



**FINAL**

# City of Albuquerque

## Internal Audit

### Interoffice Memorandum

April 19, 2004

Ref. No.: 04-103B 2nd Qtr.

**To: Michael J. Cadigan, Council President**

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

**Subject: FINAL REPORT TO THE COUNCIL ON THE CITYWIDE  
FISCAL YEAR 2004 SECOND QUARTER BUDGET 04-103B**

In accordance with City Ordinance 2-10-9 (B) ROA 1994, the following report is hereby submitted to the City Council. The Ordinance requires the Office of Internal Audit to complete a review of the FY 2004 second 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

DDY/njt

***REPORT TO***

***CITY COUNCIL***

***ON THE***

***CITYWIDE FISCAL YEAR 2004 SECOND QUARTER BUDGET***

***04-103B***



***City of Albuquerque  
Office of Internal Audit***

## INTRODUCTION

City Ordinance 2-10-9 (B) ROA 1994 requires 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 2004 requirement.

The projections for the second quarter of fiscal year 2004 are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB). City Ordinance allows the Mayor to adjust the City's budget as necessary for no greater than \$100,000 or 5% of a program's appropriation, whichever is less. 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' plans, 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.

	<b>FY04 APPROVED BUDGET 6/30/03 (000's)</b>	<b>FY04 REVISED BUDGET 12/31/03 (000's)</b>	<b>FY04 2nd QUARTER PROJECTIONS 12/31/03 (000's)</b>
Resources:			
Revenue*	\$ 349,566	\$ 356,518	\$ 361,034
Beginning fund balance	<u>31,753</u>	<u>43,125</u>	<u>43,125</u>
Total resources	381,319	399,643	404,159
Appropriations/Expenditures:			
Operating expenditures	350,806	351,322	346,239
Employee bonus	<u>-</u>	<u>5,069</u>	<u>5,069</u>
Total expenditures/appropriations	350,806	356,391	351,308
Fund Balance	<u>\$ 30,513</u>	<u>\$ 43,252</u>	<u>\$ 52,851</u>
Fund balance adjustments	<u>(678)</u>	<u>(736)</u>	<u>(736)</u>
Fund balance reserves	<u>29,811</u>	<u>29,706</u>	<u>29,706</u>
<b>Available fund balance</b>	<b><u>\$ 24</u></b>	<b><u>\$ 12,810</u></b>	<b><u>\$ 22,409</u></b>

\* Revenues are projected, actual revenues may vary

## 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***

There are 93 appropriated General Fund operating programs. The General Fund is used to account for resources and expenditures traditionally associated with governments that are not required to be accounted for in another fund. Appropriations are at the program level, the level at which expenditures may not legally exceed appropriations. The following General Fund programs are in jeopardy of exceeding budget appropriations:

Program 77421 – City Support Early Retirement program is projected to overspend its budget of \$4,935,000 by \$165,000. When the original budget is formulated it is difficult to determine which employees will retire and at what time. Employees wishing to retire typically do not make this information available at the time the budget is formulated. The Administration should seek an additional appropriation from City Council before year-end.

Program 51503 - Albuquerque Police Department Central Support Services program is projected to overspend its budget of \$21,590,000 by \$232,000. APD management reports that extensive overtime was used to restrict access to the bosque area during and subsequent to the bosque fire. The Department of Finance and Administrative Services Director has requested reimbursement for all costs relating to the fire from the Federal Emergency Management Agency (FEMA) and the NM Disaster Assistance Program. If the reimbursement is received, this will not automatically increase the effected program's budget or reduce its expenditures. Action from the Administration and the Council will be required if additional funding is desired for the effected programs.

### ***NON-GENERAL FUND PROGRAMS***

There are 22 Non-General Operating Funds with 114 appropriated programs. The Non-General Fund programs at risk of overspending are as follows:

Programs 59561 and 59562 - The Public Works Department (PWD) Water Plant Facility Operations and Water Distribution Facility Operations programs in the Joint Water/Sewer Fund are projected to overspend by \$645,000 and \$718,000, respectively. PWD management reports that twelve wells were down requiring the remaining wells to pump during the daytime hours at higher energy costs to keep up with demand. Additional unexpected costs have been incurred due to water line and vehicle repairs. PWD management states that these programs will likely overspend but have adequate reversions from other reverting programs. Since appropriations are at the program level, PWD should increase efforts to control costs so none of their programs overspend.

Program 54501 – The Solid Waste Management Department (SWMD) Collections program in the Refuse Disposal Fund is projected to overspend its appropriated budget of \$13,493,000 by \$222,000. SWMD management reports that 60% of the current fleet exceeds life expectancy. The increased repairs and maintenance costs relating to these

aged vehicles has not been budgeted. Additional unexpected expenditures have been incurred due to higher than average fuel and tire costs and overtime expenditures due to not having enough trucks or drivers. In order to ensure budget compliance SWMD management reports that new trucks will be placed in service during FY04 and the department will fill necessary positions such as drivers. Additional cost savings will be attempted through reductions in travel, training, and supplies.

Program 24501 – Department of Municipal Development Stadium Services program in the Baseball Stadium Fund is projected to overspend its budget of \$302,000 by \$241,000. The original budget was based on projections made by a private company where previous historical data did not exist. Energy costs have come in higher than anticipated. The department reports that it has adequate fund balance to cover the projected over-expenditure due to revenues coming in higher than budgeted. An additional appropriation will be sought later in the fiscal year.

Programs 21503 and 21508 – Metropolitan Detention Center (MDC) Community Custody program in the Corrections/Detention Fund is projected to overspend its appropriated budget of \$946,000 by \$187,000. MDC management reports that it costs approximately \$56.51 per inmate each day for incarceration when the population is 1,800. Community custody costs approximately \$11.60 per inmate each day. As a result, there has been an effort to move eligible inmates from the Corrections/Detention program to the Community Custody program.

The 2<sup>nd</sup> Quarter projections also show the Corrections/Detention program will under-spend by \$8,000. However, the projections are based on 1,800 incarcerated inmates and 200 community custody inmates. As of March 4, 2004, the MDC population was approximately 2,100 incarcerated inmates and 260 community custody inmates. If current population levels persist and management is unable to identify additional efficiencies, the Corrections/Detention and Community Custody programs could significantly overspend.

The City and Bernalillo County share in the costs to run MDC. Bernalillo County management reports that they base their share of the costs on MDC's approved operating budget. If MDC overspends, it will be necessary for the City and Bernalillo County to appropriate additional money. However, there is no guarantee that additional funds will be available from Bernalillo County.

OTHER ITEMS NOTED

1. THE CAO SHOULD TAKE STEPS TO MODIFY PWD DEPARTMENT PROCEDURES TO ENSURE THAT ALL COSTS ARE CHARGED TO THE CORRECT CAPITAL PROJECT AND CAN BE SUPPORTED BY SUBSTANTIAL CORROBORATING EVIDENCE

Capital Project funds account for the purchase or construction of major capital assets. Resources for capital projects primarily result from the sale of general obligation bonds, City fund transfers, grants, and special assessments levied against property owners. The City maintains a capital projects fund that, among other projects, accounts for street construction projects throughout the City. Fixtures such as streetlights are typically paid for directly from the Capital Projects fund. Expenditures for personnel working on street projects are initially paid from the General Fund. The General Fund receives a reimbursement from the Capital Projects fund for the personnel expenditures relating to capital projects.

During our examination of second quarter expenditures we noted that personnel costs were not always allocated to the correct project. Additionally, PWD management could not provide complete documentation for street personnel expenditures that were reimbursed by the Capital Projects fund. We noted the following:

A. Personnel Costs Should Be Allocated To The Correct Capital Project

It appears that PWD management is arbitrarily allocating personnel costs among capital projects based on funding availability. A journal voucher was made by PWD management to reimburse General Fund expenditures for work performed on capital projects. PWD management charged expenditures to capital projects based on the amount of funding available instead of the projects where the work was actually performed.

According to the Traffic Engineering Division Manager, some projects have overlapping scopes. However, the 2003–2012 Capital Program, which is approved by the City Council and the Mayor, clearly defines the scope and funding level for each project. For example, the scope of the Safety and Intersection Improvements project states:

Design and install safety and intersection improvements city wide. Improvements include guard rails, school crossing flashers, roadway channeliation, minor row acquisition, minor alignment changes, turn lane additions and other such roadway improvements. The installation of school crossing flashing beacons is a City Council mandated program. Funding in the amount of \$100,000 within this project shall be used to fund traffic control

devices to slow and control traffic near Montezuma Elementary School to insure traffic safety.

The scope of the Signs & Markings project states:

Provide concentrated sign replacement program city wide. Install raised pavement markers in lieu of marking paint. Install hot/cold plastic for crosswalks/lanes use symbols (turn arrows, school/railroad crossings, etc.) in lieu of paint. Purchase equipment, e.g. aerial truck, thermoplastic dispensing machine.

According to PWD documents, \$78,134 should have been charged to the Signs & Marking project. However, since these charges would have caused this project to overspend, the costs were charged to the Safety and Intersection Improvement project. The City Council and the Mayor approve funding for capital projects at the project level. When PWD management arbitrarily allocates personnel expenditures based on available funding instead of where the work is actually performed, they circumvent the authority given to City Council and the Mayor to implement a balanced budget. In addition, it is difficult to determine what actual costs were incurred on each project.

As of January 31, 2004, a number of PWD/Streets capital projects were overspent. These projects were as follows:

Project				
<u>Number</u>	<u>Description</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
7389010	Paving Rehab	\$5,900,000	\$5,938,111	\$(38,111)
7389050	Intersect Signals	1,933,681	1,989,123	(55,442)
7217240	Lead-Coal Imp.	250,000	255,798	(5,798)
7217480	Geodetic Survey Eq.	117,500	128,321	(10,821)
7286030	Bridge Repair	500,000	514,391	(14,391)
7286040	Coors Widening	2,520,834	2,520,950	(116)
7286180	RPL St Maint Eq.	603,300	606,273	(2,973)
7230020	Traffic Sign/Markings	3,336,981	3,386,563*	(49,582)
7100080	Golf Course/IRV Line	<u>700,000</u>	<u>1,322,424</u>	<u>(622,424)</u>
Total Overspent Projects		<u>\$15,862,296</u>	<u>\$16,661,954</u>	<u>\$(799,658)</u>

\* Amount includes \$78,134 that should have been charged to this project but was charged to an incorrect project to prevent overspending.

It is likely that many other projects will be overspent when corrections are made to PWD journal vouchers to charge the correct project.

City policy requires each department to adhere to the budget at the program level. Since capital project funds are appropriated at the project level, it is appropriate to treat over-expenditures for capital projects in the same manner as operating

program over-expenditures. The fiscal year 2003 Proposed and Approved Budget states, "Appropriations are at a program strategy level, the level at which expenditures may not legally exceed appropriations." In addition, Administrative Instruction 2-20 states:

Program Strategies are the level at which appropriations are made. It is at this level that managers must ultimately be responsible for controlling expenditures.

All employees with budgetary control over a Program Strategy must accomplish their tasks within the approved budget. All personnel decisions and all expense decisions must be made within that framework. It is unacceptable for an employee with budgetary control to spend in excess of the appropriated budget.

Employees such as fiscal managers and human resource coordinators who may lack direct control, but serve in a direct advisory capacity for expenditure decisions, shall provide the best information available. If the manager fails to act in a financially prudent manner upon receipt of the advice, the fiscal manager and/or human resource coordinator shall report to the manager's supervisor. This process will be repeated at ascending levels of management until the financial advice is heeded. If necessary, after following this procedure, if he/she still believes corrections have not been made in line with the advice, he/she should report directly to the Chief Financial Officer. Failure to follow this procedure will result in the same disciplinary procedure applicable to the Program Strategy Manager, described below.

Failure on the part of the Program Strategy Manager to monitor and control expenses within the appropriated budget will be subject to disciplinary action as defined in the Personnel Rules and Regulations. Disciplinary action may include written reprimand, suspension, demotion, or dismissal.

The CAO and PWD should ensure that all costs are posted to the correct project.

**B. Charges To Capital Projects Funds Should Be Properly Supported**

PWD management could not provide complete supporting documentation for capital project reimbursed personnel expenditures. We noted seven journal vouchers totaling \$1,702,732 where the General Fund was reimbursed for personnel expenditures on capital projects where supporting documentation could not be located by PWD management. Sound accounting procedures require all accounting entries to be properly supported by substantial corroborating evidence. In addition, a memo dated June 28, 2002 from the Chief Administrative Officer to all Department Directors and Department Fiscal Managers states, "The movement

of expenditures from one program to another program must be supported by valid reasons other than to bring total expenditures to within the appropriated amount for a program.” This memo also requires that “...the support for each JV must immediately be available upon request by Financial Reporting, external auditors or Internal Audit.” PWD management should determine what charges to capital projects can be supported. Unsupported charges to capital projects should be reversed.

#### RECOMMENDATION

The CAO should take steps to modify PWD procedures to ensure that all costs are charged to the correct capital project and can be supported by substantial corroborating evidence. Personnel costs should be allocated to the project in which they were incurred. Any unsupported charges to capital projects should be reversed. The CAO should ensure that all projects spend within the appropriated levels.

The CAO should also consider amending Administrative Instruction No. 2-20 to include consequences for over-expenditures at the capital project level. For those projects that are overspent, the Administration should take appropriate action in accordance with Administrative Instruction No. 2-20.

#### EXECUTIVE RESPONSE FROM THE CAO

*“PWD agrees. Effective for the 4th Qtr of FY/04 the department has implemented procedures to ensure all costs are charged to the correct capital projects, and are supported by substantial corroborating evidence. The evidence will support all personnel costs to the projects in which they occur. For the period of 7-1-02 thru 12-31-03 PWD will true up submitted CIP JV’s to actual supported amounts.*

*“The CAO will review Administrative Instruction No. 2-20 for any appropriate changes.”*

#### CONCLUSION

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

<u>Department - Program</u>	<u>Projected Over Expenditure</u>
City Support - Early Retirement	\$ 165,000
APD - Central Support Services program	232,000
Public Works - Water Plant Facility Ops.	645,000
Public Works - Distribution Facility Ops.	718,000
Solid Waste Department - Collections	222,000
Municipal Development - Baseball Stadium Ops	241,000*
Corrections Department - Corrections program	Amt not determined
Corrections Department - Community Custody	<u>187,000</u>
 TOTAL	 <u>\$ 2,410,000</u>

\* Revenues have also come in higher and will offset this over-expenditure. However, the funds must be appropriated before the program overspends.

EXECUTIVE RESPONSE FROM THE CAO

***“Overspent programs:***

***“City Support Early Retirement***

***\$165,000***

*This estimate was based on the first six months of actual data available in FY/04. A third quarter of data will be available in mid-April and a projection will be prepared at that time. Early retirement is especially difficult to forecast. The cost is driven by the date at which employees choose to retire. Employees are under no obligation to provide advance notice to the City and in many instances employees may have PERA time from state government or other employers of which the City is unaware. While no ‘good’ estimates will ever be available for early retirement, later estimates should be more reliable. Also, Accounting is in the process of moving early retirement expenditures already incurred to the proper funds. It would be premature to ‘clean-up’ this appropriation at this time.*

***“APD Central Support Services program***

***\$232,000***

*APD Fiscal Manager believes that through management, this program can be brought in at the budgeted level by the end of FY/04.*

***“Public Works Water Plant Facility Operations***

***\$645,000***

***“Public Works Distribution Facility Operations***

***\$718,000***

*Both programs are expected to overspend. The Department is targeting balancing the fund rather than individual programs. It would be difficult to ‘clean-up’ these programs at the present time as the staff reports that invoices are being coded to programs other than where appropriated. Until internal issues are resolved, these appropriations should not be altered.*

**“Solid Waste Department Collections** **\$222,000**

*As noted by IA, this over-expenditure is driven by extraordinary outside repairs and maintenance costs. The department is actively managing this situation and does not expect to overspend the total fund appropriation level. Better data will be available from the third quarter estimate.*

**“Municipal Development Baseball Stadium Operations** **\$241,000**

*This program appropriation is amended in the FY/04 section of the Mayor’s Proposed FY/05 GF Budget as transmitted to Council on April 1, 2004. The FY/04 budget was based on the pro forma statement provided by the consultants for the stadium. The first year of operations indicates the costs will be higher, as were the forecasted revenues.*

**“Corrections Department Community Custody** **\$187,000**

*This program appropriation is amended in the FY/04 section of the Mayor’s Proposed FY/05 GF Budget as transmitted to Council on April 1, 2004.”*

**EXECUTIVE RESPONSE FROM THE ALBUQUERQUE BERNALILLO  
COUNTY WATER UTILITY AUTHORITY**

*“The Water Utility Authority is aware of the projected overexpenditures in the Public Works Water Plant Facilities Operations and the Public Works Distribution Maintenance programs. According to the Department, the Water Division is working on reducing the expenditures in these programs however it is expected that these programs will be overspent. The overexpenditure has resulted from increased gas and electricity usage for peak hour water pumping and increased costs for barricades and paving due to maintenance and repairs. As indicated in Table B of the Report, the Joint Water Operating Fund is expected to be underspent by over \$1 million including these overexpenditures. The Authority recognizes the fact that the budget is approved based on program level appropriations and will introduce appropriate legislation to the Water Utility Authority Board to adjust appropriations once the extent of the overexpenditure is better determined.”*