

**MANAGEMENT AUDIT REPORT
OF THE
QUARTER CENT PUBLIC SAFETY TAX
REPORT NO. 07-104**



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS**

Management Audit of the Quarter Cent Public Safety Tax
Report No. 07-104
Executive Summary

Background The Public Safety Tax (Tax) is imposed on any person engaging in business in this municipality, and equals one-fourth of one percent of the gross receipts reported or required to be reported by the person pursuant to the New Mexico Gross Receipts and Compensating Tax Act. The Tax went into effect July 1, 2004.

Revenues from the Tax are allocated as follows:

- Police receives 34 percent of revenues;
- Fire/Emergency Preparedness receives 34 percent of revenues;
- Crime Prevention and Intervention receives 26 percent of revenues; and
- Corrections receives 6 percent of revenues.

The scope of our audit included those revenues allocated to Fire/Emergency Preparedness (Fire).

Objectives The Objectives of our audit were to determine:

- Is there a process in place to ensure Quarter Cent Public Safety Tax expenditures are properly accounted for and segregated?
- Are Quarter Cent Public Safety tax receipts used in accordance with the Municipal Gross Receipts Taxes Ordinance and Resolution Council Bill No. R-03-239?
- Are Quarter Cent Public Safety tax expenditures processed in accordance with the Fire Department's purchasing procedures, the Public Purchases Ordinance, and other relevant rules and regulations?
- Have meaningful performance measures been developed for the Fiscal Section of the Fire Department and has the Fiscal Section achieved these performance measures?

Findings The findings identified during our audit include the following:

- Internal Purchasing Forms do not distinguish between Quarter Cent and non Quarter Cent purchases. Sub-activity numbers have not been established for all activities that expend Quarter Cent monies.

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- Fire's Purchasing Procedures are dated August 30, 2000; Goods were shipped to an employee's home address; Internal Fire requisitions were not always completed; and transactions were not always posted to the most representative account numbers.
- The performance measures for the Fiscal Section of Fire focus on output, not quality.

Recommendations To address the findings noted above, OIAI recommends the following:

- Fire should revise its internal purchasing forms to identify Quarter Cent purchases and establish sub-activities for all activities that expend Quarter Cent monies.
- Fire should update and periodically review its Purchasing Procedures.
- The Fiscal Section of Fire should consider additional performance measures that assess quality of operations.

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

February 28, 2007

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

Audit: Management Audit
Quarter Cent Public Safety Tax
07-104

FINAL

INTRODUCTION

The Public Safety Tax (Tax) is imposed on any person engaging in business in this municipality. The Tax equals one-fourth of one percent of the gross receipts reported or required to be reported by the person pursuant to the New Mexico Gross Receipts and Compensating Tax Act. The Tax went into effect July 1, 2004.

Revenues from the Tax are allocated as follows:

- Police receives 34 percent of revenues;
- Fire/Emergency Preparedness receives 34 percent of revenues;
- Crime Prevention and Intervention receives 26 percent of revenues; and
- Corrections receives 6 percent of revenues.

During the audit, we reviewed those revenues allocated to Fire/Emergency Preparedness (Fire). Attachment A to Resolution Council Bill No. R-03-239 outlines the intended uses of this funding, including the following:

- Fire Cadet Class;
- Ongoing personnel costs for firefighters;

- Heavy Technical Rescue staffing;
- Vehicle replacement;
- Fire Station No. 5 completion;
- Fire Station improvements;
- Fire Academy renovation;
- Emergency preparedness training; and
- Miscellaneous emergency preparedness equipment.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Is there a process in place to ensure Quarter Cent Public Safety Tax expenditures are properly accounted for and segregated?
- Are Quarter Cent Public Safety tax receipts used in accordance with the Municipal Gross Receipts Taxes Ordinance and Resolution Council Bill No. R-03-239?
- Are Quarter Cent Public Safety tax expenditures processed in accordance with the Fire Department's purchasing procedures, the Public Purchases Ordinance, and other relevant rules and regulations?
- Have meaningful performance measures been developed for the Fiscal Section of the Fire Department and has the Fiscal Section achieved these performance measures?

SCOPE

Our audit did not include an examination of all the functions, activities and transactions of Fire. Our audit test work was limited to fiscal years (FYs) 2005 and 2006.

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 Fire's activities through the completion of fieldwork, December 11, 2006, and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality control review.

METHODOLOGY

During the audit, the Office of Internal Audit and Investigations (OIAI) interviewed staff in the Fiscal Section of Fire and in the Office of Management and Budget (OMB). Sampling software

was used to determine statistical sample sizes for expenditures testing. Documentation relating to Fire was reviewed and included the following:

- Organization Chart;
- Budget Hearing Documents and Approved Financial and Performance Plans;
- Purchasing Procedures;
- Spreadsheets used to track quarter cent expenditures, and the documentation supporting these expenditures;
- Documentation maintained to support the achievement of performance measures.

FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities, which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports.

The following findings concern areas that OIAI believes would be improved by the implementation of the related recommendations.

1. FIRE SHOULD REVISE ITS INTERNAL PURCHASING FORMS TO IDENTIFY QUARTER CENT PURCHASES AND ESTABLISH SUB-ACTIVITIES FOR ALL ACTIVITIES THAT EXPEND QUARTER CENT MONIES.

OIAI reviewed Fire's Purchasing Procedures and a sample of Quarter Cent expenditures. During our review, OIAI noted that internal purchasing forms used by Fire do not distinguish between Quarter Cent and non Quarter Cent purchases.

Fire staff indicated that Quarter Cent expenditures are charged to the General Fund, and that they recently established sub-activity numbers for Quarter Cent expenditures. However, the new sub-activity numbers were established only for the Logistics activity. Logistics procures and maintains safety equipment, including vehicles, personal protective equipment, special operations equipment, and emergency medical supplies. Fire staff indicated that Quarter Cent appropriations are to Logistics or Headquarters. A review of the FY05 Quarter Cent appropriations by activity number indicated that 49.94 percent of the appropriations went to an activity number other than Logistics.

OMB stated that all Fire expenditures are for public safety, including Quarter Cent expenditures. If the belief is that all Fire expenditures are for public safety, then there is no incentive to separately track Quarter Cent expenditures. As a result, the responsibility for tracking Quarter Cent expenditures has fallen to individual departments. Discussions with

Fire staff and a review of their tracking system indicate that the process of identifying and tracking Quarter Cent expenditures is still a work in progress.

Since Fire's current tracking system does not identify all Quarter Cent expenditures, they do not have a complete picture of how Quarter Cent proceeds are spent. Using internal forms that distinguish between Quarter Cent and non Quarter Cent purchases and establishing sub-activity numbers for all activities that expend Quarter Cent monies will enable Fire to identify and track quarter cent expenditures. If Fire uses sub-activities, Quarter Cent expenditures will be segregated in the City's general ledger, and Fire's informal tracking spreadsheet will not be necessary.

RECOMMENDATION

Fire should revise its internal purchasing forms to distinguish between Quarter Cent purchases and purchases from other funding sources.

Fire should establish sub-activities for all activities that expend Quarter Cent monies.

RESPONSE FROM AFD

"AFD agrees with the recommendation to modify its internal purchasing forms to better distinguish the funding source for a specific purchase. AFD is in the process of updating its purchasing forms to include a check box for each of AFD's different funding sources, to include public safety quarter cent funding."

"AFD does not disagree that detailed tracking of all expenditures is a desirable outcome. However, the CFO and DFAS suggest that implementing additional sub-activity numbers is not an optimal solution at this time with an aged and essentially unsupported accounting system. However, while the ERP project implementing PeopleSoft accounting software is still in the planning and design phases would be an ideal time to consider alternatives to better track all City expenditures. This issue has been raised with the ERP Steering Committee."

2. FIRE SHOULD UPDATE AND PERIODICALLY REVIEW ITS PURCHASING PROCEDURES.

OIAI reviewed Fire's Purchasing Procedures and obtained the Quarter Cent tracking spreadsheets prepared by Fire for FYs 2005 and 2006. OIAI selected a statistical sample of Quarter Cent expenditures, including 28 out of a population of 88 transactions for FY05 and

35 out of a population of 283 transactions for FY06. OIAI reviewed the supporting documentation to determine if the expenditures were processed in accordance with relevant rules and regulations, and were allowable under the Municipal Gross Receipts Taxes Ordinance and Resolution Council Bill No. R-03-239.

The following exceptions were noted:

Condition	Cause	Effect	Criteria
Fire's Purchasing Procedures are dated 8/30/2000.	The Fiscal Section of Fire has not revised the Department's Purchasing Procedures.	If Fire's Purchasing Procedures are not periodically reviewed and updated, they may not align with: <ul style="list-style-type: none">▪ The City's purchasing procedures; and▪ How goods and services are actually purchased.	The Government Finance Officers Association (GFOA) recommends the following: <p>"The documentation of accounting policies and procedures should be updated periodically according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur. A specific employee should be assigned the duty of overseeing this process. Management is responsible for ensuring that this duty is performed consistently."</p>

Condition	Cause	Effect	Criteria
OIAI noted three instances in which purchases were shipped to a Fire employee's home address.	The employee in question stated that, in the past, items shipped to the supplies division were often lost, and that it was easier to have items shipped to his home. Now, however, with new management at the supplies division, the employee stated that all items are either on apparatus or in storage.	If goods are shipped to employees' home addresses, they may be used for personal gains. The appearance of improper use still exists even if these City assets are used strictly for City business. When City assets are used for personal gains, the limited resources of the City are not available for the employees or the citizens of the City. The actual or perceived misuse of assets can lead to negative publicity for the City.	Shipping goods to a home address creates the appearance of impropriety. Although these goods may have been used for legitimate business reasons, they should have been shipped to the City.
OIAI noted forty three instances in which no internal Fire requisition was available for review.	Fire allows some flexibility in completing internal requisition forms. Fire does not want to prevent employees in the field from making needed purchases because they do not have the required forms and signatures. Verbal approvals are allowed to expedite the purchasing process	<p>Violation of Fire's purchasing policies and procedures, which require internal requisitions to be completed before purchases are made.</p> <p>Further, when proper approvals are not obtained:</p> <ul style="list-style-type: none"> ▪ Goods may be purchased for personal use; ▪ Goods may be purchased that are already in stock; and ▪ Goods may not meet the specifications required by the department. 	<p>Per Fire's Purchasing Procedures:</p> <p>Before making a purchase, determine the following:</p> <p>What authorization is required?</p> <p>One of the following forms will need to be filled out:</p> <ul style="list-style-type: none"> ▪ SPO/PETTY CASH REQUEST FORM ▪ CONTRACT RELEASE REQUEST FORM ▪ REQUISITION REQUEST FORM

Condition	Cause	Effect	Criteria
OIAI noted twenty seven transactions that could have been posted to a more representative account number. <ul style="list-style-type: none"> ▪ Twenty one transactions were for uniforms. ▪ Four transactions were capital outlays, including computers and a desk. ▪ 1 transaction was for computer supplies. ▪ 1 transaction was for postage. These transactions were all charged to Account 0522000 Supplies.	Fire stated they were aware of the capital outlays, and that they had not considered posting the other transactions to more specific supplies accounts, such as clothing, MIS supplies, or postage/freight.	When transactions are not posted to the most representative account numbers, tracking how appropriations are spent may prove difficult. For example, if all purchases are posted to the supplies account, the department may not know how much it spent on subcategories such as clothing, MIS supplies, and postage. Tracking these subcategories may help the department develop its future budgets. When transactions are not posted to the most representative account numbers, transactions that should have been capitalized may be expensed. When goods are not appropriately capitalized, they are not added to the City's capital asset listing and they are not depreciated. When capital assets are incorrectly recorded as expenses (and vice versa), the City's financial records are incorrect.	Administrative Instruction No. 6-4 Capitalization of Fixed Assets describes how to record capital outlays "in amounts of more than \$1,000 per item for furniture and equipment." Charging expenditures to the most representative accounts will assist Fire in tracking how funds are spent.

RECOMMENDATION

Fire should update its Purchasing Procedures to ensure that:

- Goods are shipped to the Fire Department;
- Internal requisition forms are completed when required; and
- Transactions are posted to the most representative account numbers.

These updates should be communicated to all personnel.

Fire should also periodically review its Purchasing Procedures to ensure they reflect how it is currently doing business, and that its procedures align with the City's procedures.

RESPONSE FROM AFD

"AFD agrees. Our purchasing procedures will be reviewed and updated by the end of FY/07. Training will be provided to all appropriate AFD personnel by the end of FY/07 for implementation beginning FY/08."

3. THE FISCAL SECTION OF FIRE SHOULD CONSIDER ADDITIONAL PERFORMANCE MEASURES THAT ASSESS QUALITY OF OPERATIONS.

OIAI reviewed the FY06 performance measures for the Fiscal Section of Fire, and noted that three of the four performance measures selected measure output, not quality. For example, the Fiscal Section tracks the number of timesheets processed. As an alternative, the Fiscal Section could track the percentage of timesheets processed by the established payroll deadline.

A handout provided by OMB entitled Strategic Management Strategic Planning and Budgeting Alignment in the COA, discusses quality, including measuring:

- The degree to which customers are satisfied;
- How accurately or timely something is done; and
- If efforts were effective.

Although the Fiscal Section is working with OMB and periodically reevaluating its performance measures, there appears to be a greater emphasis on output measures. However, output measures don't necessarily provide a clear picture of performance.

Conversely, quality measures provide a clearer picture of performance. For example, if 95 percent of timecards are processed by the established payroll deadline, the reader's confidence in the payroll function is increased.

RECOMMENDATION

The Fiscal Section of Fire should evaluate its performance measures and consider adding measures that assess quality of operations.

RESPONSE FROM AFD

"AFD agrees. AFD will continue to work with OMB during the FY/08 budget preparation cycle to evaluate its performance measures and to consider adding measures that better reflect quality of operations."

CONCLUSION

Fire has taken the initiative to identify and track Quarter Cent expenditures on its own, and OIAI believes the recommendations noted above will help Fire's efforts. Although Fire has developed internal purchasing procedures, OIAI believes they should be updated and reviewed periodically to ensure they reflect how Fire is currently doing business. The Fiscal Section of Fire should consider additional performance measures that assess quality of operations.

OIAI appreciates the cooperation of Fire staff during the audit.

Principal Auditor

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