

REPORT TO CITY COUNCIL
FISCAL YEAR 2010 –2nd QUARTER
CITYWIDE BUDGET PROJECTIONS AUDIT
REPORT NO. 10-105



City of Albuquerque
Office of Internal Audit and Investigations

FY10 2nd Quarter Budget Projections Audit – Citywide
Report No. 10-105
Executive Summary

Background

City Ordinance 2-10-11 (B) ROA 1994 requires the Office of Internal Audit and Investigations (OIAI) to perform reviews of City expenditures at the end of the second through fourth quarters of each fiscal year (FY). This report is presented to the City Council to satisfy the FY10 2nd Quarter requirement. The City makes appropriations at the program level and expenditures may not exceed appropriations at this level. Tables A & B provide detail of FY10 2nd Quarter budget projections, appropriations, and actual expenditures for all operating funds.

Objective:

Which programs are projected to overspend by more than 5% or \$100,000 and what are the causes of the projected overexpenditures?

- Four General Fund and five Other Operating Fund programs are projected to overspend by more than 5% or \$100,000.

While conducting testwork on the above objective, OIAI noted:

- Albuquerque Fire Department (AFD) purchased office supplies and coffee mugs totaling \$136 from Fund 210. These purchases were not allowable under Fund 210 statutory requirements.
- AFD processed a duplicate payment for three vendor invoices resulting in an overpayment of \$800 to the vendor. Three invoices were paid with a purchasing card (p-card) and also with a check.

Recommendations:

The CAO should monitor those programs that are projected to overspend to ensure compliance with Administrative Instruction No. 2-20: Budgetary Control Responsibilities.

AFD should:

- Implement procedures to ensure that only allowable expenditures are made from Fund 210.
- Ensure departmental invoice processing controls are adequate to mitigate the risk of duplicate payments.

Objective:

Which programs are projected to underspend by more than 5% or \$100,000?

Forty-nine programs in the General Fund and 19 Other Operating Fund programs are projected to underspend by more than 5% or \$100,000.

Objective: Which programs are projected to underspend by more than 10% and \$500,000 and what are the causes of the projected underexpenditures?

Four programs in the General Fund and two Other Operating Fund programs are projected to underspend by more than 10% and \$500,000.

Objective: What is the approximate available fund balance in the General Fund based on the projected expenditures provided by OMB?

The approximate available fund balance is \$4,131,000.

Objective: Is the General Fund reserve in compliance with the requirements of Administrative Instruction 2-13-1A: Establishing a General Fund Reserve for the City?

General Fund Reserve Requirement	\$ 39,502,000
Actual 2 nd Quarter General Fund Reserve	<u>\$ 39,326,000</u>
Requirement Not Met	(\$ 176,000)

Recommendation: The CAO should ensure that the General Fund reserve meets the requirement of Administrative Instruction 2-13-1A.

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

June 30, 2010

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: FY10 – 2nd Quarter Budget Projections
Citywide
10-105

FINAL

INTRODUCTION

City Ordinance 2-10-11 (B) ROA 1994 requires the Office of Internal Audit and Investigations (OIAI) to perform reviews of City expenditures and encumbrances at the end of the second through fourth quarters of each fiscal year (FY). This report is presented to the City Council to satisfy the FY10 2nd Quarter requirement. The expenditure projections for the 2nd Quarter are attached as Tables A (General Fund) and B (Other Operating Funds). These projections were compiled by the Office of Management and Budget (OMB).

The purpose of public budgeting is to provide government with a mechanism to allocate resources for the pursuit of goals that are consistent with community preferences and needs. The City budgets at the program level. Programs are contained within the City's different funds and are managed by departments. Although the City is required by State statute to balance its budget at the fund level, the expenditures are appropriated at the program level and may not exceed appropriations at this level. The City's Budget Ordinance, section 2-11-7 (B) ROA 1994 states,

A full-program budget will be prepared for all city departments each year. The program budget shall clearly identify each program that is proposed to be implemented or continued in the ensuing fiscal year and shall include the projected costs of each program.

The City's operating budget is prepared annually for the General, Enterprise, Special Revenue, Internal Service, Debt Service and Capital Project funds. Each year the City is required to have a balanced budget so that expenditures cannot exceed revenues and other sources.

Budgetary control is maintained by an appropriation and encumbrance system. The Mayor has authority to move program appropriations by the lesser of five percent or \$100,000 without City Council approval. City Council may amend the budget during the fiscal year; however, amendments cannot result in total expenditures that exceed revenues. With the exception of project funds, appropriations revert to fund balance to the extent they have not been expended or encumbered at fiscal year-end.

A clean-up resolution may be performed in the middle of the fiscal year to adjust anticipated revenues and expenditures. At the conclusion of each fiscal year, OMB compares the budgeted versus actual revenues and expenditures. Any required budget adjustments are completed in a final clean-up resolution proposed by the Administration, amended, and approved by City Council. OMB reports that clean-up bills will be proposed to City Council only when overexpenditures occur at the fund level.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Which programs are projected to overspend by more than 5% or \$100,000 and what are the causes of the overexpenditures?
- Which programs are projected to underspend by more than 5% or \$100,000?
- Which programs are projected to underspend by more than 10% and \$500,000 and what are the causes of the underexpenditures?
- What is the approximate available fund balance in the General Fund based on the projected expenditures provided by OMB?
- Is the General Fund reserve in compliance with the requirements of Administrative Instruction 2-13-1 A: Establishing a General Fund Reserve for the City?

SCOPE

Our audit did not include an examination of all functions and activities related to all City program expenditures. Our scope included the General Fund and Other Operating Funds expenditure projections, the General Fund available fund balance, and the General Fund reserve at the end of the FY10 2nd Quarter.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, May 12, 2010, and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

OIAI determined which programs were projected by OMB to over or underspend. For programs that were projected to overspend by more than 5% or \$100,000 or underspend by more than 10% and \$500,000, OIAI:

- Contacted fiscal management to determine the cause of the over or underexpenditure.
- Verified the response by reviewing financial information in COGNOS, the City's reporting software.

OIAI prepared a General Fund available fund balance schedule based on the information provided by OMB and reviewed the General Fund reserve balance.

INFORMATION PROVIDED ON AUDIT OBJECTIVES

FUND BALANCE AND RESERVES

Administrative Instruction 2-13-1A: Establishing a General Fund Reserve for the City states:

To protect the City from shortfalls in revenues due to changes in the economy and unanticipated fiscal needs or emergencies, it is prudent to establish a reserve in the General Fund of the City equal to one-twelfth (1/12 or 8.333%) of the budgeted expenditures for each fiscal year. The General Fund reserve shall not be available for appropriation.

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

	FY 10 APPROVED BUDGET (000's)	FY 10 2nd QUARTER PROJECTIONS (000's)
<i>Resources:</i>		
Revenue ¹	\$ 472,272	\$ 459,660
Beginning fund balance	<u>44,100</u>	<u>46,502</u>
Total resources	516,372	506,162
<i>Appropriations/Projected Expenditures:</i>	<u>474,873</u>	<u>462,586</u>
Fund Balance	41,499	43,576
Fund balance adjustments	(119)	(119)
Fund balance reserves	<u>(41,310)</u>	<u>(39,326)</u> ²
Available fund balance	\$ <u><u>70</u></u>	\$ <u><u>4,131</u></u>

¹ Revenues are projected, actual revenues may vary. Revenues and Beginning Fund Balance are based on the Five-Year Projection and were revised downward with the submission of the proposed FY11 budget.

² Calculated reserve does not meet Administrative Instruction 2-13-1A requirement of \$39,502,000; see Finding #1, page 10.

PROJECTED OVER-EXPENDITURES

GENERAL FUND PROGRAMS

There are 106 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. There were four General Fund programs projected to overspend by more than 5% or \$100,000. These items are highlighted in yellow in the attached Table A.

The following are explanations provided by the responsible departments for General Fund programs anticipated to overspend their budget by more than 5% or \$100,000.

Program 2500026 – *Department of Finance and Administrative Services (DFAS), Administrative Hearing Office* is projected to overspend its \$969,000 budget by \$55,000 or 6%. The Administrative Hearing Office budget appropriation is estimated to be overspent due to an unfunded position that was required by the District Court. DFAS management reported that it is monitoring contractual services to try and cover the cost of the position.

Program 5100002, 5100005 and 5100011 – *Albuquerque Police Department (APD), Neighborhood Policing, Professional Standards, and Family Advocacy Center* are projected to overspend by \$689,000 (1%); \$498,000 (50%); and \$3,872,000 (74%), respectively.

In the *Neighborhood Policing* program, APD management reported that the projected overexpenditure in this program is primarily due to overruns in the crossing guard program for Albuquerque Public Schools. A secondary reason for the excess expenditures is that sworn personnel hours that were budgeted in other programs have been moved into *Neighborhood Policing* as needed.

The projected overexpenditure in *Professional Standards* is primarily the result of sworn personnel hours being moved from other programs, primarily *5100003-Investigative Services*, to this program.

In the *Family Advocacy Center* program, APD management reported that the projected overexpenditure in this program is primarily the same as *Neighborhood Policing* and *Professional Standards*, sworn personnel hours being moved to the program as needed.

OTHER OPERATING FUND PROGRAMS

There are 24 Other Operating Funds with 71 appropriated programs. There were five Other Operating Fund programs projected to overspend their appropriations by more than 5% or \$100,000. These items are highlighted in yellow in the attached Table B.

The following are explanations provided by the responsible departments for Other Operating Fund programs anticipated to overspend their budget by more than 5% or \$100,000.

Program 2700001 – *Albuquerque Fire Department (AFD), State Fire Fund* in the State Fire Fund 210 is projected to overspend its \$1,385,000 budget by \$784,000 or 57%. AFD management reported that the overexpenditure was planned to utilize actual revenue collected as

well as a portion of available fund balance in the State Fire Fund to help offset the decline in General Fund revenues. An appropriation of \$784,000 was subsequently approved by the City Council in the FY10 section of the FY11 budget resolution, which adjusted the appropriations based on the projected expenditures at 2nd Quarter. Exceptions were noted in a sample of expenditures made from Fund 210; see Finding #2 on page 11 for additional information.

Program 5100018 – *Albuquerque Police Department (APD), Remittance to the State* in the Photo Enforcement Fund 288 is projected to overspend its \$1,306,000 budget by \$732,000 or 56%. State law requires the remittance of a percentage of traffic violation fees and fines to the State Treasurer, which results in the projected overexpenditure. The remittance to the State is based on Photo Enforcement revenues collected by APD.

Programs 5400001 and 5400004 – *The Solid Waste Management Department (SWMD); Collections and Recycling* programs in the Refuse Disposal Fund 651 are projected to overspend by \$310,000 (2%) and \$1,195,000 (34%), respectively.

In the *Collections* program, SWMD management reported that the projected overexpenditure is due to fuel, outside vehicle maintenance, contractual services, and overtime cost overruns.

SWMD includes a fuel surcharge in the rate structure that is assessed to all refuse customers when the cost of diesel fuel exceeds \$1.11 per gallon. Even with the fuel surcharge, the fuels line item is projected to overspend appropriations. The fuel surcharge does not cover unleaded fuel and lubricants and the cost for these items has risen above the current appropriation.

Vehicle maintenance is projected to overspend appropriations due to the cost of repairing an aging fleet of collection vehicles. Currently, the department is operating with 59 residential and commercial collection vehicles that are beyond their normal life expectancy. External vendors perform major repairs, which are more costly than in-house repairs. Until the outdated equipment can be replaced, maintenance costs will continue to be unpredictable and are likely to overspend the current appropriation.

Contractual services is projected to overspend appropriations because of the increased need for temporary labor service workers in both residential and commercial collection services. Minimum wage increases for temporary labor positions have caused expenses for these services to exceed appropriations.

SWMD management reported that overtime is projected to overspend due to a total of nine vacant residential and commercial collection driver positions and the unavailability of collection vehicles. However, OIAI noted that personnel expenditures as a whole were not overspent at 2nd Quarter, due to salary savings from vacancies.

In the *Recycling* program, SWMD management reported that the projected overexpenditure is caused by overspending in the supplies, vehicle maintenance, fuels and lubricants, and contractual services line items. Overspending of supplies is within the Intermediate Processing Facility Division (IPF.) SWMD added additional staffing in an effort to process greater quantities of recyclable materials. Four new permanent positions working as a swing shift were added in FY09 and were retained in FY10. Additional temporary positions were added to help alleviate the excess inventory of recyclable materials to be processed. Additional supplies were used because more recycled materials were processed through the 2nd Quarter.

Projected overexpenditure of the vehicle maintenance line item is due to an aging fleet of recycle collection trucks. The last purchase of recycling trucks was in FY05.

Fuels and lubricants are forecast to overspend appropriations but the excess diesel fuel surcharge revenues will be re-appropriated to offset some of the overspending in this line item.

Contractual services is projected to be overspent within the IPF. Additional St. Martin's workers were added as a "cleanup crew" in and around the landfill. Two temporary workers were added to sort recyclable materials during the night shift to help reduce the growing inventory of materials waiting to be processed. One temporary worker was added to provide maintenance at the IPF. SWMD is currently renegotiating with St. Martins for a reduction in the overhead placement fees.

Program 4700002 – Unemployment Compensation program in the Human Resources Fund 705 is projected to overspend its \$995,000 budget by \$206,000 (21%). The projected overexpenditure in *Unemployment Compensation* results because of an increase in the number of unemployment claims filed by former City employees over the last year. Under the New Mexico State Unemployment Insurance regulations, the City, as a municipality, is a "reimbursable" employer. This means that unemployment compensation taxes are paid when a claim for unemployment compensation is filed by a former City employee. Reimbursable employers are also required to make prepayments to the State Unemployment Compensation fund equal to 25% of the previous fiscal year's charges or .125% of the previous calendar year's taxable payroll.

The City's prepayments to the Department of Workforce Solutions were \$99,000 for the first half of FY10 and are \$200,000 for the second half. The total number of unemployment claims filed by former City employees has increased from 163 claims in the first half of FY09 to 329 claims filed in the same time period of FY10, an increase of over 100%.

PROJECTED UNDER-EXPENDITURES

There are 49 programs in the General Fund and 19 in the Other Operating Funds that were projected to underspend by more than 5% or \$100,000. These items are highlighted in gray in the attached Tables A & B.

There are four programs in the General Fund and two Other Operating Fund programs that are projected to underspend by 10% and \$500,000. These items are highlighted in blue in the attached Tables A. The following are explanations provided by the responsible departments for programs anticipated to underspend their budget by 10% and \$500,000.

GENERAL FUND PROGRAMS

Program 7700010– City Support Functions, Early Retirement is projected to underspend its \$6,000,000 by \$1,000,000 (17%). The *Early Retirement* program is projected to underspend because there has been a decrease in retirements from the City in FY10.

Program 2900020 – Department of Family and Community Services (DFCS), Partner with Public Education is projected to underspend its \$5,580,000 budget by \$718,000 or 13%. The greatest part of the projected underexpenditure is due to excess funding for temporary employees' wages at public school playgrounds for before and after school programs. DFCS management reported that this was taken into consideration in preparing the FY11 budget.

Program 5100003 and 5100007 – Albuquerque Police Department (APD), Investigative Services and Prisoner Transport are projected to underspend by \$3,047,000 (14%) and \$532,000 (26%), respectively.

The projected underexpenditure in *Investigative Services* is because sworn personnel hours originally budgeted in the program were transferred into other areas as needed at the time. Personnel hours have been moved primarily into *Family Advocacy Center, Professional Standards* and *Neighborhood Policing* programs.

The projected underexpenditure in *Prisoner Transport* is primarily a result of position vacancies. APD management reports that it has proven to be difficult to recruit and to retain Transport officers. These are civilian positions and the training required is extensive and time consuming. Nine of 25 (36%) APD Transport Officers positions were vacant during the 2nd Quarter.

OTHER OPERATING FUND PROGRAMS

Programs 2500009 and 2500010 – DFAS – Lodgers Tax Promotion and Transfer to Tax Refunding D/S – 405 are projected to underspend by \$537,000 (10%), each. DFAS management reported that the projected underexpenditure is a result of Lodgers Tax revenue shortfalls. The normal transfer is usually 1/12 of the annual appropriation each month to promotions and debt service, however, since revenues were not coming in at the estimated amount, the transfer was adjusted to less than the 1/12 each month resulting in the program being projected to underspend.

RECOMMENDATION

Based on the information provided by the departments it appears that several programs may require additional appropriations. These projected overexpenditures are at the program level and generally do not reflect any projected underexpenditures of programs in the same department or fund that may exist. The CAO should monitor these programs that are projected to overspend to ensure compliance with Administrative Instruction No. 2-20: Budgetary Control Responsibilities.

RESPONSE FROM THE CAO

“The CAO does monitor expenditures on an on-going basis. Every effort is being made to ensure departments are controlling expenditures and that the departments remain within their appropriations. In the instances where it is known departments will overspend, the Administration will submit legislation to adjust appropriations. It should be noted that the Administration also closely monitors expenditures at a fund level and in no case is a fund spending beyond available revenues or fund balance.”

FINDINGS

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

1. THE CHIEF ADMINISTRATIVE OFFICER (CAO) SHOULD ENSURE THAT THE GENERAL FUND RESERVE MEETS THE REQUIREMENT UNDER ADMINISTRATIVE INSTRUCTION 2-13-1A.

The calculated General Fund reserve at the end of the 2nd Quarter did not meet the amount required under Administrative Instruction 2-13-1A, Establishing a General Fund Reserve for the City of Albuquerque, which states:

To protect the City from shortfalls in revenues due to changes in the economy and unanticipated fiscal needs or emergencies, it is prudent to establish a reserve in the general fund of the City equal to 1/12 (8.333%) of the budgeted expenditures for each fiscal year.

FY10 2 nd Quarter Budgeted Expenditures (Table A)	\$474,018,000
Reserve Requirement	<u>1/12</u>
General Fund Reserve Requirement	\$ 39,502,000
FY10 2 nd Quarter General Fund Reserve	<u>\$ 39,326,000</u>
Amount less than the reserve requirement	<u>(\$ 176,000)</u>

OMB indicated that the 2nd Quarter reserve was calculated on projected expenditures of \$462,586,000 at the 2nd Quarter instead of the approved budget of \$474,018,000. A risk exists that the General Fund reserve will not adequately cover any unanticipated fiscal needs or emergencies.

RECOMMENDATION

The CAO should ensure that the general fund reserve is equal to 1/12 of the budgeted expenditures.

RESPONSE FROM CAO

“As part of the Fiscal Year 2010 savings plan, the Administration directed departments to adjust expenditures by 2% of their appropriations. This

savings plan was submitted to Council as an Executive Communication without an adjustment to the appropriation level. As a result, the appropriations or required operating reserve was not adjusted to meet the reduced expenditure level for second quarter. It should be noted that the operating reserve was adjusted for Fiscal Year 2010 with the submission of the Fiscal Year 2011 budget appropriations on April 1st. The operating reserve adjustment was approved by City Council on May 24, 2010.”

2. ALBUQUERQUE FIRE DEPARTMENT (AFD) SHOULD MONITOR EXPENDITURES FROM FUND 210 FOR ALLOWABILITY UNDER THE STATUTORY REQUIREMENTS AND FOR PROPER INTERNAL CONTROL.

A. Unallowable Expenditures

AFD purchased office supplies and coffee mugs totaling \$136 from Fund 210. These purchases were not allowable under Fund 210 statutory requirements.

A total of 418 invoices, totaling \$796,639, were paid from Fund 210 through December 31, 2009. OIAI judgmentally selected and reviewed 116 of these invoices to determine whether the expenditures were allowable under the statutory requirements for the fund. The office supplies and coffee mugs were purchased using petty cash. The petty cash reimbursement request was originally recorded to Fund 110; however, AFD Fiscal personnel changed the fund code to 210.

NMSA 59A-53-5 states that the purpose of the Fire Protection Fund Law, which provides the funding for Fund 210, is to provide monies to cities for use in operation, maintenance and betterment of local fire departments. Payment from Fund 210 for coffee mugs that were given to AFD Heroes of the week and office supplies are not considered allowable under NMSA 59A-53-5.

B. Duplicate Payments

AFD processed a duplicate payment for three vendor invoices resulting in an overpayment of \$800 to the vendor. During the review of the 116 invoices, OIAI identified three invoices that were paid with a purchasing card (p-card) and also with a check.

Administrative Instruction 2-3, City Check Distribution Policy, states “Sound financial practices require adequate internal controls to safeguard city assets against loss from unauthorized use or disposition.”

Additionally, the Department of Finance and Administration Services - Purchasing Division, P-Card Manual, § 8, Phone and Electronic Orders, requires p-cardholders to instruct the vendor to clearly label all documentation resulting from a p-card transaction as such. P-cardholders are instructed to advise the vendor to send any sales receipt or invoice directly to the cardholder rather than the City Accounts Payable Office to avoid duplicate payments.

The invoices that were paid twice were clearly marked as having been paid with a p-card but the invoices were not mailed to the p-cardholder, instead they were mailed to the City Accounts Payable post office box.

Inadequate invoice processing controls resulted in the duplicate payment of invoices paid from Fund 210.

RECOMMENDATION

AFD should:

- Implement procedures to ensure that only allowable expenditures are made from Fund 210.
- Ensure departmental invoice processing controls are adequate to mitigate the risk of duplicated payments.

RESPONSE FROM AFD

***“A. Unallowable Expenditures – The Albuquerque Fire Department concurs with the finding. Purchases were originally made against the Fire Fund Budget. They were subsequently journal entered to the appropriate funding account. AFD personnel will ensure proper coding of all future charges.*”**

***“B. Duplicate Payments – The Albuquerque Fire Department concurs with the finding. The overpayment of \$800 has been re-paid to the department by the vendor. AFD personnel will provide continued scrutiny on all invoices to ensure proper payments are made.”*”**

Budget Auditor

REVIEWED:

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

Chairperson, Accountability in Government
Oversight Committee