

REPORT TO CITY COUNCIL

FISCAL YEAR 2010 –3rd QUARTER

CITYWIDE BUDGET PROJECTIONS AUDIT

REPORT NO. 10-108



City of Albuquerque
Office of Internal Audit and Investigations

FY10 3rd Quarter Budget Projections Audit – Citywide
Report No. 10-108
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 3rd 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 3rd 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?

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

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

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

Fifty-two programs in the General Fund and 24 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?

Three programs in the General Fund and three 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 (\$7,381,000).

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	\$ 39,508,000
Actual 3rd Quarter General Fund Reserve	<u>\$ 39,326,000</u>
Requirement Not Met	(\$ 182,000)

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
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October 18, 2010

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

Audit: FY10 – 3rd Quarter Budget Projections
Citywide
10-108

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 3rd Quarter requirement. The expenditure projections for the 3rd 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 3rd 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, August 30, 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 3rd 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>474,098</u>
Fund Balance	41,499	32,064
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>(7,381)</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 \$39,508,000; see Finding #1, page 9.

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 two 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 5100005 and 5100011 – *Albuquerque Police Department (APD), Professional Standards, and Family Advocacy Center* are projected to overspend by \$438,000 (44%); and \$3,572,000 (68%), respectively.

APD management reported projected overexpenditures in *Professional Standards* and *Family Advocacy Center* programs are primarily the result of sworn personnel hours being moved from other APD programs to these programs as needed.

OIAI performed detailed testing of the salary expenditures for programs 5100005 and 5100011 and it appeared that officers and other APD personnel were routinely reassigned from one program to another as necessary to ensure public safety. Each time an employee is assigned to work in a program other than his or her usual assignment, APD timekeepers are required to manually input a nine-digit code, commonly referred to as a “Combo Code.” Combo Codes ensure that salary expenditures are recorded in the proper general ledger (GL) account. In the payperiod ending November 6, 2009, OIAI found that one in every five rows of payroll timekeeping entries for program 5100005 included a manually entered Combo Code. Similarly, OIAI found that Combo Codes were required for every sixth row of payroll timekeeping data entry for program 5100011 during the payperiod ending October 23, 2009.

Manual entry of combo codes creates inefficiencies in the timekeeping process and increases the risk of GL coding errors. OIAI recommends that when APD assigns officers and other personnel to a program for a significant period of time, the GL code assigned to the employee should be updated by DFAS-Central Payroll to reflect the program in which the employee is assigned. This would mitigate the risk of GL accounting coding errors and make the APD timekeeping function more efficient.

OTHER OPERATING FUND PROGRAMS

There are 24 Other Operating Funds with 71 appropriated programs. There were six 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 \$366,000 or 26%. 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. The Fund 210 expenditures are based on funding from the State Fire Fund using the previous fiscal year actual allocation from the state. A fund balance was also available from FY09 for a total available Fire Fund balance of approximately \$2.9 million for FY10. The appropriations will be adjusted to reflect the available State Fire funds during the year-end close process.

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 \$199,000 or 15%. 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. Per discussions with OMB, the final appropriations will be adjusted to reflect the actual revenues received at fiscal year end.

Program 5400004 – *The Solid Waste Management Department (SWMD); Recycling program* in the Refuse Disposal Fund 651 is projected to overspend by \$931,000 (26%).

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 3rd 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 are 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 negotiated with St. Martins for a reduction in the overhead placement fees.

SWMD reported it uses an external trucking company to transport recycling materials to Arizona. Prior to the economic downturn, the recycling company paid the cost of transporting the materials to Arizona but it is no longer able to cover the costs on behalf of SWMD. The downturn also impacted SWMD's ability to sell recycling materials and the inventory of the materials grew to levels that exceeded the IPF capacity. SWMD is in the process of finalizing a Memorandum of Understanding with Bernalillo County to use Metropolitan Detention Center prison labor at the IPF, which will result in future cost savings.

Program 5700009 – Facility Maintenance program in the Transit Fund 661 is projected to overspend its \$2,025,000 budget by \$164,000 (8%). Transit management reported that a journal entry error resulted in a \$23,000 expenditure recorded to the printing services line item that will be corrected prior to fiscal year end. The utilities – gas line item is projected to be \$139,000 over the budgeted amount. One-time costs to repair brick and paving at the Alvarado Transit Center also impacted the repairs and maintenance line item in the program.

Program 2500023 – Transfer to General Fund program in Risk Management is projected to overspend the budget of \$777,000 by \$4,268,000 (549%). OMB reported that the unreserved fund balance, which had increased in prior years, was used to offset the escalating decline in gross receipts taxes. An appropriation adjustment of \$4,268,000 was approved by City Council during the 4th quarter.

Program 4700002 – Unemployment Compensation program in the Human Resources Fund 705 is projected to overspend its \$995,000 budget by \$273,000 (27%). 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. A report from the Human Resources Department indicates that the number of unemployment claims filed increased 50% during the first three quarters of FY10 compared to the same time period in FY09.

PROJECTED UNDER-EXPENDITURES

There are 52 programs in the General Fund and 24 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 three programs in the General Fund and three 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 7700011– *Transfer to Operating Grants* program in the City Support Functions Department is projected to underspend its \$5,313,000 budget by \$649,000 (12%). OMB reported that the projected underexpenditure is the result of an \$84,000 savings plan in the Department of Senior Affairs related to an Area Agency on Aging grant and a Department of Family and Community Services (DFCS) Home Grant of \$565,000 that will be not utilized in FY10. DFCS Home Grants from previous fiscal years were being spent in FY10 so the \$565,000 grant was not needed for program funding in the current year.

Program 2900020 – *Department of Family and Community Services (DFCS), Partner with Public Education* is projected to underspend its \$5,580,000 budget by \$793,000 or 14%. 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 5100010 – *Albuquerque Police Department (APD), Off Duty Police Overtime* is projected to underspend the \$1,825,000 budget by \$535,000 (29%). The projected underexpenditure in *Off Duty Police Overtime* is due to an FY10 budget increase for program changes that were not implemented in FY10. Requests for APD off duty services were also less than what was budgeted.

OTHER OPERATING FUND PROGRAMS

Programs 2500009 and 2500010 – *DFAS – Lodgers Tax Promotion and Transfer to Tax Refunding Debt Service – 405* in Lodgers Tax Fund 220 are each projected to underspend by \$537,000 (10%). 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.

Program 5400005 – *Clean City Section*, Refuse Disposal Operating Fund 661 in SWMD, is projected to underspend the \$5,741,000 budget by \$628,000 (11%). SWMD management reported that there are two divisions within Clean City Program: Weed & Litter and Graffiti. Most of the underexpenditure relates to vacant temporary positions in the Weed & Litter Division. As of March 31, 2010, only four of the 20 budgeted positions were filled. The positions, along with external agency temporary workers, are funded in the contractual services line item. These individuals work on the State Highway Litter Cleanup grant. The State

suspended the grant effective December 2009 but later reinstated it at decreased funding levels through the end of FY10. The State and SWMD agreed to a lower level of work to match the reduced funding. Because of the reduced work levels funded by the grant, SWMD has kept the Clean City temporary positions vacant and is using full time employees and agency temporary positions to work on the State grant.

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 four of the projected overexpenditures appear to also result in overexpenditure of the related fund. 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 a quarterly basis and makes every effort to ensure departments control their expenditures and remain within their appropriation levels where possible. The CAO was aware of the additional expenditures in the four programs resulting in the overexpenditure of the three funds. The overexpenditure reflected in two of the funds was part of the mid-year savings plan imposed by the Administration and appropriation adjustments were submitted April 1 with the Fiscal Year 2011 legislation bill approved by City Council on May 24. An appropriation adjustment for the third fund will be introduced as part of the year end clean up. It should be noted, all three funds had sufficient revenues or fund balance to cover the additional expenditures.”

FINDINGS

The following finding concerns an area that we believe could be improved by the implementation of the related recommendation.

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 3rd 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 3rd Quarter Budgeted Expenditures (Table A)	\$474,098,000
Reserve Requirement	<u>1/12</u>
General Fund Reserve Requirement	\$ 39,508,000
 FY10 3rd Quarter General Fund Reserve	 <u>\$ 39,326,000</u>
Amount less than the reserve requirement	<u>(\$ 182,000)</u>

OMB calculated the General Fund reserve based on the amount of a FY10 budget deappropriation that was enacted during the 3rd quarter. The General Fund reserve calculation shown above is based on the revised budgeted expenditures in accordance with the Administrative Instruction. 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 third 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.”

Budget Auditor

REVIEWED:

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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