



City of Albuquerque

Office of Internal Audit

Interoffice Memorandum

March 24, 2003

Ref. No.: 03-103B 2nd Qtr.

To: Vincent E. Griego, Council President

From: Debra Yoshimura, Internal Audit Officer, Office of Internal Audit

Subject: FINAL REPORT TO THE COUNCIL ON THE CITYWIDE FISCAL YEAR 2003 SECOND QUARTER BUDGET 03-103B 2nd Qtr.

In accordance with City Ordinance 2-10-9 (B) ROA 1994, the following report is hereby submitted to the City Council. The Ordinance required the Office of Internal Audit to complete a review of the FY2003 2ND quarter budget.

The attached report summarizes appropriations and projected expenditures at the program level for all of the City's operating funds. The Chief Administrative Officer's response has been included for the programs that are projected to materially overspend.

Enclosures

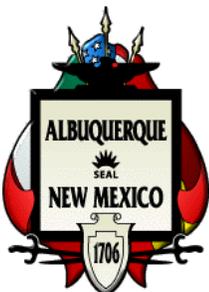
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REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2003 SECOND QUARTER BUDGET



City of Albuquerque
Office of Internal Audit

INTRODUCTION

City Ordinance 2-10-9 (B) ROA 1994 required the Office of Internal Audit to perform a quarterly review of City expenditures and encumbrances for each fiscal year. This report is presented to the City Council to satisfy the Second Quarter of Fiscal Year 2003 requirement.

Attached, please find the projections for the second quarter of fiscal year 2003. These projections were compiled by the Office of Management and Budget (OMB). For each anticipated over-expenditure in excess of \$100,000 or 5% of appropriations, we requested an explanation as to what is generating the projected over-expenditures. We then assessed managements' plan, if any, to resolve the anticipated over-expenditures.

RESOURCES AND FUND BALANCE

The following is an analysis of changes in General Fund revenues, appropriations and fund balance.

	FY03 APPROVED BUDGET (000's)	FY03 2 ND QUARTER PROJECTIONS (000's)
Resources:		
Recurring revenues	\$ 336,672	\$ 326,302
Non-recurring revenues	2,560	2,560
Beginning fund balance	<u>18,024</u>	<u>36,599</u>
Total resources	357,256	365,461
Appropriations and adjustments:		
Changes in fund balance reserves	(500)	(19,024)
Appropriations/Projected expenditures	<u>(336,488)</u>	<u>(333,100)</u>
Ending fund balance	\$ 20,268	\$ 13,337

OMB estimates of General Fund revenues for the second quarter still are well below the estimates in the approved budget. The estimated revenues at the end of the second quarter are \$328.9 million or \$10.1 million below the approved budget estimate. This is an increase of \$1.56 million from the first quarter estimate. The increase comes from additional building permits issued and gross receipts. This additional revenue is offset in part by declines in charges for services, interest earnings, and indirect overhead. The revenues include information presented to the Forecast Advisory Group in November and new information available on revenues. The largest differences from the first quarter are a slightly better outlook for GRT, continued increases in construction permits, and declines in charges for service. The Office of Internal Audit reviewed OMB's FY03 second quarter revenue report, all estimates appear reasonable.

As a matter of City policy, an operating reserve of 5% of recurring revenue is established each year for unforeseen expenditures, economic downturns or emergencies. This commitment is also made in the City of Albuquerque Annual Information Statement

Dated January 23, 2003 In Connection With Bonds And Other Obligations (Information Statement). Current projected revenues set this reserve at \$17,191,000. The second quarter projected expenditures will reduce this reserve to \$13,337,000 resulting in a shortfall in the reserve of \$3,854,000. The Information Statement also commits the City to balance recurring appropriations with recurring revenues.

In an effort to reduce spending, on February 3, 2003 the Administration implemented a hiring and spending freeze for the General Fund and General Fund Subsidized programs. This freeze is not reflected in the projected expenditures.

EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to overspend \$100,000 or 5% of appropriations, whichever is lower.

GENERAL FUND PROGRAMS

Program 77421 – City Support Services Early Retirement program is projected to overspend its appropriated budget of \$4,000,000 by \$815,000. An additional 20 employees over original estimates are expected to retire before June 30, 2002. The following are projections for the Early Retirement program:

Expenditures through 12/31/02	\$	2,299,331
Vacation/Sick payout for 12/31/02 retirees		946,941
Wages for 35 employees through 6/30/03		878,009
Vacation/Sick payout for 6/30/03 retirees		290,652
Projected additional retirees (estimated 20 employees)		<u>400,000</u>
Total		4,814,933
Approved Budget		<u>4,000,000</u>
Variance	\$	<u>(814,933)</u>

OMB management reports that there are additional employees that have also announced their retirement. This could increase this deficit by an additional \$88,000 by year-end.

Program 77124 – City Support Services Transfer to Operating Grants Fund is projected to overspend its appropriated budget of \$3,754,000 by \$218,750. This is due to under budgeting of the City indirect and cash matching funds required for the following departments in the following amounts:

Cultural Services Department	\$	1,213
Family & Community Services Department		(87,002)
Planning Department		(1,821)
Police		3,232
Senior Affairs Department		(109,282)
Transit Department		<u>(25,090)</u>
Total	\$	<u>(218,750)</u>

The Administration reports that they are considering a number of options to ensure budget compliance. These options include reducing services on the grants which will lead to a lesser cash match requirement, negotiating the cash match with the grantors, or allowing the programs to overspend and make the difference up with savings in other programs. In addition, the Family and Community Services Department reports that they have identified \$87,000 in saving in the Operating Grants fund to cover their anticipated over-expenditure. Based on the information provided by the Administration it appears that the Transfer to Operating Grants Fund program may overspend by \$131,750.

Program 34508 – Legal Department Legal Services program is projected to overspend its appropriated budget of \$3,940,000 by \$128,000. This is the result of additional attorneys added to the legal staff as well as unforeseen sick and vacation charges from early retirement. Legal Department management has identified \$259,536 in cost savings, transfers to other programs and additional revenue sources that will overcome this anticipated over-expenditure. Based on the information provided by the Legal Department, it does not appear that this program is in jeopardy of overspending.

Program 51503 – APD Central Support Services program is projected to overspend its appropriated budget of \$20,096,000 by \$1,507,000. APD management reports that this over-expenditure is primarily due to an aging vehicle fleet and higher than expected fuel costs. The Fleet Management Division of Public Works reports that lower maintenance charges were put in place effective January 1, 2003. These lower rates are projected to reduce this over-expenditure by \$300,000 by the end of the fiscal year. In addition, APD management reports that additional efforts are being considered to reduce this over-expenditure including postponing non safety related repairs on vehicles. However, it does not appear that APD management's plan is adequate to bring the program into budget compliance. This program will likely over-spend appropriations by \$1,200,000. APD has four programs with appropriations totaling \$86,334,000. Based on the attached appropriations and projected expenditures report, APD is at risk of exceeding appropriations at the department level.

Program 58512 – Public Works Department Street Services program is projected to overspend its appropriated budget of \$12,632,000 by \$513,000. Public Works Management reports that they are transferring \$204,000 in allowable expenditures to other programs. In addition, seven positions that are reimbursed by CIP will also be held vacant providing an additional savings of \$168,000. Based on the information provided by the department, it appears that this program will overspend appropriations by \$141,000. Based on the attached appropriations and projected expenditures, Public Works is at risk of exceeding General Fund appropriations at the department level.

NON-GENERAL FUND PROGRAMS

Programs 21503 and 21508 - Fund 260 – Corrections and Detention Department Corrections program and the Community Custody program are projected to over-spend their appropriated budgets of \$29,236,000 and \$733,000 by \$4,584,000 and \$139,000, respectively. The Administration plans to close the Westside Jail at the end of March which will result in approximately \$413,000 in savings. The City and the County have each reserved \$1,000,000. Since the Corrections fund is funded primarily through General Fund transfers it is likely that an additional \$2,171,000 appropriation will be required.

Program 26507 - Fund 290 – Department of Finance and Administrative Services (DFAS) City/County Building operations is projected to overspend its appropriated budget of \$2,512,000 by \$264,000. DFAS management reports that during the FY2003 budget process they were in the process of working with Bernalillo County to outsource building maintenance and janitorial services contracts. Both the City and the County believed outsourcing these services would lead to substantial savings. As a result, the program's appropriation was cut by \$328,000. However, an examination of the proposals revealed that these cost savings would not materialize. As a result, this program is at risk of exceeding its appropriated budget. DFAS management reports that there is adequate fund balance available in the City/County Building Operations fund to cover this anticipated over-expenditure.

Programs 59517, 59562, 59564 – Fund 621 - Public Works San Juan/Chama, Water Distribution Facility Maintenance, and Water Revenue Meter Maintenance programs are projected to overspend their appropriated budgets of \$2,033,000, \$6,640,000, and \$2,451,000 by \$119,000, \$521,000, and \$316,000, respectively. The San Juan/Chama program is projected to overspend as a result of operations and maintenance costs increasing over what was originally expected from previous estimations provided by the Bureau of Reclamation. Water Distribution Facility Maintenance and Water Revenue Meter Maintenance programs are projected to overspend. Public Works Department management reported that when the FY03 budget process was taking place these programs were new, as a result, a full year's history of expenses for these programs was not available and the department relied on estimates. The Administration and the Department report that a cleanup resolution will not be made to clean up these three programs. There is adequate savings within the Joint Water/Sewer Operating fund to cover these anticipated over-expenditures.

Program 54501 – Fund 651 - Solid Waste Management Department (SWMD) Collections program is projected to overspend its appropriated budget of \$11,807,000 by \$445,000. This is the result of higher than anticipated fuel, repair and overtime costs and large one-time equipment repairs. SWMD management reports that efforts have been made to reclassify certain positions to driver positions in order to reduce overtime expenditures. Additional cost saving measures are being considered by SWMD management. SWMD management believes that there are adequate savings within the Refuse Disposal Fund to

cover this anticipated over-expenditure and as a result, there will be no net increase in appropriations for fund 651.

Program 33541 - Fund 705 – The Department of Finance and Administrative Services Department Risk Management Fund Workers Compensation program is projected to overspend its appropriated budget of \$4,319,000 by \$473,000. DFAS management reports this is due to projected costs for workers compensation claims, both for medical and indemnity being in excess of the estimated costs at the time of adoption of the FY03 budget. This is an estimate and could increase. The Risk Management Fund at June 30, 2002 had a deficit fund balance of \$14,152,061. As a result, the Risk Management Fund does not have an adequate balance to fund this over-expenditure. An additional appropriation will likely be needed in this fund.

CONCLUSION

Although many programs are in jeopardy of exceeding appropriations, most projected over-expenditures appear to be manageable and will not have a negative impact requiring addition appropriations. Based on the information provided by the departments **it appears that seven programs will likely require additional appropriations.** These programs are:

<u>Department</u>	<u>Projected Over Expenditure</u>
City Support Early Retirement program	\$ 815,000
City Support Transfer To Oper. Grants	131,750
APD Central Support Services program	1,200,000
Public Works Street Services program	141,000
Corrections Department Corrections program	2,171,000
Corrections Department Community Custody	139,000
DFAS Risk Mgt. Workers Comp program	<u>473,000</u>
TOTAL	<u>\$ 5,070,750</u>

EXECUTIVE RESPONSE FROM THE CAO

“In your Memo of March 5, 2003 regarding the Final Report to the Council on the Citywide Fiscal Year 2003 Second Quarter Budget 03-103B, you requested an explanation of the Administration’s plans to ensure budget compliance in seven specific programs. I sincerely appreciate your review of OMB expenditure projections and your follow up discussions with departments regarding expenditures. Together our efforts in bringing the issue to the attention of managers and decision makers have been successful in reducing the incidences and magnitude of overspending. However,

before addressing individual programs, I would like to make some general comments that I believe are relevant.

“First and most importantly I want to be clear that eliminating overspending and establishing a culture of fiscal control is a fundamental goal and value of the Administration. The Mayor and I constantly and clearly continue to tell department directors that overspending will not be tolerated. Administrative Instruction 2-20 issued on October 7, 2002 clearly extends the responsibility for budgetary control to staff beyond the director, including associate directors, deputy directors, division managers, fiscal managers, human resource coordinators and a variety of others. The penalty for failure is disciplinary action.

“Although OMB tries to project expenditures as accurately as possible, estimates based upon six months of expenditure data can never be 100% accurate. Unexpected events and manager behavior can cause deviations in the expenditure pattern that cannot be estimated. Specifically, the General Fund balance shortfall of \$3,854,000 you project on page 2 of your report does not take account of reversions that may be produced by the current hiring and expenditure freeze imposed February 3, 2003. I anticipate reversions will be larger. In FY/02, reversions were \$5 million greater than estimated at third quarter, largely the result of an expenditure freeze and the Mayor’s constant reminder to department directors that overspending would not be tolerated.

“Next, as you know, we are contemplating an accounting change. IA has been asked to review the proposed change and I am quite appreciative of your timely efforts. The change will increase the operating reserve level from 5% to 8.3% and no longer hold a reserve for adjusting taxes receivable. If this accounting change were instituted before or concurrent with the close of FY/03, I believe the General Fund would show a reserve balance in excess of the required 8.3%. The preliminary analysis of the proposed accounting change indicates that if departments spent as currently projected and no additional reversions were produced from the hiring and spending freeze, the General Fund would report an unreserved (excess) fund balance of \$3.8 million.

“The revised appropriations in your calculations reflect two General Fund reduction resolutions. The reduction bills were a response to an unexpected \$10 million revenue shortfall that appeared at the end of FY/02 and carried forward to FY/03. The reduction bills focused on areas where appropriation could be cut with minimal disruption and, as a result, targeted vacant positions and fund balances. Neither of these bills ‘cleaned-up’ program appropriations. In past years OMB has attempted to adjust appropriations to ‘clean-up’ those programs that were projected to be overspent. Therefore the challenge for program managers and department directors to stay within the appropriation level this year is greater. I believe this will create a better history and provide an additional incentive to properly manage the budget from the beginning of the fiscal year.

“The revenue shortfall problem was largely addressed in the expenditure reduction bills. However, the uncertainty surrounding the MDC has made budget control exceedingly difficult this year. Please appreciate that operating three aged correctional facilities is significantly more expensive than we expect operating one new facility to be. Further, construction delays at MDC are beyond the control of either the City of Albuquerque or the Corrections Department.

“Per your request the CAO explanation for the seven funds projected to overspend in excess of 5% or \$100,000 are:

- *City Support Early Retirement Program* *\$815,000*
We agree with your current estimate. However, the additional 20 positions referenced on page 2 of your report that ‘could increase this deficit by an additional \$88,000 by year-end’ are already counted in the reported total.

- *City Support Transfer to Operating Grants* *\$135,000*
We agree with your current estimate. However, the entry for the Cultural Services Department should be negative, not positive, and the statement that the problem is due to ‘under budgeting of City indirect and cash matching funds’ should be amended to ‘under/over budgeting’. We are currently asking departments to cover the grant match out of departmental appropriations when possible.

- *APD Central Support Services Program* *\$1,200,000*
Although we agree that this program will probably end the fiscal year overspent, it is important to understand that the department may be able to end the year within the existing appropriation. In recent weeks Fleet Management has indicated that they may be able to reduce costs below those projected in this report through better contract management and eliminating non-critical maintenance.

- *Public Works Street Services Program* *\$141,000*
The original OMB projection assumed that the CIP funded positions would be filled. The department indicates that it will keep the positions vacant through the remainder of the fiscal year and be able to eliminate overspending.

- *Corrections Department Corrections Program* *\$2,171,000*
Corrections Department Community Custody *\$139,000*
We agree with your estimate and the comments included in your report.

- *DFAS Risk Mgt. Workers Comp. Program* *\$473,000*
This is an estimate of anticipated Workers’ Compensation Claims for FY/03. DFAS is in the process of reviewing these claims and plans to have the in depth

analysis completed by the third quarter of FY/03. The estimate could change based upon that analysis.”