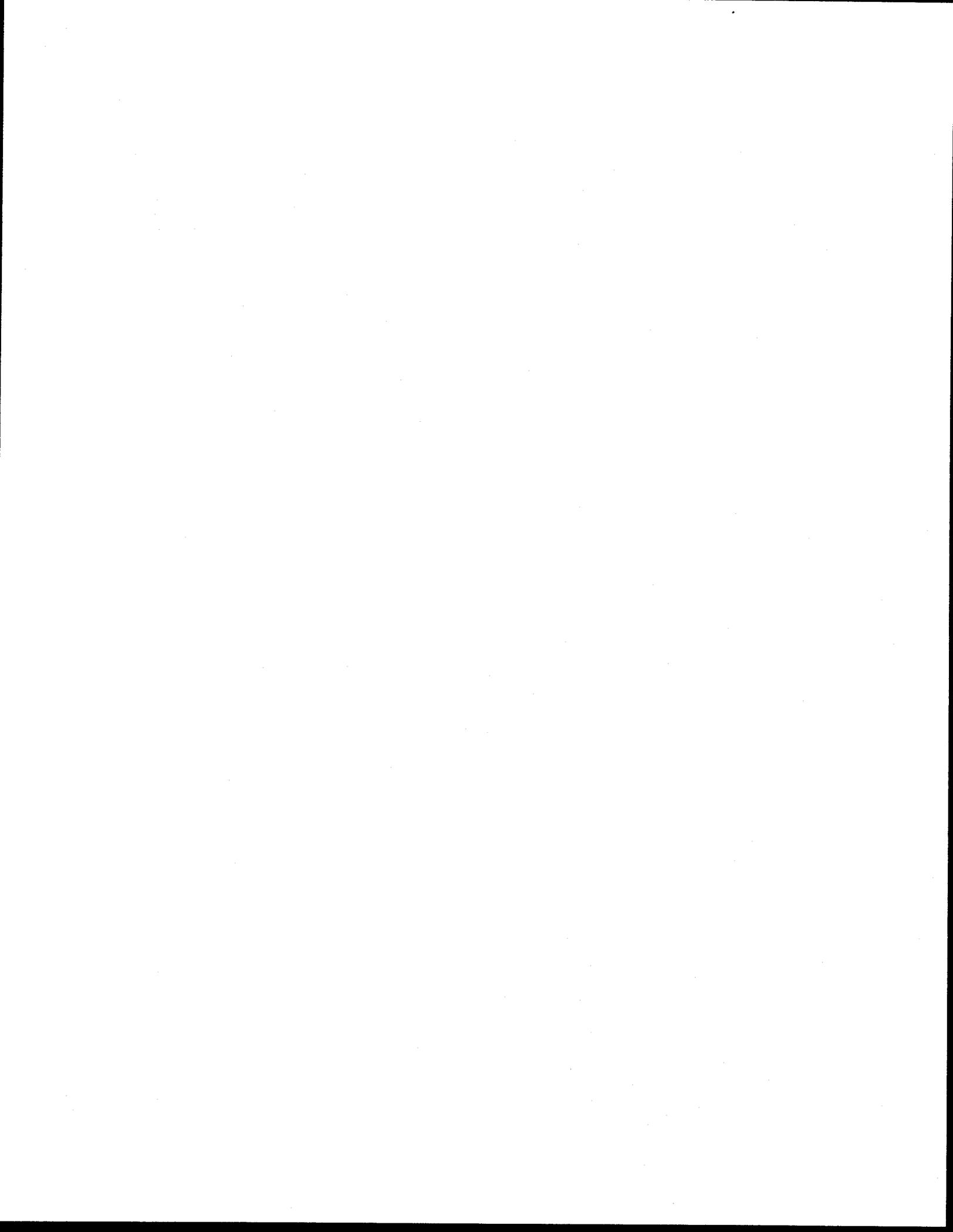
- Selected a sample 11 projects that comprised 54% of the total current CIP projects and for each project;
 - Tested that the project funding was properly approved;
 - Determined whether monthly reports required by the State Legislative Grants were being submitted for FY 2010;
 - Tested that the invoices to the State and the associated reimbursement requests are up to date;
 - Determined whether receivables from the State have been collected and properly applied to the project;
 - Determined whether project expenditures for FY 2010 were allowable and in compliance with grant, bond, or gross receipt allocation provisions;
 - Obtained contractor minutes and read them to determine that the project was being monitored and that contract deliverables were being met; and
 - If the project was completed, we tested that the project was properly closed, settled, and transferred out of assets under construction.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County CIP Projects:

1) Capitalization of Completed CIP Projects is not Performed Timely

Capital Improvement Projects are not always being transferred out of assets under construction when the asset is put into service. We noted five out of 12 completed projects that had assets in service that were not transferred out of assets under construction. Three of the five projects identified had multiple assets that have been completed and in use for more than six months as of August 2010. The two other projects have been partially capitalized and each of these projects had one asset that needed to be transferred out. In total, we noted that the approximate value of assets that should be transferred out of assets under construction is \$1.5 million.



Recommendation

It is important that completed projects that are being used are transferred out of assets under construction as this affects the useful life, depreciation, and financial reporting of these assets. We recommend the County refine the closing procedures for capital improvement projects, including better segregation of project phases, so that assets placed in service are transferred out of construction in progress. Additionally, we recommend increased communication and collaboration between Finance and the CIP department with regard to the balancing of project budgets and the closing of outstanding invoices to help ensure projects are settled and capitalized in a timely manner. The documentation and implementation of a policy requiring CIP to notify County Finance within 60 days of completion of a project may help ensure that assets in use are being transferred out of CIP and any issues delaying the capitalization of assets are identified and resolved in a timely manner.

Management Response

Accounting has provided training and assistance to departments in creating project WBS structure and capitalization guidelines. CIP has modified the WBS structure of some projects to better track project phases and costs based on Accounting's recommendations. Accounting assists departments in creating a WBS structure that is tailored to the project to better identify the project structure to include asset acquisitions, capital outlay for others, and non-capital expenditures. This process was implemented in February 2010 when Accounting assumed the responsibility of project master data and asset capitalization.

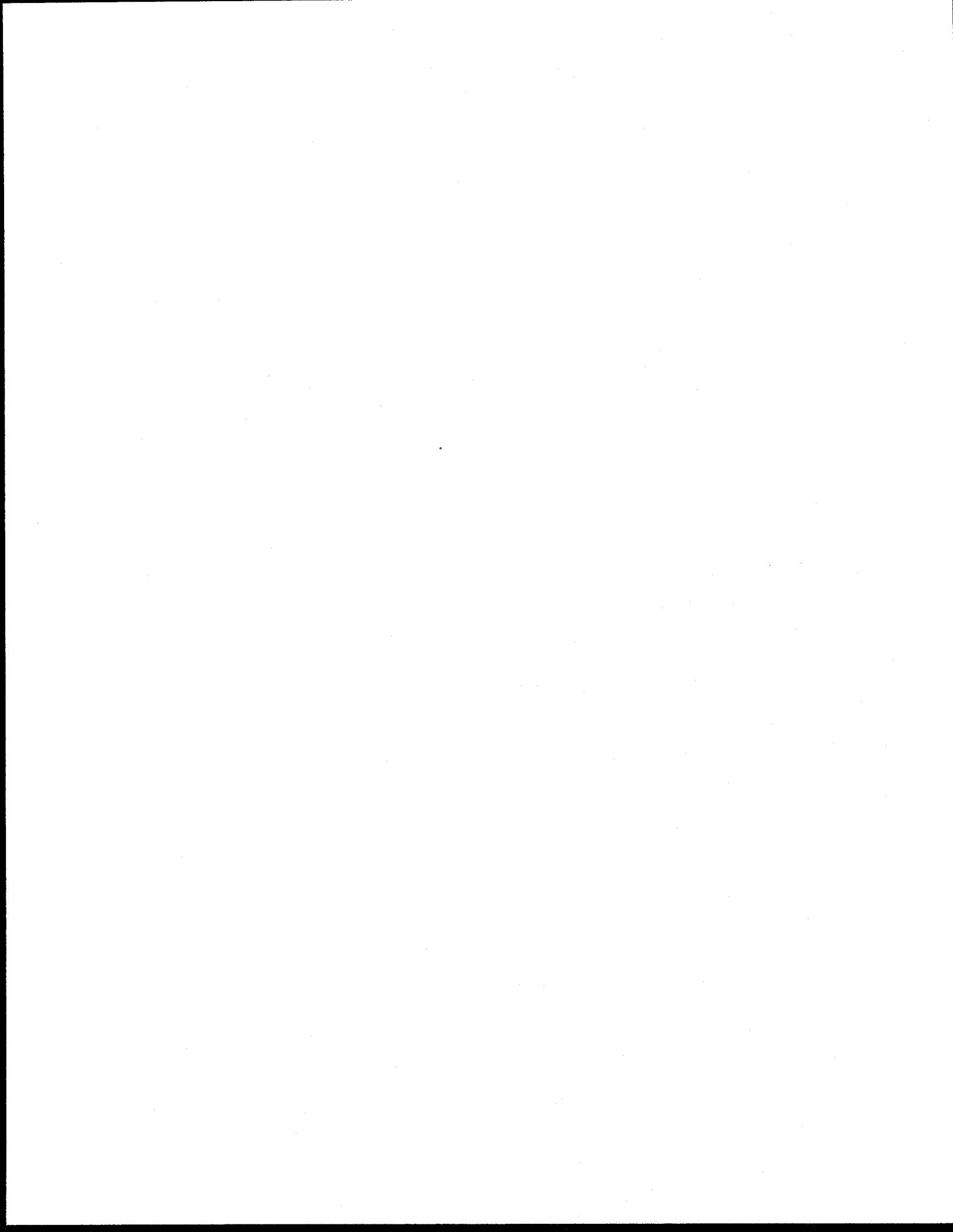
The capitalization process at the County requires that projects be completed and balanced prior to requesting the asset to be capitalized. The process to capitalize an asset can begin when it is considered operationally ready. A construction project is required to receive the architect's final approval, and be issued a Certificate of Occupancy. Clarification is needed on which of these two events determines the project is completed. When a project is determined to be completed, the department is responsible to ensure that all invoices have been paid and purchase orders closed, funding and reimbursements have been received, grants are closed, the budget is balanced, and that all reclassification entries have been completed. The CIP Department and Accounting maintains an open dialogue on projects in an effort to determine capitalization needs. CIP will make the determination when a project is completed and balanced, and will forward a request to Accounting to capitalize and close the project. Accounting will review projects at least annually with CIP to determine the progress of a project in order to provide support that capitalization occurs timely.

2) Required Monthly Legislative Grant Reports are not Being Completed

The CIP department is not complying with the monthly reporting provision required by the 2009 Special Legislative Session grant agreements. All nine State legislative grants tested did not have these reports completed. State grant agreements require a monthly progress report be submitted to the State Department of Finance for all legislative capital outlay grants.

Recommendation

The CIP Department should implement a policy to ensure that all new grant agreements are thoroughly read upon receipt to identify all special requirements including reporting. A system should be developed to ensure these reports are completed timely to ensure funding is not jeopardized.



Management Response

Two CIP staff members will thoroughly read each agreement when received from DFA.

The Grant Reps have been informed that they will need to process a hard copy of Exhibit B due on the last day of each month starting in September 2010. This will be the reporting process until the CMPS procedure is implemented on line.

3) Lack of CIP Policies and Procedures

The CIP Department does not have formally documented departmental policies and procedures. Without these there is no standard workflow to follow and significant processes can be overlooked. The construction projects overseen by the CIP department are often complex and there are many processes involved from the time a project begins to the time it is completed. These processes include, but are not limited to, the monitoring of grant compliance, the tracking of billings and collections from the State, the monitoring of budget constraints, the oversight and management of the actual construction of projects to ensure third party deliverables and deadlines are being met, and the overall accounting associated with these assets. It is important that all significant processes including those described above are documented and that the procedures are consistently applied to every project administered by the CIP department.

Recommendation

The County should create and implement procedures and workflows for the CIP department. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records (i.e. capitalization of completed CIP projects). A well-devised CIP policies and procedures manual can also help to ensure that all similar project transactions are treated consistently, that projects are adequately monitored, and that grant provisions such as reporting requirements are being complied with. A good procedures manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

Management Response

The department is in the process of working on policies and procedures.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDU LLC

October 13, 2010

