

**REPORT TO CITY COUNCIL**  
**FISCAL YEAR 2008 – 3<sup>rd</sup> QUARTER**  
**CITYWIDE BUDGET PROJECTIONS AUDIT**

**REPORT NO. 08-103B**



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

FY08 3<sup>rd</sup> Quarter Budget Projections Audit – Citywide  
Report No. 08-103B  
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 FY08 3<sup>rd</sup> 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 FY08 3<sup>rd</sup> 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 six Other Operating Fund programs are projected to overspend by more than 5% or \$100,000.

The Department of Family and Community Services (DFCS) entered into a contract and paid invoices totaling \$192,000. The appropriation for the program was only \$142,000.

**Recommendation:**

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

DFCS should ensure contracts do not exceed the program's appropriation.

**Objective:**

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

Thirty-four programs in the General Fund and 12 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 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?

**Objective:**

The approximate available fund balance is (\$10,757,000).

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	\$ 40,898,000
Actual 3 <sup>rd</sup> Quarter General Fund Reserves	<u>\$ 46,165,000</u>
Requirement Exceeded	\$ 5,267,000

**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**

September 24, 2008

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

Audit: FY08 – 3<sup>rd</sup> Quarter Budget Projections  
Citywide  
08-103B

**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 FY08 3<sup>rd</sup> Quarter requirement. The expenditure projections for the 3<sup>rd</sup> 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 FY08 3<sup>rd</sup> 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 20, 2008, 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 ReportNet, 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.

	<b>FY 08 APPROVED BUDGET (000's)</b>	<b>FY 08 3<sup>rd</sup> QUARTER PROJECTIONS (000's)</b>
<i>Resources:</i>		
Revenue <sup>1</sup>	\$ 475,298	\$ 457,588
Beginning fund balance	<u>67,936</u>	<u>84,647</u>
Total resources	543,234	542,235
<i>Appropriations/Expenditures:</i>		
Fund Balance	<u>496,961</u>	<u>490,776</u>
	46,273	51,459
Fund balance adjustments	(287)	(9)
Fund balance reserves	(45,009)	(46,165) <sup>2</sup>
3 <sup>rd</sup> Quarter estimated new reversion (Not available for appropriation)	N/A	(16,042)
<b>Available fund balance</b>	<b>\$ <u><u>977</u></u></b>	<b>\$ <u><u>(10,757)</u></u></b>

<sup>1</sup> Revenues are projected, actual revenues may vary.

<sup>2</sup> Exceeds reserve requirement of \$40,898,000.

## PROJECTED OVER-EXPENDITURES

### GENERAL FUND PROGRAMS

There are 111 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.

Programs 31506 and 31511 – Department of Family and Community Services (DFCS), *Provide Mental Health Services* and *Neighborhood Crime Reduction* are projected to overspend by \$151,000 (5%) and \$50,000 (35%), respectively.

In *Provide Mental Health Services*, the program received a \$182,000 invoice from a FY06 contract for housing of persons with disabilities. The original appropriation was one-time public safety money appropriated in FY06. The project was partially completed in FY06 but was delayed and not finalized until FY08. The encumbered balance from FY06 was not reappropriated in FY08.

In *Neighborhood Crime Reduction*, DFCS entered into a contract, and subsequently paid invoices totaling \$192,000. The appropriation for the program was only \$142,000, resulting in an overexpenditure of \$50,000. See the Finding on page 8 for additional information.

Program 25502 – Department of Finance and Administration (DFAS) *Citywide Financial Support Services* is projected to overspend its \$585,000 budget by \$48,000 or 8%. OMB reports that Property Tax revenue has increased an estimated 11% for FY08, resulting in increased administrative fees. Additional property tax revenues may need to be appropriated to cover this projected overexpenditure.

Program 45502 – Parks and Recreation Department (PRD), *Parks Management* is projected to overspend its \$13,959,000 budget by \$483,000 or 3%. The projected overexpenditure in this program is primarily caused by water costs. PRD management reports water costs have increased considerably over the last several years, and the department has continued to reduce expenditures by holding positions vacant and deferring other expenditures.

#### ***OTHER OPERATING FUND PROGRAMS***

There are 23 Other Operating Funds with 69 appropriated programs. There were six Other Operating Fund programs projected to overspend their appropriation 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.

*Programs 54501, 54503 and 54505* – *The Solid Waste Management Department (SWMD); Collections, Administrative Services and Clean City* programs in the Refuse Disposal Fund 651 are projected to overspend by \$2,388,000 (14%), \$339,000 (5%) and \$469,000 (8%), respectively.

In the *Collections* program, the projected overexpenditure is caused by the overtime, vehicle maintenance, fuels/lubricants, and tires/tubes line items. SWMD management reports vacancies in new residential collection drivers positions and the increased number of residential collections has caused the overtime line item to overspend. Management reports that the department recently purchased 8 commercial collection and 12 residential trucks that are scheduled to arrive by September. The new trucks will reduce costly send-out repairs, and allow more repairs to be performed in-house at reduced costs. Fuels/lubricants is projected to overspend because of rising fuel costs. The fuel line item will be increased based on revenue received from the fuel surcharge. Tires/tubes is projected to overspend due to the increasing cost of tires.

In the *Administrative Services* program, the projected overexpenditure is primarily caused by the contractual services and supplies line items. Almost all of the contractual services expense is for long-term Westaff employees used in place of administrative positions that have been deleted in previous years. Management reports that the change from Utility Billing System (UTB) to the new Customer Information Systems (CIS) has required additional billing personnel supplied through Westaff. During the third quarter of FY08, the Administration approved the department's plan to convert long-term Westaff positions to five permanent full time positions. In FY08, salary savings will partially offset the overspending in contractual services. Overspending of supplies is for small inventory items that are expensed when purchased, such as rubber hoses, fittings, etc. The cost for these items has increased with the costs of petroleum and steel. Office supplies for the Edith facility are also contributing to the supplies overexpenditure.

In the *Clean City* program, the overexpenditure is primarily due to overtime, increased purchases of supplies for graffiti removal, contractual services for temporary employees, repairs and maintenance for vehicles, and increased fuel costs. Management reports increased graffiti tags and a wetter than normal summer and fall have placed increased demands on supplies for graffiti removal and weed control herbicides. The overexpenditure in contractual services is due to temporary labor contracted with St. Martin's Hospitality Center and the Albuquerque Indian Center. Management reports that the use of weed control herbicides should reduce contract day

labor costs for weed control in the future. Vehicle repairs and maintenance will overspend appropriations due to repairs to buses, vans, interstate sweepers and other heavy equipment within the Weed & Litter Division. Graffiti and Weed & Litter Divisions each purchased six new trucks in FY08, which should reduce repairs/maintenance costs in the future.

*Program 57565 – The ABQ Ride Department; Facility Maintenance* program in the Transit Operating Fund 661 is projected to overspend its \$1,576,000 budget \$202,000 (13%). The *Facility Maintenance* program's projected overexpenditure is a result of overexpenditure of utilities, supplies, and contractual services. This program budgets and expends nearly all of the utility expenses for the ABQ Ride department. Management reports that the opening of a new operational building at the Daytona facility and increasing utilities prices have contributed to the utility overexpenditure. Management reports that repairing aging equipment is causing an overexpenditure in the supplies and contractual services line items.

*Program 44501 – Parks and Recreation Department (PRD), Affordable and Quality Golf* in the Golf Operating Fund 681 is projected to overspend its \$3,603,000 budget by \$111,000 or 3%. The projected overexpenditure in *Affordable and Quality Golf* is caused by overexpenditures in the water and supplies line items. Management reports that the overexpenditure in water is caused by increased water charges and that the overexpenditure in supplies is due to the higher costs of chemicals, pesticides, and fertilizers.

*Program 28503 – DFAS – Fleet Management* in the Fleet Management Fund 725 is projected to overspend its \$12,938,000 budget by \$833,000 or 6%. The projected overexpenditure in this program is caused by the increased cost of fuel. Fleet Management collects revenue from City departments for their fuel use. Management plans to request an additional appropriation based on generated fuel revenues to cover the projected overexpenditure.

## **PROJECTED UNDER-EXPENDITURES**

There are 34 programs in the General Fund and 12 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.

In the Five Year Forecast prepared in December 2007 by OMB, it was estimated there would be a negative unreserved General Fund balance of \$54.3 million by the close of FY09 if steps were not taken to reduce spending or increase revenue. City Administration immediately placed restrictions on filling vacant positions, limited travel, and deferred other expenditures. As a result, many General Fund programs were underspent due to these restrictions.

There are three programs in the General Fund that are projected to underspend by 10% and \$500,000. These items are highlighted in blue in the attached Table 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 77545 – City Support Functions, Metropolitan Detention Center*, is projected to underspend its \$9,000,000 budget by \$2,300,000 or 26%. City Council enacted R-07-257 for funding of \$9,000,000 in FY08 for the Metropolitan Detention Center. The first payment was made in March 2008 for \$4,500,000, with the plan for subsequent payment to be contingent upon the recommendation of City Council. In June 2008, the City and the County agreed to decrease the remaining FY08 payment to \$2,200,000, resulting in an underexpenditure of \$2,300,000.

*Program 49506 – Planning Department, Community Revitalization* is projected to underspend its \$4,576,000 budget by \$895,000 or 20%. The projected underexpenditure for this program is caused by:

- \$400,000 one-time FY07 appropriation that was inadvertently carried over to FY08
- \$295,000 in salary savings from 6 vacant positions
- \$200,000 in contractual services for various sector and redevelopment plans.

*Program 51502 – Albuquerque Police Department (APD), Investigative Services* is projected to underspend its \$22,090,000 budget by \$2,277,000 or 10%. The underexpenditure in this program is primarily the result of 53 vacant positions as of March 31, 2008. Management reports that when staffing levels for sworn personnel is below the budgeted 1,100 officers, greater emphasis is placed in ensuring existing sworn personnel are on the streets and within the *Neighborhood Policing* program to provide adequate public safety. As the force approaches 1,100 officers there will be additional officers placed in Investigative Services program, resulting in an increase in expenditures in this program.

### **FINDING**

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

1. DFCS SHOULD ENSURE CONTRACTS DO NOT EXCEED THE PROGRAM'S APPROPRIATION.

DFCS' Neighborhood Crime Reduction program had an appropriation of \$142,000 for FY08. DFCS signed a contract for \$192,000 in July 2007. Administrative Instruction No. 3-13, Encumbrances as a Budget Management Tool, states:

An appropriation is the legal authority for a governmental entity to spend. Appropriations are established by the adoption of the annual City budget. During the course of a fiscal year, the authority of an appropriation is used to acquire necessary goods and services.

DFCS stated it intended to request an additional appropriation in the FY08 clean-up section of the FY09 appropriation bill. The additional appropriation was never requested. As of August 2008, DFCS paid \$192,000 in invoices for this contract, resulting in the program being overspent by \$50,000.

RECOMMENDATION

DFCS should ensure contracts do not exceed the program's appropriation.

RESPONSE FROM DFCS

***“DFCS concurs with this finding. The over commitment of a program appropriation is an anomaly for the Department. The Department's process for obligating contract dollars is for program staff to verify contract amounts on a central list maintained by the Fiscal Division. Any contract that exceeds the budgeted amount is flagged for review by the Director and Fiscal Manager to ensure the increase is intentional, that it follows all procurement regulations, and that other line items in the program strategy hold to revert funding sufficient to cover the increase. In the case of the contract in question, the third step was not possible because the contract was the only item budgeted in the entire program strategy.*”**

***“The Department will work with OMB to move the contract to an appropriate existing program in FY10 in order to avoid a future over commitment of appropriated dollars. In the meantime, the Fiscal Manager will review all contracts to ensure they are held within appropriated amounts.”***

## CONCLUSION

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 do not reflect any projected underexpenditures of programs in the same department or fund that may exist.

The CAO should monitor the programs that are projected to overspend to ensure compliance with Administrative Instruction No. 2-20: Budgetary Control Responsibilities. DFCS should ensure contracts do not exceed the program's appropriation.

## RESPONSE FROM THE CAO

*“The CAO actively monitors department and program budgets on a quarterly basis. Department directors and fiscal managers are frequently cautioned on the importance and responsibility of staying within budget. Fiscal Year 2008 has proved to be a trying year as revenues have declined and steps were taken to ensure total expenditures remain within available resources. As a result, program expenditures have been monitored more closely than ever before. In some instances, there are programs that the Administration knows will spend beyond the existing appropriations for reasons that are beyond the control of the department directors or fiscal managers. The administration has identified these programs and is working with the departments to minimize the over-expenditure as much as possible without having an adverse impact on city services. Steps are also taken to ensure adequate resources are available and in place to cover the over-expenditure and appropriation adjustments, if required, will be submitted for council approval as part of the year end cleanup process.*”

*“The CAO also wants to assure that no department director or fiscal manager has willfully or negligently overspent their appropriations. If this were to occur disciplinary action would be strictly enforced per Administrative Instruction No. 2-20.*”

*“The City is also undertaking a reevaluation of contract processes and procedures to ensure department staff are adequately trained and follow proper procedures when entering into and monitoring contracts. The Administration will ensure that all appropriate staff from department directors to fiscal staff is aware of the rules regarding the award and monitoring of contracts. We will ensure that they have adequate internal controls in place to properly manage and administer contracts. It should be noted that as a department, Family and Community Services is not overspent and has sufficient balances in other programs to cover this overexpenditure.”*

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Budget Auditor

REVIEWED:

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Audit Manager

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Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

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Carmen Kavelman, CPA, CISA, CGAP  
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Chairperson, Accountability in Government  
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