

REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2007 SECOND QUARTER BUDGET

07-103B



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

INTRODUCTION

City Ordinance 2-10-11 (B) ROA 1994 requires the Internal Audit Division to perform reviews of City expenditures and encumbrances at the end of the second through fourth quarters of each fiscal year. This report is presented to the City Council to satisfy the Fiscal Year (FY) 2007 second quarter requirement. The review was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

The projections for the second quarter of FY2007 are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB). City Ordinance allows the Mayor to adjust the City's budget as necessary for no greater than \$100,000 or 5% of a program's appropriation, whichever is less. For each anticipated overexpenditure in excess of \$100,000 or 5% of appropriations, we requested an explanation of what is generating the projected overexpenditure. We then assessed management's plans, if any, to resolve the anticipated overexpenditure. We also requested an explanation for programs whose projected expenditures were under the appropriated amount by \$100,000 *and* 5%.

RESOURCES AND FUND BALANCE

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

	FY 07 APPROVED BUDGET	FY 07 2nd QUARTER PROJECTIONS
	(000's)	(000's)
Resources:		
Revenue*	\$ 451,138	\$ 454,805
Additional revenue by resolution	N/A	920
Beginning fund balance	<u>72,156</u>	<u>87,351</u>
Total resources	523,294	543,076
Appropriations/Expenditures:	<u>476,680</u>	<u>491,598</u>
Fund Balance	46,614	51,478
Fund balance adjustments	29	(287)
Fund balance reserves	(46,585)	(41,560)
2 nd quarter estimated new reversion (not available for appropriation)	N/A	(2,669)
Available fund balance	\$ <u><u>58</u></u>	\$ <u><u>6,962</u></u>

* Revenues are projected, actual revenues may vary.

PROJECTED OVER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to overspend \$100,000 or 5% of appropriations, whichever is lower.

GENERAL FUND PROGRAMS

There are 108 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. The following General Fund programs are in jeopardy of exceeding budget appropriations:

Program 31513 – Family and Community Services (FCS) Train Lower Income Persons is projected to overspend its \$42,000 budget by \$4,000 or 10%. The City applies a vacancy savings rate to all departments during the preparation of the budget. This program only has one position, resulting in a projected overexpenditure.

Programs 24524 and 24546 – Department of Municipal Development (DMD) GF Street Services and Transfer to Gas Tax Road Fund 282 are projected to overspend their budgets by \$360,000 (4%) and \$800,000 (190%), respectively. These overexpenditures were caused by the unusually heavy rain last summer and the snow in December and January, requiring DMD to overspend for additional overtime, road salt, and vehicle maintenance and fuels. The FY07 adjustment section of the FY08 budget contains additional appropriations of \$360,000 and \$800,000 for programs 24524 and 24546, respectively.

Program 45504 – Parks and Recreation Department (PRD) Promote Safe Use of Firearms is projected to overspend its \$298,000 budget by \$36,000 (12%). The projected overexpenditure in this program is primarily due to the fact that the shooting range hosted two shooting competitions last fall that required the purchase of additional supplies and phone lines. Expenditures for additional temporary employees to staff the range when the range is full also contributed to the overexpenditure. Management reports that appropriations have not kept up with the usage and even when the range is fully staffed, it is necessary to hire additional temporary employees to ensure firearm safety.

Program 51501 – Albuquerque Police Department (APD) Neighborhood Policing is projected to overspend its \$73,518,000 budget by \$2,000,000 or 3%. Approximately \$1,700,000 of the projected overexpenditure is due to expenditures in the contractual services line item for expansion of the Red Light Camera Program. Another \$300,000 is attributed to overtime costs. The FY07 adjustment section of the FY08 budget includes an additional appropriation of \$2,000,000.

NON-GENERAL FUND PROGRAMS

There are 21 Non-General Operating Funds with 66 appropriated programs. The Non-General Fund programs at risk of overspending are as follows:

Programs 56507 and 56509 Environmental Health Department (EHD) Operating Permits and Vehicle Pollution Management are projected to overspend their budgets by \$202,000 (11%) and \$88,000 (7%), respectively. The overexpenditure in *Operating Permits* is due to necessary roof repairs and an HVAC system overhaul. Capital outlay expenditures of approximately \$30,000 and personnel early retirement expenditures of \$55,000 account for the overexpenditure in *Vehicle Pollution Management*. The FY07 adjustment section of the FY08 budget includes additional appropriations of \$364,000 and \$85,000 for programs 56507 and 56509, respectively.

Program 62510 – The *Street Services* program in the Gas Tax Road Fund 282 is projected to overspend its budget by \$860,000 (17%). This overexpenditure is caused by the unusually heavy rain last summer and the snow in December and January, requiring DMD to overspend for additional overtime, road salt, and vehicle maintenance and fuels. The FY07 adjustment section of the FY08 budget includes an additional appropriation of \$800,000 for this program.

Programs 54501 – The *Solid Waste Management Department (SWMD) Collections* program in the Refuse Disposal Fund 651 is projected to overspend by \$2,031,000 (13%). SWMD management reports that the increase in fuel costs is primarily responsible for the projected overexpenditure. Diesel was budgeted at an average cost of \$1.11 per gallon for FY07; however, the actual costs during the first six months of FY07 were as follows:

<u>Month</u>	<u>Price per gallon</u>
July	\$2.53
August	\$2.63
September	\$2.71
October	\$2.82
November	\$2.34
December	\$2.16

SWMD has included a fuel surcharge on customer bills to recover some of the increase in fuel costs; however, the surcharge only applies to diesel and doesn't become effective until costs exceed \$1.11/gallon. Also, the additional cost of petroleum-based vehicle lubricants is not included in this surcharge. Repairs and maintenance expenditures have also increased due to an aging fleet of landfill heavy equipment and refuse collections vehicles requiring necessary repairs resulting in approximately \$1,250,000 of overexpenditure. The *Collections* program has not purchased any new trucks in FY07.

Overtime expenditures account for approximately \$800,000 of the projected overexpenditure. In FY06, hiring for vacant positions which required a commercial drivers license was frozen in anticipation of layoffs related to the transition of the Metropolitan Detention Center (MDC) to Bernalillo County. A City driver laid off from the MDC would be offered a similar position with the SWMD. The hiring freeze and poor retention of drivers resulted in vacancies in FY07 which caused additional use of overtime. Also, heavy snow contributed to \$100,000 of overtime costs.

Programs 57514, 57550 and 57565 – The Transit Department (Transit) ABQ Ride, Paratransit, and Facility Maintenance programs in Transit Fund 661 are projected to overspend by \$1,150,000 (5%), \$523,000 (11%) and \$282,000 (23%), respectively. Management reports the primary causes of the projected overexpenditures in the *ABQ Ride* and *Paratransit* programs are repairs and maintenance costs, overtime, and fuel costs. An aging fleet has driven increases in repairs and maintenance, and contractual services. Overtime is also a factor as Transit is short on mechanics and bus/paratransit drivers. In August 2007, Transit had approximately 60 vacancies which increased to approximately 75 by the end of the second quarter. The FY07 adjustment section of the FY08 budget includes an additional appropriation of \$300,000 for program *57514 ABQ Ride*.

Management reports overexpenditures in the *Facility Maintenance* program are due to high utility bills at the Westside Transit Facility location, partly because of the radiant heat in the flooring of the Maintenance Building. The *Facility Maintenance* program does not have salary savings to absorb the overexpenditure.

PROJECTED UNDER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to underspend their budget by \$100,000 and 5% of appropriations.

GENERAL FUND PROGRAMS

Program 59501 – Chief Administration Officer (CAO) Chief Administration Officer program is projected to underspend its \$1,856,000 budget by \$149,000 or 8%. The projected underexpenditure in this program relates to salary savings due to a vacant Administrative Assistant position.

Programs 56501 and 56502 – Environmental Health Department (EHD) Consumer Health Protection (56501) is projected to underspend its \$1,127,000 budget by \$143,000 or 13%. The projected underexpenditure in this program is primarily salary savings due to two vacant Environmental Health Specialist IIs.

Environmental Services (56502) is projected to underspend its \$1,491,000 budget by \$166,000 or 11%. The projected underexpenditure in this program is primarily salary

savings due to a current vacancy of an Environmental Compliance Coordinator position. Management reports that the Household Hazardous Waste activity will spend the appropriation in the Operating Expenditures category and the program will not be underspent at fiscal year-end.

Programs 31503, 31509, and 31516 – Family and Community Services (FCS) Develop Affordable Housing (31503) is projected to underspend its \$474,000 budget by \$250,000 or 53%. This program received additional funding from City Council through R-2006-085. The amount of \$250,000 was appropriated from the unreserved fund balance of the General Fund to FCS for the purpose of providing research and legal services as needed to set up the Workforce Housing Trust Fund. Management reports FCS will not be spending the \$250,000 this year.

Substance Abuse Treatment Prevention (31509) is projected to underspend its \$7,039,000 budget by \$419,000 or 6%. Management reports that this program will have less of an underexpenditure for 3rd quarter. Second quarter projections did not anticipate that two evaluation contracts with the University of New Mexico Hospital for patient intake and assessment would be completely spent.

Partner with Public Education (31516) is projected to underspend its \$5,720,000 budget by \$464,000 or 8%. The primary causes of the underexpenditure in this program are personnel and contractual services line items. The contract with Albuquerque Public Schools (APS) accounts for the majority of the appropriation in the contractual services line item. APS provides programming and submits a reimbursement for their costs. Management reports that this program is down from 31 to 26 sites for the current school year, thus requiring fewer personnel costs. They were also down sites for the summer session. School principals at those lost sites have gone with other after school providers like YMCA and Campfire.

Programs 27504 and 25550 – Department of Finance and Administrative Services, Information Services and Citizen Services program are projected to underspend their budgets by \$650,000 (6%) and \$721,000 (18%), respectively. The primary cause of the projected underexpenditures in these programs is salary savings. As of May 4, 2007, the *Information Services* program currently has 20 of its 89 positions vacant and the *Citizen Services* program has 24 of their budgeted 70 positions vacant.

Program 41502 –Office of Internal Audit and Investigations (OIAI) program is projected to underspend its \$1,234,000 budget by \$136,000 or 11%. The underexpenditure in this program is due to salary savings. OIAI had Principal Auditor and Budget Auditor positions vacant at the beginning of FY07 were filled in October 2006. The Senior Information Systems Auditor and an Audit Supervisor position remain vacant. The Inspector General position remained vacant for the first half of FY07 as it was filled January 2007. OIAI has traditionally had difficulty in getting qualified applicants for

open positions due the higher salaries available in the private sector and public accounting.

Program 34509 – *Legal Department's Safe City Strike Force* program is projected to underspend its \$1,043,000 budget by \$110,000 or 11%. Management reports there were salary savings due to an Assistant City Attorney vacancy that has since been filled.

Programs 49504, 49506 and 49507 – *Planning Department, Code Enforcement, Community Revitalization, and Planning and Development* programs are projected to underspend their budgets by \$462,000 (16%), \$210,000 (6%) and \$147,000 (10%) due to salary savings. During the second quarter *Code Enforcement* had 9 of its 43 positions vacant, *Community Revitalization* had 4 of its 22 positions vacant, and *Planning and Development* had 2 of its 18 positions vacant. Several of these positions are currently in various phases of the hiring process.

Program 51506 – *Albuquerque Police Department (APD) Professional Standards* program is projected to underspend its \$1,519,000 budget by \$173,000 or 11%. The projected underexpenditure in this program is primarily due salary savings from two positions that have been vacant for ten months. Management reports that one of the positions has been filled and management does not anticipate that this program will be more than 5% underspent by the end of the fiscal year.

NON-GENERAL FUND PROGRAMS

Programs 11501 – *Aviation Operations* program in the Aviation Operating Fund 611 is projected to underspend its \$3,467,000 budget by \$307,000 (9%). The projected underexpenditure in this program is primarily due to salary savings from vacancies of a Director, Principal Auditor, and a Technical Program Manager. Management reports that a Director has since been hired.

Program 57598 – *Strategic Support* program in the Transit Operating Fund 661 is projected to underspend its \$3,360,000 budget by \$213,000 or 6%. Salary savings has caused this program to underspend. In mid-August *Strategic Support* had 17 vacancies and in mid-January 11 vacancies.

Program 33595 – *Safety Office* program in the Risk Management Fund 705 is projected to underspend its \$1,518,000 budget by \$168,000 or 11% due to a delay in purchasing Automated External Defibrillators (AED's) and to salary savings. The Executive Safety Committee identified the need to review and coordinate the provision of AED's at City facilities. An Administrative Instruction was issued and a plan was formulated to purchase new AED's and complete AED training for City employees. The *Safety Office* program is still in the process of purchasing the AED's. The position of Safety Officer was vacant for all of FY06, was reclassified to the title of COP Fleet Safety Officer and was filled in December 2006.

Program 47550 – Insurance and Administration program in the Employee Insurance Fund 735 is projected to underspend its \$49,182,000 budget by \$5,494,000 or 11%. During contract negotiations for FY07 the department had estimated increased insurance costs to be 10% to 12%, but when the contracts were finalized before the FY07 budget was completed, the actual increased costs were approximately 5%, resulting in the program being over budgeted.

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. It should be noted that these are second quarter projections and will be adjusted as further information becomes available throughout the year.

<u>Department - Program</u>	<u>Projected Over Expenditure</u>
Family and Community Services	\$ 4,000
Municipal Development – GF Street Services	360,000 ¹
Municipal Development – Transfer to Gas Tax Road Fund 282	800,000 ¹
Parks & Recreation Department – Promote Safe Use of Firearms	36,000
APD – Neighborhood Policing	2,000,000 ¹
Environmental Health – Operating Permits (Fund 242)	202,000 ²
Environmental Health – Vehicle Pollution Management (Fund 242)	88,000 ³
Municipal Development – Street Services - Gas Tax Road (Fund 282)	860,000 ⁴
Solid Waste Department – Collections (Fund 651)	2,031,000
Transit Department – ABQ Ride (Fund 661)	1,150,000 ⁵
Transit Department – Paratransit (Fund 661)	523,000
Transit Department – Facility Maintenance (Fund 661)	<u>282,000</u>
TOTAL	<u>\$ 8,336,000</u>

¹ Entire amount was included in the FY07 adjustment section of the FY08 budget.

² \$364,000 was included in the FY07 adjustment section of the FY08 budget.

³ \$85,000 was included in the FY07 adjustment section of the FY08 budget.

⁴ \$800,000 was included in the FY07 adjustment section of the FY08 budget.

⁵ \$300,000 was included in the FY07 adjustment section of the FY08 budget.

RESPONSE FROM THE CAO

“The Executive appreciates your review of the Second Quarter Fiscal Year 2007 expenditure projections and agrees that some programs may require additional appropriations. In several of the cases cited, higher than budgeted fuel prices continue to be a significant factor in the projected over expenditures. In addition, during the first half of FY/07, several departments were challenged by unusual weather. We continue to work with Risk Management and the State of New Mexico to determine the extent of possible reimbursement, if any, to offset some of the incremental costs attributable to the unusual snows in late 2006. As noted in your report, we included a number of FY/07 adjustments in the proposed FY/08 budget where we felt that affirmative management actions or fund balances would not be sufficient to accommodate the projected over expenditure.

“Additionally and importantly, it should be noted that the \$6.962 million shown as the FY/07 2nd Quarter Projections available fund balance was appropriated to programs on a nonrecurring basis in the approved FY/08 budget and is not actually available fund balance nor is it expected to be actually available fund balance at the end of FY/07.”