

**FOLLOW-UP OF
ENVIRONMENTAL HEALTH DEPARTMENT EXPENDITURES
REPORT NO. 06-04-105F**



**City of Albuquerque
Office of Internal Audit and Investigations**



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

Follow-Up: Environmental Health Department Expenditures
06-04-105F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a Follow-up of Audit No. 04-105, Environmental Health Department Expenditures, issued March 30, 2005. The purpose of our Follow-up is to report on the progress made by the Environmental Health Department (EHD) management in addressing our findings and recommendations.

BACKGROUND INFORMATION

For FY2002 and FY2003 combined, EHD had \$3 million in operating expenditures. For FY2004, EHD had \$2.1 million in operating expenditures. EHD received grant funds of \$1.3 million in FY2003, and \$1 million in FY2004.

EHD received 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.

EHD FY2007 approved expenditures budget is as follows:

- Operating expenditures \$3, 872,000
- Capital expenditures 693,000
- Grant expenditures 3,268,000

SCOPE, OBJECTIVES, AND METHODOLOGY

Our Follow-up procedures consist of inquiries of City Personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our Follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action to resolve our findings and recommendations. The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality review.

The scope of the Follow-Up did not include an examination of all the functions and activities related to EHD. We limited our scope to EHD expenditures from the period of March 30, 2005, to September 15, 2006.

RECOMMENDATION NO. 1:

EHD received money from three federal grants. These federal grants provided a portion of the funding for the Air Quality Division of EHD. OIAI reviewed 29 journal vouchers, prepared by EHD, which transferred costs to one or more of these federal grants. EHD could not locate supporting documentation for 15 of the journal vouchers reviewed, which transferred \$557,378 of costs to one or more of these federal grants. OIAI could not determine if it was appropriate for EHD to charge the costs to the federal grants.

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

The audit recommended that EHD:

- Develop and implement procedures to ensure that costs charged to federal grants were appropriate and adequately documented.
- Ensure that fiscal staff were adequately trained and supervised in order to ensure compliance with federal grant and City requirements.

EHD responded that the Air Quality Division 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.

ACTION TAKEN

The audit recommendations have been partially implemented. EHD developed and implemented the Air Quality Division Policies and Procedures for Purchasing Goods/Services Manual. This manual provides guidance to EHD staff to help ensure purchases are processed properly. However, the manual does not discuss:

- Compliance with federal regulations pertaining to federal grant monies spent.
- Procedures ensuring the correct accounting for costs charged to federal grants.

EHD stated that Air Quality fiscal staff received training on compliance with federal grant requirements. This more experienced staff trains new staff regarding federal grant requirements. The Federal Environmental Protection Agency also provides guidance and direction to the Air Quality Division staff on an as needed basis regarding federal grant requirements.

Air Quality fiscal staff received training regarding compliance with City requirements. This training included:

- MARS (the City's computerized purchasing system).
- Report Net (the City's computerized financial information system).
- Payroll/Timekeeper.
- Cash handling.
- On the job training regarding the Air Quality Division Policies and Procedures for Purchasing Goods/Services.

OIAI judgmentally sampled 10 journal vouchers, which transferred costs totaling \$409,032 between the various EHD programs. OIAI requested the journal voucher supporting documentation to determine if the transfer of costs was proper. OIAI noted that the description and the supporting documentation for each journal voucher were not self-explanatory. OIAI met with EHD fiscal personnel and determined the transfers were appropriate.

RECOMMENDATION

EHD should revise the Air Quality Division Policies and Procedures for Purchasing Goods/Services Manual to include guidance on:

- Federal regulations for the use of federal grant monies.
- Correct accounting for costs charged to federal grants.

EHD should ensure that journal vouchers are properly supported, and are self-explanatory.

RESPONSE FROM EHD

“EHD concurs. EHD will update the Air Quality Division Policies and Procedures for Purchasing Goods/Services Manual to include guidance on: (1) Federal regulations for the use of federal grant monies and (2) correct accounting for costs charged to federal grants. Division management will increase their review in an effort to ensure that journal vouchers are properly supported and self-explanatory. The Policies and Procedures Manual will be updated by the end of Federal Fiscal Year 2007. Greater attention will be paid to journal vouchers beginning immediately.”

RECOMMENDATION NO. 2:

EHD entered into a contract with a Certified Public Accountant (CPA) firm for a financial audit of the City's Air Quality Program. OIAI determined that EHD made a \$50,000 payment to the CPA firm, 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. The vendor returned the payment to the City. Three months after the refund was received from the vendor, EHD deposited this check in the City's bank account. Administrative Instructions state that public money must be deposited the day after receipt.

The CPA firm was unable to complete the project within the time schedule specified in the contract. EHD personnel did not adequately monitor the CPA firm's performance to ensure that deadlines were met. 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. This information included a determination of the actual cost of operating the air quality programs and compliance with regulations.

The audit recommended that:

- EHD develop and implement fiscal controls to determine if a vendor has completed work prior to processing payment.
- EHD develop procedures to ensure that all receipts are deposited the day after they are received.
- EHD monitor vendors' performance to ensure that deadlines are met.

EHD responded that:

- The requisition for purchase of accounting services was erroneously processed as a disbursement, and controls are now in place to prevent future occurrences.
- The staff has been trained and procedures emphasized with all those responsible for cash handling.
- It would ensure that any changes in a contract, i.e., scope, deadlines, were properly documented.

ACTION TAKEN

The audit recommendations have been partially implemented. EHD developed and implemented the Air Quality Division Policies and Procedures for Purchasing Goods/Services manual. However, this manual does not address the issue of paying vendors prior to the work being performed. Also, it does not address the issue of City requirements for the timely deposit of receipts.

Due to the Air Board requesting a second external financial audit, EHD entered into a second contract with a different CPA firm. The scope of the second contract included a comparison of the costs incurred and the revenue received by the EHD permit and grant programs. Part of the purpose of this second contract was to address the issue identified in the first financial audit that the EHD grants fund had been absorbing more than its appropriate share of expenses. The results of the second external audit are discussed in the follow up of Audit Recommendation No. 5. This second contract required all of the services to be completed by December 31, 2005. The second CPA firm completed its report on June 26, 2006, which was approximately six months later than the required contractual date. EHD did not take

sufficient actions to ensure that the vendor met the deadline, of December 31, 2005, as stated in the second contract.

RECOMMENDATION

The Air Quality Division Policies and Procedures for Purchasing Goods/Services should be revised to require:

- That vendors are not paid prior to work being performed.
- The timely deposit of receipts.

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

RESPONSE FROM EHD

“EHD concurs. EHD will update the Air Quality Division Policies and Procedures for Purchasing Goods/Services Manual to: (1) clarify that vendors are not to be paid prior to work being performed; (2) emphasize the requirement for timely deposit of all receipts; and (3) require that vendors' performance be monitored to ensure that contract deadlines are met. The Policies and Procedures Manual will be updated by the end of Federal Fiscal Year 2007.”

RECOMMENDATION NO. 3:

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 requires agencies to seek competitive sealed proposals for audit services costing over \$20,000 (exclusive of gross receipts tax). State Auditor Rule 2.2.2.8 also requires contracts for auditing services between an agency and an independent auditor to be approved in writing by the State Auditor.

OIAI determined that EHD did not follow these State Auditor regulations when it contracted for the audit services. The contract was awarded by EHD on a non-competitive basis, and EHD did not obtain the required approval from the State Auditor. As a result, the City may have paid more for the audit services than would be the case had the services been competitively procured.

The audit recommended that EHD:

- Develop procedures to ensure it complies with the New Mexico State Auditor's rules regarding procurements.
- Solicit the involvement of the Department of Finance and Administrative Services (DFAS), when it intends to contract with a CPA for services.

EHD responded that its fiscal staff now knows to work directly with DFAS to ensure compliance with the state auditor rule for procurement of audit services.

ACTION TAKEN

The audit recommendations have been fully implemented. When EHD entered into a second contract with a CPA firm for services, it obtained the required State Auditor's approval for the contract. The second contract was also approved by the director of DFAS.

EHD also stated that the State Auditor requires that financial audits conducted for the City should be done by the external auditor who performs the year-end financial statement audit.

RECOMMENDATION NO. 4:

City ordinance allows the use of small purchase orders (SPOs) to make certain purchases under \$500. The use of SPOs was substantially phased out by the City, and has been replaced by purchase cards that have a limit of \$1,000 per transaction. However, EHD stated that it intended to continue limited use of SPOs to make some purchases of services.

OIAI reviewed a judgmentally selected sample of 24 SPOs and determined that EHD had not used them in compliance with the City's regulations. EHD could not provide documentation showing that the SPOs had been properly approved. Without such documentation the City is at risk for unintended or unauthorized purchases.

The audit recommended that EHD:

- Ensure that purchases are properly authorized and documented.
- Revise its Accounting Aide Manual to provide fiscal guidance relating to the retention of documentation to support purchases made with SPOs.

EHD responded that procurement procedures are now documented, and include document retention and approval requirements. However, with the advent of the purchasing card, the use of SPOs is limited to services only. EHD also responded that they will ensure that the amount of the SPO agrees with the amount of the vendor's invoice.

ACTION TAKEN

The audit recommendations have been fully implemented, based upon the development and implementation of the procedures contained in the EHD Air Quality Division Policies and Procedures for Purchasing Goods/Services manual. The manual includes controls and guidance to EHD staff on small purchases. EHD issued 69 SPOs during the period from July 2005 through May 2006. EHD issues SPOs in cases where a vendor will not accept the use of a City purchase card for a small purchase. OIAI reviewed the SPO transactions and verified that they were properly authorized and documented.

RECOMMENDATION NO. 5:

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

OIAI determined that the EHD Air Quality Division did not adequately track expenditures for these permit programs to determine if the actual costs were covered by the annual fees. The CPA firm hired by EHD for a financial audit of the City's Air Quality Program determined that some costs were not properly aligned among the various EHD programs. The reallocation of costs using journal vouchers that were not supported contributed to EHD being unable to determine if the fees charged covered the costs of these permit programs.

EHD informed OIAI that a second financial audit would be performed by a CPA firm 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.

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

EHD responded that a delay in completing the Air Board Directives was caused by a lack of supporting documentation for the financial audit and the CPA's inability to meet the deadline. The Air Board mandated the Air Quality Division perform a financial audit of the Division for FY 2005.

ACTION TAKEN

The audit recommendations have been partially implemented. EHD entered into a second contract with a different CPA firm for audit services to review the FY2005 cost accounting performed by EHD. This second contract stated that the CPA firm would compare the programs required by the EPA and those performed by the Division to compare costs incurred with the revenue received for the permit program and the grant program. The second CPA firm issued a report in June 2006, which noted the following problems:

1. EHD does not have a formal cost allocation plan.

OIAI discussed this with the EHD Air Quality Division manager. He informed us that the Air Quality Division plans on tracking hours for individuals who may work on different functions. He further indicated that the division will analyze this data and determine if the allocation of operating expenses needs to be changed in the future. However, the division did not have a firm implementation date for this action.

2. An individual who should have been paid with federal funds was instead paid with non-federal funds.

OIAI determined that EHD should make journal vouchers correcting the payroll allocation to resolve the finding.

EHD stated that there have been a number of actions implemented to ensure that the actual expenditures of the air quality permit programs are covered by the annual fees collected, as required by the EPA. According to EHD, these actions included the following:

1. Development and implementation of the Air Quality Division Policies and Procedures for Purchasing Good/Services.

However, as noted by OIAI in the follow-up to audit Recommendation No. 1, the manual does not provide guidance to EHD staff regarding the procedures necessary to ensure the correct accounting for costs.

2. Establishment of revenue accounts for the different revenue sources in the Air Quality fees.

However, EHD determined that it made revenue accounting errors. EHD determined that six air quality penalty payments, totaling \$7,450, had been recorded in an incorrect revenue account. Two of these errors occurred in FY2006 and three occurred in FY2007. Although EHD has established accounts for its different revenue sources, its internal controls for the accurate recording of penalty payments into the correct revenue account are not adequate.

RECOMMENDATION

EHD should implement the recommendation made to have a formal cost allocation process in place for the Air Quality Division.

EHD should track hours for employees who work on different functions in the Air Quality Division to determine if the present allocation of personnel expenses should be changed.

EHD should develop and document internal controls and procedures to ensure the recording of penalty payments to the correct revenue account.

RESPONSE FROM EHD

“EHD concurs. EHD has developed, implemented and is currently conducting initial evaluation of a time tracking system designed to document the amount of time Air Quality Division staff spends on various activities and programs. The evaluation of the time tracking system is anticipated to be complete by the end of calendar year 2007. The formal cost allocation process can not be finalized until the evaluation of the time tracking system is complete. The formal cost allocation process is anticipated to be complete by the end of City Fiscal Year 2008. Until then, EHD will formalize in writing the cost allocation process currently used by the Air Quality Division pending modifications based on data from the time tracking system. EHD will develop and document internal controls and

procedures to ensure that penalty payments and all other revenue is recorded to the correct revenue account. These procedures are anticipated to be complete by the end of Federal Fiscal Year 2007.”

RECOMMENDATION NO. 6:

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. OIAI 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 seven key initiatives, three priority objectives, two quality measures, and three output measures. OIAI noted inaccurate reporting by EHD in the accomplishment of two of these 15 items.

The audit recommended that EHD:

- Refine the performance process to determine if the goals established are realistic and achievable.
- Ensure that the accomplishments reported in the City Performance Plan are accurate.

EHD responded that it would work with the City’s Office of Management and Budget 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, strategic accomplishments, output measures and quality measures.

ACTION TAKEN

The audit recommendations have been fully implemented. EHD worked with the City’s Office of Management and Budget to refine the descriptions and measures of the Operating Grants Program Strategy and its Service Activity, Air Pollution Control. EHD stated that this was done to clearly present its key initiatives, strategic accomplishments, output measures and quality measures.

OIAI reviewed the accuracy of EHD’s reporting of the accomplishment of four FY2005 quality measures and one output measure. We examined EHD documentation which substantiated that EHD had accurately reported the accomplishment of these quality and output measures.

CONCLUSION

EHD has fully implemented three of the recommendations noted in the initial audit. Three items have been partially implemented.

EHD should revise the Air Quality Division Policies and Procedures for Purchasing Goods/Services Manual to provide guidance to EHD staff and address the following areas:

- Federal regulations for the use of federal grant monies.
- Correct accounting for costs.
- Vendors are not paid prior to work being performed.
- City requirements for the timely deposit of receipts.

EHD should ensure that journal vouchers are properly supported. EHD should implement procedures to monitor vendors' performance to ensure that contract deadlines are met. EHD should implement the recommendation made by the second CPA firm to have a formal cost allocation process in place for the Air Quality Division. EHD should track hours for employees who work on different functions in the Air Quality Division to determine if the present allocation of personnel expenses should be changed. EHD should develop and document internal controls and procedures to ensure the recording of penalty receipts into the correct revenue account.

We appreciate the assistance and cooperation of the EHD personnel during the follow-up audit.

Principal Auditor

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APPROVED:

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