



City of Albuquerque

Office of Internal Audit

FOLLOW-UP OF THE
Albuquerque Bernalillo County Water Utility
Authority Franchise Fee Revenue Audit
Report 23-19-103F
Date: June 28, 2023

INTRODUCTION

The Office of Internal Audit (OIA) issued the Albuquerque Bernalillo County Water Utility Authority Franchise Fee Revenue audit report on April 25, 2019. OIA completed a follow-up to determine the corrective actions that the Finance & Administrative Service Department (DFAS) has taken in response to the report. The report contains two recommendations, one of which has been implemented and is now considered closed and one that remains open.

BACKGROUND

In 2003, the New Mexico Legislature adopted Senate Bill 887 Laws 2003, Chapter 437 (§72-1-10, NMSA1978), which created the Albuquerque Bernalillo County Water Utility Authority (the Authority) and provided that all functions, appropriations, money, records, equipment, and other real and personal property pertaining to the Joint Water and Wastewater Systems (System) would be transferred from the City of Albuquerque (the City) to the Authority.

To facilitate the System transfer, the City, Bernalillo County, and the Authority entered into a joint powers agreement governing policy matters and a memorandum of understanding (MOU) governing operational matters. Both of these documents provided a framework for the Authority to operate successfully and without interruption in services provided to the community. The current MOU is effective through June 30, 2019. The City and Authority have agreed upon an operating structure, which is governed by the current MOU and have agreed to a franchise fee structure that is governed by the Franchise Fee Ordinance. The objectives of the audit were to determine the following:

- Determine that the Authority is complying with the four percent gross revenue franchise fee payment in accordance with City ordinance Section 13-4-9-8 (A) ROA 1994;
- Determine that the Authority is complying with terms of timely payment described in the City ordinance Section 13-4-9-8 (B) ROA 1994; and
- Determine that the Authority is complying with the annual reconciliation requirement described in City ordinance Section 13-4-9-8 (C) ROA 1994.

In fiscal year 2016, the Authority's gross water and wastewater revenues totaled \$210.1 million of which \$183.7 million was related to the City's jurisdiction and the Authority paid the City \$7.3 million in franchise fees. In fiscal year 2017, the Authority's gross water and wastewater revenues totaled \$215.2 million of which \$189.8 million was related to the City's jurisdiction and the Authority paid the City \$7.6 million in franchise fees.

The results of audit procedures identified opportunities for internal control improvements pertaining to the lack of policies, procedures, and processes to ensure proper monitoring of the Authority's compliance with the City ordinance relative to objectives one and three.

Follow-Up

Albuquerque Bernalillo County Water Utility Authority Franchise Fee Revenue Audit

No. 23-19-103F

June 28, 2023

Further information pertaining to the audit scope, limitations, and methodology can be found in Appendix A of the original audit report.

FOLLOW-UP OBJECTIVE

The objective of this follow-up was to determine whether DFAS has taken the corrective actions recommended in OIA's report issued on April 25, 2019. Consistent with *Government Auditing Standards*, Section 9.08, promulgated by the U.S. Government Accountability Office, the purpose of audit reports includes facilitating a follow-up to determine whether appropriate corrective actions have been taken. This field follow-up is a non-audit service. *Government Auditing Standards* do not cover non-audit services, which are defined as professional services other than audits or attestation engagements. Therefore, DFAS is responsible for the substantive outcomes of the work performed during this follow-up and is responsible to be in a position, in fact, and appearance, to make an informed judgment on the results of the non-audit service. OIA limited our scope to actions taken to address our audit recommendations from the original audit report dated April 25 2019 through the submission of actions on June 21, 2023

METHODOLOGY

To achieve the objective, OIA:

- Obtained documentary evidence from DFAS.
- Interviewed the DFAS staff to understand and verify the status and nature of the corrective actions taken.
- Verified the status of the recommendations DFAS has reported as implemented.

RESULTS

Of the two recommendations addressed in the original audit report, one has been implemented and is now considered closed. See ATTACHMENT 1. OIA will continue to monitor the corrective actions taken by the department in response to the report.

Follow-Up

Albuquerque Bernalillo County Water Utility Authority Franchise Fee Revenue Audit

No. 23-19-103F

June 28, 2023

SUBMITTED:

DocuSigned by:

Stacy Martin

64A7D650FA3E40A

Stacy Martin, Staff Auditor
Office of Internal Audit

REVIEWED:

DocuSigned by:

Vanessa Meske

FEF77AB7F20B4DD...

Vanessa Meske, Lead Auditor
Office of Internal Audit

DocuSigned by:

Marisa Vargas

0F462D006A1E4C8...

Marisa C. Vargas, Interim City Auditor
Office of Internal Audit

DocuSigned by:

Edmund E Perea, Esq.

0E28BFBCFA1A43F...

Edmund E. Perea, Esq.
Accountability in Government Oversight
Committee Chairperson

ATTACHMENT 1

Recommendations	Responsible Agency	Department Response	OIA Conclusion	OIA Use Only Status Determination
<p><u>Recommendation #1</u> The City should: Establish and implement policies, procedures, and internal control processes to ensure monitoring of City ordinance Section 13-4-9-8 ROA (A) 1994 including:</p> <ul style="list-style-type: none"> • An assessment to determine whether accounts are properly included or excluded from gross revenues; • Confirmation that the Authority is periodically providing validation of customer jurisdiction; and • Independent verification by the City of the accuracy of the customer's assigned jurisdiction to the City's GIS jurisdiction. <p>Work with the Authority to:</p> <ul style="list-style-type: none"> • Determine how excluded accounts, including accrual adjustments, should be considered in the calculation of the franchise fee assessment; • Determine how refunds and credits can be consistently excluded from • Correct jurisdictional mismatches; and 	<p>Finance & Administrative Service Department (DFAS)</p>	<p>“DFAS Treasury Division Franchise Fee Policy & Procedures- Albuquerque Bernalillo County Water Authority” (ABCWUA) were implemented with an effective date of July 1, 2019, as well as general “Franchise Fee Procedures” implemented on June 1, 2020; both attached.</p> <p>City Legal and DFAS are in current discussions with ABCWUA to amend the Franchise Fee Ordinance to include the elements described in the recommendation. Any amendments to this Ordinance will require final action by the City Council.</p> <p>Documentation: Franchise Fee Procedures — Treasury Division</p> <p>Franchise Fee Policy & Procedures – Albuquerque Bernalillo County Water Utility Authority (“Authority”) – Treasury</p>	<p>OIA received and reviewed the Franchise Fee Policy & Procedures- Albuquerque Bernalillo County Water Authority and Franchise Fee Procedures documents from DFAS. OIA noted that the documents address the process for collecting, monitoring and reconciling franchise fee revenue. In addition, the documents also include an assessment on accounts excluded and included from gross revenues, obtaining confirmation from the franchise fee vendor that it is providing validation of customer jurisdiction, and receiving independent verification by the City of the accuracy of the customer's assigned jurisdiction to the City's GIS jurisdiction.</p> <p>OIA recognizes that the City is working to amend the Franchise Fee Ordinance and will</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

ATTACHMENT 1

Recommendations	Responsible Agency	Department Response	OIA Conclusion	OIA Use Only Status Determination
<ul style="list-style-type: none"> Determine if there is an over or under payment of the franchise fee to the City. Negotiate, as needed, with the Authority, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994. 		Division Completion Date: n/a	continue to monitor the corrective action until completed.	
<u>Recommendation #2</u> The City should establish and implement policies, procedures, and internal control processes to ensure continued monitoring of City ordinance Section 13-4-9-8 (C) ROA 1994 to ensure: <ul style="list-style-type: none"> The Authority is timely submitting an annual reconciliation of the franchise fee due to the City based upon the actual gross revenue for the year; Periodically confirming the accuracy of the customers' assigned jurisdiction to the City's GIS jurisdiction; and Timely review of the annual reconciliation for accuracy and assess if revenue accounts are properly included or excluded from gross revenues. 	Finance & Administrative Service Department (DFAS)	<p>“DFAS Treasury Division Franchise Fee Policy & Procedures- Albuquerque Bernalillo County Water Authority” (ABCWUA) were implemented with an effective date of July 1, 2019, as well as general “Franchise Fee Procedures” implemented on June 1, 2020; both attached.</p> <p>Documentation: Franchise Fee Procedures — Treasury Division</p> <p>Franchise Fee Policy & Procedures – Albuquerque Bernalillo County Water Utility Authority (“Authority”) – Treasury Division</p> <p>Completion: July 1, 2019</p>	OIA received and reviewed the Franchise Fee Policy & Procedures- Albuquerque Bernalillo County Water Authority and Franchise Fee Procedures documents from DFAS. Upon review, OIA found that the documents address the timely submission of an annual reconciliation of the franchise fee due to the City, periodically confirming the accuracy of the customers' assigned jurisdiction, and timely review of the annual reconciliation for accuracy and assess if revenue accounts are properly included or excluded from gross revenues.	<input type="checkbox"/> Open <input checked="" type="checkbox"/> Closed <input type="checkbox"/> Contested