



City of Albuquerque
Office of Internal Audit and Investigations
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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Environmental Health Department
Expenditures
04-105

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations conducted an audit of expenditures made by the Environmental Health Department (EHD). The audit was included in the fiscal year (FY) 2004 approved audit plan. For FY2002 and FY2003 combined, EHD had \$3 million in operating expenditures and \$344,000 in capital expenditures. For FY2004, EHD had \$2.1 million in operating expenditures.

EHD receives money from three federal grants. These three federal grants provide a portion of the funding for the Air Quality Division of EHD. EHD received grant funds of \$1.3 million in FY2003, and \$1 million in FY2004.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Does EHD have adequate controls, policies and procedures over expenditures?
- Are expenditures made in compliance with departmental procedures, City rules, regulations and ordinances, state statutes and other applicable rules and regulations?
- Does EHD accomplish work plan deliverables specified in the federal grants?
- Does the EHD accomplish City performance measures related to expenditures?

SCOPE

Our audit did not include an examination of all the functions, activities, and transactions related to expenditures. Our audit test work was limited to a review of expenditures during the period from July 2001 through December 2003. This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of expenditures through the completion of fieldwork and does not reflect events or accounting entries after that date. The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

METHODOLOGY

We reviewed a sample of 29 journal vouchers, judgmentally selected, out of a population of 1,408 journal vouchers. The dollar amount of these 29 journal vouchers was \$557,378.

We reviewed a sample of 10 work plan deliverables, judgmentally selected out of a population of 100, from the 2002 federal grant work plans for the Air Quality Control Program.

We reviewed a sample of 79 expenditures, judgmentally selected, out of a population of 3,285 expenditures. The dollar amount of these 79 expenditures was \$199,922.

We reviewed 15 items from the 2003 City Performance Plan to determine the accuracy of the Department's reporting to the City; out of a population of 128 EHD 2003 City Performance Plan items. These 15 items included seven "key initiatives", three "priority objectives", two "quality measures", and three "output measures."

Additionally, we interviewed key personnel and performed analytical procedures. This audit, and its conclusions, is based on information provided through interviews, tests and reviews of current procedures.

FINDINGS

The following findings concern areas that we believe would be improved by the implementation of the related recommendations.

1. EHD SHOULD DEVELOP AND IMPLEMENT PROCEDURES TO ENSURE THAT COSTS CHARGED TO FEDERAL GRANTS ARE APPROPRIATE AND ADEQUATELY DOCUMENTED.

EHD receives money from three federal grants. These federal grants provide a portion of the funding for the Air Quality Division of EHD. EHD must comply with federal regulations regarding expenditures charged to the grants.

The Federal Office of Management and Budget, OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" section C, Basic Guidelines, contains, in part, the following requirements:

To be allowable under Federal awards, costs must meet the following criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
-
- j. Be adequately documented.

Fifteen of the 29 journal vouchers examined, transferred \$557,378 of costs to one or more of the federal grants. EHD could not locate any supporting documentation for these 15 journal vouchers. Therefore, the auditors could not determine if it was appropriate to charge the costs to the federal grants.

EHD may not have adequate fiscal controls in place to ensure that the documentation necessary for journal vouchers is prepared and maintained. EHD fiscal personnel may not have received adequate training on federal procurement regulations in order to comply with OMB Circular A-87. EHD is not in compliance with federal regulations regarding the documentation of costs under federal award. Any cost allocated to the federal grant without proper documentation criteria may be disallowed by the federal funding agency.

RECOMMENDATION

EHD should develop and implement procedures to ensure that costs charged to federal grants are appropriate and adequately documented.

EHD should ensure that fiscal staff are adequately trained and supervised in order to ensure compliance with federal grant and City requirements.

EXECUTIVE RESPONSE FROM EHD

"EHD concurs. Within the last year, the Air Quality Division has developed written procurement/payment procedures which should help ensure costs are processed properly. Monthly grant expenses are also reviewed in detail by the grant program manager. Additionally, please

note that both the AQD division manager and EHD fiscal manager were replaced subsequent to the occurrence of the finding.

2. EHD SHOULD ENSURE THAT IT COMPLIES WITH ADMINISTRATIVE INSTRUCTIONS AND CONTRACT REQUIREMENTS

Payment before Completion of Services

In August 2001, the EHD entered into a contract with a Certified Public Accountant (CPA) firm for an audit of the City's Air Quality Program. In February 2002, the EHD made a \$50,000 payment to this vendor, although the work required by the contract was not yet complete. According to the City's Administrative Instructions, and the terms of the contract, the City should not have made this payment to the vendor. According to EHD, they notified the vendor that this payment should not have been made by the City, and requested that the entire amount paid be refunded.

Administrative Instruction No. 3-7, states, "It is the policy of the City to pay all vendors in accordance with the terms of the contracts or within 30 days from the date of receipt of goods or services, and or date of invoice, whichever comes first"

The contract stated that payment for a task would be made when the contractor had completed a task to the satisfaction of the City. A letter from the vendor dated February 14, 2002, stated, "In December of 2001 we understood it was necessary to submit our invoice for the contract in order for the City to be able to encumber the funds necessary for payment. Since the work was not yet completed we did not expect to receive payment."

Three months after the refund was received from the vendor, the EHD deposited this check in the City's bank account. Administrative Instruction No. 2-8, states, "Persons depositing public monies shall deliver such monies directly to the City Treasury before the close of the business day following the receipt of such funds."

Vendor's Compliance with the Contract's Schedule

The CPA hired by EHD was unable to complete the project within the time schedule specified in the contract. The contract stated that all of the services required by the agreement would be completed by January 9, 2002.

A February 14, 2002, letter from the vendor to the EHD stated, "We started the work related to the contract in the Fall of 2001; however, we will not complete it until the Summer of 2002." The vendor did not actually complete the work and issue the report until November 12, 2003. According to EHD, they granted the vendor an extension of the time schedule, because of the vendor's inability to perform the work on the schedule that they had originally committed to.

EHD personnel did not adequately monitor the vendor's performance to ensure that deadlines were met. The contract did not contain penalties should the vendor fail to perform the contract requirements on a timely basis.

As a result, information which the Albuquerque/Bernalillo County Air Quality Control Board (Air Board) needed to oversee the EHD air quality programs was not available on a timely basis. The needed information included a determination of the actual cost of operating the air quality programs and compliance with regulations.

Problems Identified in the CPA's Review

In November 2003, the audit report was issued to the EHD. The audit reported various problems, including the following, "In the past, it appears that Fund 265 (Grants) has been absorbing more than its share of expenses including payroll and operating costs."

We discussed these problems with EHD personnel, to determine if corrective actions had been subsequently implemented by the department. They stated that they believed that the problem was caused, at least in part, by the unsupported journal vouchers (see Finding No. 1. Our audit work identified that there were also unsupported journal vouchers in FY2003, a year that was not reviewed by the external auditors.

EHD personnel informed us that after the external agreed upon procedures, the department had implemented procedures to improve the management review process and to help ensure that expenditures were charged to the correct federal grant or correct general fund appropriation. They also informed us that as a result of the problems identified in the external auditor's review, the Albuquerque/Bernalillo County Air Quality Control Board has required that a second external review be performed to determine if the problems have been corrected.

RECOMMENDATION

EHD should develop and implement fiscal controls to determine if a vendor has completed work prior to processing payment.

EHD should develop procedures to ensure that all receipts are deposited the day after they are received.

EHD should monitor vendors' performance to ensure that deadlines are met.

EXECUTIVE RESPONSE FROM EHD

"EHD concurs. The 'requisition for purchase' of accounting services was erroneously processed as a 'disbursement'. Controls are now in place to help ensure this doesn't happen again. The staff has been

trained and procedures emphasized with all those responsible for cash handling.

“The vendor encountered some scheduling problems when trying to complete the audit, and we mutually agreed to extend the completion date. Unfortunately, this was not fully documented. In the future, we will ensure that any changes in a contract, i.e., scope, deadlines, are properly documented.”

3. EHD SHOULD DEVELOP PROCEDURES TO ENSURE IT COMPLIES WITH THE NEW MEXICO STATE AUDITOR RULE REGARDING PROCUREMENTS.

In 2001, the Albuquerque/Bernalillo County Air Quality Control Board adopted a resolution directing the City to contract with an independent auditor to determine the actual cost of operating the air quality programs and compliance with various regulations. In August 2001, the EHD entered into a contract with a CPA firm for an audit of the City’s Air Quality Program. The contract was for \$50,000 and was awarded on a non-competitive basis. The individual who was Chief Administrative Officer (CAO) at that time approved a waiver of the competitive bid process.

The New Mexico State Auditor has rules that government agencies must follow when they contract with CPA firms. State Auditor Rule 2.2.2.8 states, “For audit services costing **over \$20,000 (exclusive of gross receipts tax)**, the agency shall seek competitive sealed proposals” State Auditor Rule 2.2.2.8 further states, “Each contract for auditing entered into between an agency and an independent auditor shall be approved in writing by the State Auditor. Payment of public funds may not be made to an independent auditor unless a contract is entered into and approved as provided in this section.” EHD did not follow state regulations when it contracted for the audit services. The CAO may waive City procurement requirements; however, the department must still comply with the State Auditor Rule.

When the original contract was issued, EHD fiscal personnel were not aware of applicable New Mexico State Auditor rules relating to the competitive procurement of contracts with CPA firms. As a result, the City may have paid more for the audit services than would be the case had the services been competitively procured. In October 2002, EHD submitted to the state auditor, an amendment to the original contract, which extended the due date of the project. At this time, EHD also notified the State Auditor that the City had failed to get the required approval for the original contract.

RECOMMENDATION

EHD should develop procedures to ensure it complies with the New Mexico State Auditor’s rules regarding procurements.

EHD should solicit the involvement of DFAS, when it intends to contract with a CPA for services.

EXECUTIVE RESPONSE FROM EHD

“EHD concurs and fiscal staff now knows to work directly with DFAS/accounting to ensure compliance with the state auditor rule for procurement of audit services. In fact, we are working with the Accounting officer on procuring audit services for the FY 2005 AQD audit required by the Air Quality Board.”

4. EHD SHOULD ENSURE THAT PURCHASES ARE PROPERLY AUTHORIZED

City ordinance allows the use of small purchase orders (SPOs) to make certain purchases under \$500. The use of SPOs was substantially phased out, and purchase cards with a limit of \$1,000 per transaction have replaced much of the use of SPOs. However, EHD intends to continue limited use of SPOs to make some purchases.

EHD had assigned the responsibility to process SPOs to a single employee. The auditors reviewed a judgmentally selected sample of 24 SPOs to determine if they had been used in compliance with the City’s regulations.

Authorization of SPO Purchases

Administrative Instruction No. 3-3, Purpose and Use of Small Purchase Orders, states in part, “Authorization’ signature is only required on the ‘Department Copy’ (goldenrod) which is to be maintained for a period of seven years in departmental files for audit purposes.” For all of the 24 SPOs in the audit sample, the EHD could not provide the necessary documentation showing that the SPO had been properly approved. Without such documentation the City is at risk for unintended or unauthorized purchases.

Discrepancy between SPO Amount and Payment Amount

Included in the audit sample was a December 2002 SPO for \$199.95. However, the City’s accounting system indicates that the amount paid to the vendor was \$214.95. EHD may not have adequate controls to ensure that SPOs are issued for the proper amounts.

RECOMMENDATION

EHD should ensure that purchases are properly authorized and documented.

EHD should revise the Accounting Aide Manual to provide fiscal guidance relating to the retention of documentation to support purchases made with SPOs.

EXECUTIVE RESPONSE FROM EHD

“EHD concurs. Procurement procedures are now documented, and include documents retention and approvals. However, with the advent of the purchasing card, the use of SPOs is very limited (for services only). The department uses the purchasing card and follows the procedures established by DFAS/Accounting for processing.

“The discrepancy referenced in the finding was the result of a shipping charge added on the invoice which was not included on the original SPO. We did not change the SPO to reflect the amount actually charged and paid, but in the future will ensure that the SPO agrees with the invoice (if the charges are valid).”

5. EHD SHOULD ENSURE THAT THE EXPENDITURES OF AIR QUALITY PERMIT PROGRAMS ARE COVERED BY THE ANNUAL FEES COLLECTED.

Some of the permit programs which operated by the EHD Air Quality Division are required by the EPA to charge annual fees based upon emissions generated by certain facilities. The EPA requires that the cost of these permit programs be covered by annual fees that the facilities pay to the EHD (42 CFR 85).

Tracking of Expenditures

The EHD Air Quality Division had not adequately tracked expenditures related to these permit program in order to be able to determine if the actual costs are being covered by the annual fees. As discussed in Audit finding No. 2, in August 2001, EHD entered into a contract with a CPA firm for an audit of the City’s Air Quality Program. This audit was to include a determination of whether or not the cost of these permit programs are covered by annual fees that the facilities pay to EHD.

According to the EHD, the work that was performed by the CPA determined that some costs had not being properly aligned among the various EHD programs. Additionally, the reallocation of costs using journal vouchers that were not supported (as discussed in Finding No. 1), contributed to EHD being unable to determine if the fees charged covered the costs of these permit programs.

EHD informed us that a second external review will be performed of FY05 EHD Air Quality Division activities, to determine whether the cost of the permit program was covered by annual fees that the facilities pay.

Accomplishment of Air Board Directives

In April 2001, the Air Board adopted a resolution that addressed the issue of whether the permit program expenditures were covered by the annual fees. The resolution required that the EHD complete the following five items:

- 1) – The EHD must submit to the Air Board a report with the information specified in the resolution. The report was to be the basis for developing an alternative to the 2001 Part 2 permit fee structure. The due date of this item was April 2002.
- 2) – The EHD must submit to the Air Board final language for a proposed permit fees regulation to replace the 2001 Part 2 permit fee regulation. The due date of this item was April 2003.
- 3) – The EHD must submit to the Air Board proposals for replacing the 2001 Part 2 tonnage-based fee structure, with at least one of the proposals being based on actual emissions. The due date of this item was October 2002.
- 4) – The EHD must submit to the Air Board an executed professional services contract with an independent auditor, the scope of services for which shall include an audit of the Air Quality Division programs in Fund 265 and Fund 242.
- 5) – The EHD must submit to the Air Board proposed replacement clause for part 64, ‘Emissions Standards for Hazardous Air Pollutants for Stationary Sources.’

Item number four has been completed. EHD informed us that the other four items have not been completed. EHD stated that item number 5 could not be accomplished because it would be inconsistent with EPA regulations and state law.

The other three items (1, 2 and 3) could not be accomplished by the due dates required by the Air Board. This problem was caused because the CPA that had been hired by the EHD did not complete its work on schedule and because the CPA determined that some costs had not been properly allocated to the various programs.

Consequently, in October 2002, the Air Board put these three items on hold, and it later mandated a second audit to determine if the fees charged covered the costs of these Air Quality Division permit programs.

RECOMMENDATION

EHD should continue to develop procedures that will ensure that the actual expenditures of air quality permit programs are covered by the annual fees collected, as required by the EPA.

EXECUTIVE RESPONSE FROM EHD

“As noted above, a delay in completing the Air Board Directives was caused by a lack of supporting documentation for the audit and the CPA’s inability to complete the audit on schedule. During the same time frame, a revision to the permit fee structure was initiated by Air Quality Division (AQD). The approved revision to regulation 20.11.2 mandated the AQD to perform a financial audit of the division for FY 2005. This revision and the subsequent audit requirement negated the feasibility of the Air Board Directive and timelines.”

6. EHD SHOULD ENSURE THAT THE ACCOMPLISHMENTS REPORTED IN THE CITY PERFORMANCE PLAN ARE ACCURATE.

The EHD reports its accomplishment of items from the City’s annual performance plan to the Administration and City Council. The information is also reported to the Indicators Progress Commission (IPC), a citizen group that reviews the City’s progress toward defined goals. The auditors selected a sample of 15 EHD items, from the 2003 City Performance Plan to determine the accuracy of the Department’s reporting to the City.

These 15 items included 7 “key initiatives”, three “priority objectives”, two “quality measures”, and three “output measures.” We noted inaccurate reporting by the EHD regarding the accomplishment of two of these 15 items, as follows:

- The EHD has a key initiative called the Pollution Prevention Pilot Project, or P4, where EHD works with specific companies that emit pollutants. The goal was to issue a P4 permit. The EHD has reported that the Pollution Prevention Pilot Program is nearing finalization. Upon inquiry, the EHD indicated that the Air Quality Division and a local cement manufacturer conducted an evaluation of the project and determined that the initiative is not feasible for static industries. Consequently, a P4 permit was not issued to this industrial source. The EHD stated that P4 projects are more feasible for dynamic industries such as semiconductor manufacturing. However, the EHD has not started any P4 projects within any dynamic industries. EHD was not able to find a dynamic industry to pursue a P4 permit process with. Therefore, it appears the reporting by the EHD that the Pollution Prevention Pilot Program is nearing finalization, is a summarization that does not accurately reflect the status of the initiative.
- Under the service activity of “Air Pollution Control”, there was a quality measure to “Successfully collect all penalties against industrial violations of regulatory requirements.” The EHD projected 100% accomplishment of this quality measure in FY2003. When asked about the accomplishment of this quality measure in FY2003, the EHD stated that there were no inspections that resulted in

monetary penalties. EHD should report that there were no monetary penalties to collect rather than reporting 100% accomplishment of this quality measure. If significant differences are identified between the goals and the actual performance, managers should determine the causes of the differences and either develop solutions to bring performance into line with the goal, or adjust the goal to make it more realistic and achievable. Management should consider performance measurement to be an ongoing process. An effective performance measurement system can serve to improve management and increase public confidence in government programs.

The EHD provided the auditors with documentation that they had either accomplished the other 13 City performance plan items or had made satisfactory progress on the plan items.

RECOMMENDATION

EHD should refine the performance process to determine if the goals established are realistic and achievable.

EHD should ensure that the accomplishments reported in the City Performance Plan are accurate.

EXECUTIVE RESPONSE FROM EHD

“EHD will continue to work with OMB to refine the descriptions and measures of the Operating Grants Program Strategy and its Service Activity, Air Pollution Control, in order to clearly present its key initiatives (anticipated changes and important projects expected to be completed in the upcoming fiscal year), strategic accomplishments (key initiatives that have been implemented in prior fiscal years), output measures (measures of service delivered or demand reported at the Service Activity level), and quality measures (satisfaction or effectiveness measures of a particular service or function, reported at the Service Activity level). EHD agrees that it’s important to accurately present performance measures in the Performance Plan. EHD is working with OMB now to revise measures like “collection of penalties” currently reported as percentages so that the data reflect both the demand (the denominator) and the compliance (the numerator). It’s important to note that while the performance reporting may be somewhat ambiguous, the Department is effective in achieving compliance before the penalty phase is reached. It is through compliance with the air quality regulations that cleaner air is achieved and that is the desired outcome of the program strategy. EHD will seek

to clarify its measures to convey this outcome and the services performed to achieve it.”

CONCLUSION

The Environmental Health Department should establish and monitor controls on expenditures and ensure that fiscal staff is adequately trained on federal grant and City purchasing requirements.

We appreciate the cooperation of Environmental Health Department personnel during the audit.

Principal Auditor

Senior Auditor

REVIEWED AND APPROVED:

APPROVED FOR PUBLICATION:

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MANAGEMENT AUDIT REPORT

OF THE

EXPENDITURES

ENVIRONMENTAL HEALTH DEPARTMENT

REPORT NO. 04-105



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