



Capital Improvement Projects

Internal Audit

November 2017

Bernalillo County Internal Audit Capital Improvement Projects

Executive Summary

SUMMARY OF PROCEDURES

REDW performed internal audit procedures over the Capital Improvement Plan (CIP) relating to the selection, implementation, and expense tracking related to capital improvement projects. We also obtained an understanding of the processes for implementing and tracking the progress of projects at the Public Works Division.

We performed the following procedures:

- Obtained an understanding of Bernalillo County’s processes for evaluating and selecting projects in the Bernalillo County CIP.
- Obtained an understanding of Public Works’ processes for the implementing capital improvement projects. Additionally, we obtained an understanding of the tracking and monitoring of expenses related to projects at Public Works.
- Tested a selection of capital improvement projects that had expenditures during fiscal years 2016 and 2017 to determine if a project evaluation was completed; the ratings from that evaluation were properly supported and appeared reasonable; if selected, the project was appropriately approved; Public Works prioritization and project progress was consistent with the CIP; and any delays were properly supported and appeared reasonable.
- Tested a selection of capital improvement projects that were evaluated but not selected during the 2016-2022 CIP cycle to determine if a project evaluation was completed, the ratings were properly supported and appeared reasonable, and the explanation for not selecting the project during the cycle was supported and appeared reasonable.
- Tested a selection of expenses related to capital improvement projects that had expenditures during fiscal year 2016 through 2017 to determine if the support for project expenses was maintained and agreed to the expenses according to SAP, the expense was appropriately approved, the expense appeared reasonable and in-line with the CIP budget, and the proper funding source was used.
- Tested a selection of projects completed during fiscal years 2016 and 2017 to determine if the ratio of the labor as a percentage of the total project expenditures appeared reasonable and the total project expenditures appeared to be in-line with the CIP.
- Evaluated the high ranking project evaluations included in the 2016-2022 CIP to ensure that all projects were included in the Final Approved CIP listing.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

During the course of the audit we identified areas which appeared to be functioning properly. These areas included a strong evaluation process over the selection of projects and appropriate use of funding sources for capital improvement projects tested.

As a result of our testing, the following significant moderate risk observations were identified:

- 1) ***Projects Not Mapped to Capital Improvement Plan*** – During our audit, we identified areas where Public Works did not appear to follow the prioritization outlined in the CIP. There was no clear determination to be able to link Public Works projects to the CIP due to inconsistent coding and grouping of projects.
- 2) ***Change in Process Not Communicated Timely*** – Public Works changed the process for tracking labor in July 2017 and was no longer submitting time allocations through CATS. The change was not communicated to Accounting staff responsible for capitalizing project expenses.

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Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

REDW LLC

Albuquerque, New Mexico
February 9, 2018

Bernalillo County Internal Audit Capital Improvement Projects

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Bernalillo County Internal Audit Capital Improvement Projects

Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in assessing the Capital Improvement Plan (CIP) as it relates to evaluating the processes for the selection, implementation, and tracking of expenses related to capital improvement projects. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services. Since our procedures were applied to samples of 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.

An entrance conference was held on November 17, 2017, and fieldwork began November 27, 2017. An exit conference was held on January 19, 2018.

PURPOSE AND OBJECTIVES

The Public Works Division is responsible for the oversight of the planning and execution of construction, repair and maintenance of a variety of capital improvement projects throughout the County. This includes the planning, design, oversight, and billing of projects. Our internal audit evaluated the assessment and selection of projects related to Bernalillo County Capital Improvement Plan (CIP) to ensure that processes were in accordance with County policy and ordinances. We also evaluated the implementation of capital improvement projects by the Public Works Division to ensure that project expenditures were completed and tracked and in accordance with the CIP.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes, we interviewed the following personnel:

- Clay Campbell, Chief of Staff to the County Manager
- Phyllis Thormahlen, Capital Improvement Program Coordinator
- Martin Lewis, GIS Supervisor
- Roger Paul, Deputy County Manager - Public Works
- Elias Archuleta, Technical Services Director
- Brad Catanach, Operations and Maintenance Director
- Lisa Manwill, Facilities Construction Program Manager
- Rodrigo Eichwald, Engineer, Technical Services
- Darlene Keene, Accountant, Technical Services
- Juli Velasco, Financial Coordinator, Facility Construction Program

In order to gain an understanding of the processes we read relevant portions of:

- Administrative Instruction (AI) No. CI 01, Capital Improvements Program, revised December 21, 2016
- Bernalillo County 2016-2022 Capital Improvement Plan and Projects Proposed to Receive 2016 General Obligation Bond Funding, September 2016
- Bernalillo County Board of Commissioners Ordinance No 2013-14, Capital Improvement Program
- Capital Improvement Program Technical Evaluation, User Guide CIP Principles and Practices, Volume 1
- Document 1 (D1) – Capital Improvement Program Current Practice, Version 2.0, June 2017

We performed the following testwork:

Project Selection: Obtained the 2016-2022 CIP and selected six from a total of 28 projects. For each project selected, we tested to determine if a technical evaluation was completed, the ratings for the criterion from non-automated sources were properly supported and appeared reasonable, and the project was included in the CIP approved by the Commission and included in the General Obligation Bond Funding Booklet. For one out of six projects in the sample, we completed a walkthrough of the technical evaluation by tracing the raw data for each criterion pulled from the GIS software and ensured that the rating appeared accurate based on the assigned scale. Additionally, using the CIP, we assessed the technical evaluations for high ranking projects by category. The Technical Evaluations were included in the CIP for 91 projects, 48 of which did not receive any funding for the 2016-2017 bond cycle. We selected three projects which did not receive funding from the total of 48, and tested to determine if a technical evaluation was completed, the ratings for the criterion were properly supported and appeared reasonable, and the explanation and support for the project not being selected appeared reasonable.

Project Recommendations: Compared the project rankings identified in the technical evaluation form to the approved CIP to determine if the highest ranked projects were included and selected for funding. If a high ranking project was identified that was not selected for funding or included in the approved CIP, we inquired with management to determine if the explanation appeared to be reasonable.

Project Implementation: Inquired with Public Works to determine the process for starting and monitoring projects and following the approved CIP. For each of the six projects selected above, we requested support for any delays that occurred to determine if support was maintained and communicated timely. Additionally, for the six approved projects, we tested to determine if documentation was maintained to support that the design phase began during the first quarter FY 2016, the construction phase began timely following the completion of the design phase, and if the priority level was downgraded resulting in the delay of the construction, there was sufficient documentation to support the change in priority.

Expense Tracking and Funding Source: Obtained the Appropriations and Expenditures (A&E) Summary and Detail for the six CIP projects selected. For the projects, there was a total of 84 expenses from July 1, 2015 through October 15, 2017. We selected 31 of the 84 expenses and tested to determine if the invoice was on file, the amount of the expense according to the invoice agreed to the amount coded in SAP, the expense was approved by the Project Manager, the funding source used towards the expense agreed with the source approved for the project, and the expense appeared to be reasonable and in-line with the project budget.

Completed Projects: From an informal listing of projects completed by Technical Services from July 1, 2015 through November 2017, we selected three from a total of 12. We tested to determine if the internal labor allocated to the projects as a percentage of the total project expenditures appeared reasonable in comparison to the total project cost and project type. We also obtained the A&E summary from SAP and compared the total project expenditures for the life of the project to the committed funding according to the CIP to determine if the total expenditures appeared to be in-line with the CIP.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

During the course of the audit we identified areas which appeared to be functioning properly. These areas included a strong evaluation process over the selection of projects and appropriate use of funding sources for capital improvement projects tested.

As a result of our testing, REDW identified the following observations:

1) Projects Not Mapped to Capital Improvement Plan

Once the CIP is approved and finalized, it is transferred to Public Works to complete the projects using the approved funds. There was not a process to evaluate the status of the projects back to the approved CIP. During our audit, we identified areas where Public Works did not appear to follow the prioritization outlined in the CIP. There was no clear determination to be able to link Public Works projects to the CIP due inconsistent coding and grouping of projects. Additionally:

- There was not a budget to actual evaluation completed for projects to determine if projects were completed in accordance with the approved funding according to the CIP.

- There was not an overall tracking mechanism to determine the status of each project, including which projects had been completed or delayed.

Potential Risk: *Moderate* – Since the CIP is approved by the Commission and communicated to the public, projects may not be completed in accordance with what was expected. Additionally, if the status of each project is not easily traced back to the CIP and tracked and documented appropriately, there may be a risk that projects are inadvertently overlooked, or delayed projects are not evaluated and restarted timely.

Recommendation: Public Works should include the CIP project identification number within their internal tracking documents to allow for an alignment back to the CIP. Public Works should develop a process for assessing the status of jobs on an on-going basis and document the status of each project. This should include budget to actual comparison.

Management Response: Public Works is implementing a manual tracking process that includes monthly progress meetings and tracking of project progress to construction, changes in estimated costs and associated funding, and control of project scope. The CIP project identification number will be included in the tracking process and will be included in the public facing project information webpages. In addition to the CIP identification number, the project information webpages will also include if the project is a complete or partial completion of the project as listed in the CIP.

2) Change in Process Not Communicated Timely

Public Works submits labor hours by project through Cross Application Time Sheet (CATS) on a regular basis which is used by Accounting to track and capitalize project expenses. The process for tracking labor was changed in July 2017, and Public Works was no longer submitting time allocations through CATS. The change was not communicated to the Accounting staff responsible for capitalizing project expenses.

Potential Risk: *Moderate* – If changes that have a financial or procedural impact to the County are not communicated to the appropriate personnel timely, there may be a risk that financial reporting is inaccurate or key processes are delayed.

Recommendation: Public Works should work with the Accounting department to determine what information is needed to capitalize labor hours for the time period not reported. Going forward, all changes that have a financial impact should be communicated to Accounting timely to ensure the County's financial needs are met.

Management Response: This change was communicated in a DCM meeting in July 2017, and validated when the 2018 budget was finalized. Public Works will work with Accounting to develop a method that can support their requirements to complete their processes that is less labor intensive for Public Works staff than the CATS entry system.

3) Technical Evaluations Data Not Easily Accessible

In order to fairly evaluate the projects, technical evaluations are completed for each project included in the CIP using criteria which are applied using a combination of system-generated reports and judgment-based evaluations. Support for technical evaluation criteria was not easily accessible or in a centralized location for the judgment-based criteria. The documentation for one project with non-GIS derived data did not appear to support the ratings and it was unclear how the assessment was determined.

Potential Risk: Low – If the technical evaluation criteria is not supported, there may be a risk that decisions for funding projects are based on inaccurate information. Without a process to store supporting documents, unnecessary time could be incurred to locate information. The risk was determined to be low as the majority of the criteria is system generated.

Recommendation: Processes should be implemented for the collection and maintenance of data related to projects evaluated in the CIP.

Management Response: The CIP program and GIS will work to create and implement an internally accessible archival folder, structured to house the data sources utilized, the data generated, and the reports created for the Bernalillo County projects' Technical Evaluations for each bond cycle.

PROCESS IMPROVEMENT OPPORTUNITIES

1) Support for the Capital Improvement Plan

The approved CIP did not include six of 91 total projects evaluated in the 2016-2022 cycle. Although the projects were included in the technical evaluation and project ranking component, the projects were inadvertently left off the final approved CIP. While we were able to obtain explanations from management, there was no documentation to support the reasoning behind high ranking projects that were not selected for funding. Additionally, for two of four delayed projects tested, there was no documentation to support the reasoning behind why the projects had been delayed. Although delays are communicated within the departments, the delays were communicated verbally and documentation was not maintained.

Recommendation: The Evaluation Committee should review the CIP to ensure that all high ranking projects evaluated, even if they are not funded during the bond cycle, are included on the final approved CIP. Additionally, the Evaluation Committee may want to implement a process to notate the reason why high ranking projects were not selected for funding during the bond cycle. Although there is an informal process in place, this will be useful in the event of turnover or inquiry from an outside user. Additionally, support for delays or changes in the priority levels should be documented to ensure projects are not overlooked or delayed for an excessive period of time.

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

REDW LLC

Albuquerque, New Mexico
February 9, 2018