

REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2007 THIRD QUARTER BUDGET

07-103B



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

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. This report is presented to the City Council to satisfy the Fiscal Year (FY) 2007 third quarter requirement. The review was conducted in accordance with Government Auditing Standards.

The projections for the third quarter of FY2007 are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB) and received by OIAI on July 10, 2007. 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 3 rd QUARTER PROJECTIONS
	(000's)	(000's)
Resources:		
Revenue ¹	\$ 451,138	\$ 469,502
Beginning fund balance	<u>72,156</u>	<u>87,351</u>
Total resources	523,294	556,853
Appropriations/Expenditures:	<u>476,680</u>	<u>496,623</u>
Fund Balance	46,614	60,230
Fund balance adjustments	29	(287)
Fund balance reserves	(46,585)	(42,381) ²
3 rd quarter estimated new reversion (not available for appropriation)	N/A	8,185
Available fund balance	\$ <u>58</u>	\$ <u>25,747</u>

¹ Revenues are projected, actual revenues may vary.

² Includes 1,268 increase to the reserve included in R-07-222 (FY08 appropriation).

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 77526 – City Support Functions - Katrina Relief program is projected to overspend its \$8,000 budget by \$79,000 or 988%. OMB reports the actual overexpenditure is approximately \$26,000. The overexpenditure is caused by two Albuquerque Convention Center invoices that were not included in the FY06 accounts payable accrual. They were paid during FY07.

Program 31513 – Department of Family and Community Services (DFCS) 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.

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 54501 and 54503 – The Solid Waste Management Department (SWMD) Collections and Administrative Services programs in the Refuse Disposal Fund 651 are projected to overspend by \$1,965,000 (13%) and \$132,000 (2%), respectively. SWMD management reports that the increase in fuel costs is primarily responsible for the projected overexpenditure in *Collections*. Diesel was budgeted at an average cost of \$1.11 per gallon for FY07; however, the actual costs during the first nine 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

<u>Month</u>	<u>Price per gallon</u>
January	\$2.30
February	\$2.27
March	\$1.91

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. SWMD management estimates that approximately \$1,000,000 will be reappropriated from the fuel surcharge revenues at the end of the fiscal year. The additional cost of petroleum-based vehicle lubricants is also 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. The *Collections* program has not purchased any new trucks in FY07. Overtime expenditures also account for a portion 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. Heavy snow also increased overtime costs. A cost of living increase (COLA) of 3.5%, which the union negotiated, was not appropriated in the FY07 budget.

The overexpenditure in *Administrative Services* is due to the purchase of supplies, facilities repairs and maintenance, and contractual services for temporary employees. Management reports that these employees are necessary to fill unfunded positions essential to the operations of SWMD and would still be required even if this program were fully staffed.

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 \$1,247,000 (5%), \$284,000 (6%) and \$252,000 (20%), 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. Management reports overexpenditures in the *Facility Maintenance* program are due to high utility bills at the Westside Transit Facility, partly because of the radiant heat in the flooring of the Maintenance Building. A Building Maintenance Manager was also hired. This position was not budgeted in FY07, contributing to the overexpenditure.

Programs 33541 and 47504 – *Workers Compensation and Unemployment Compensation* programs in Risk Management Fund 705 are projected to overspend their budgets by \$204,000 (2%) and \$98,000 (16%), respectively. The *Workers Compensation* overexpenditure is due to the fact insurance costs were more than the \$190,000 funded.

The total insurance cost through May 2007 was approximately \$483,000. The insurance budget has been increased in FY08. The *Unemployment Compensation* program projected overexpenditure is due to unemployment claims and adjustments being higher than expected. Management reports there is fund balance to cover the overexpenditures in this fund. Clean up legislation at year-end will be necessary to increase the appropriation from fund balance.

Program 28503 - *Department of Finance and Administrative Services (DFAS) Fleet Management* program in Fleet Management Fund 725 is projected to overspend its \$11,962,000 budget by \$326,000 or 3%. The projected overexpenditure in this program is due to increased fuel costs and fleet parts. After inventory adjustments and salary savings are considered, management does not expect this program to be overspent by year-end.

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 Department - Chief Administration Officer* program is projected to underspend its \$1,856,000 budget by \$149,000 or 8%. The projected underexpenditure in this program is due to salary savings.

Programs 523510 – *Cultural Services Division - CIP BioPark* program is projected to underspend its \$2,053,000 budget by \$458,000 or 22%. The projected underexpenditure in this program is due to salary savings.

Program 56502 - *Environmental Health Department - Environmental Services* program is projected to underspend its \$1,491,000 budget by \$107,000 or 7%. Approximately \$60,000 of the underexpenditure is due to salary savings and approximately \$47,000 is savings in operating expenditures.

Programs 31503, 31506, and 31516 – *Department of Family and Community Services (DFCS) 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 \$250,000 was appropriated from the unreserved fund balance of the General Fund to DFCS for the purpose of providing research and legal services as needed to set up the Workforce Housing Trust Fund. DFCS Management reports they will not be spending the \$250,000 budgeted in contractual services during FY07. DFCS reports they have finished a needs assessment and drafted a Five Year Consolidated Workforce Housing Plan.

Provide Mental Health Services (31506) is projected to underspend its \$3,580,000 budget by \$430,000 or 12%. Management reports that the contract at University of New Mexico Hospital (UNMH) for the Assertive Community Treatment (ACT) program is becoming more effective at collecting Medicaid reimbursements for the services provided. FCS established the ACT program to provide services to persons with mental illness at high risk of incarceration for petty offenses and/or at high risk of homelessness. The additional Medicaid reimbursements provide financial resources to the ACT program, resulting in less expenditures for the City.

Partner with Public Education (31516) is projected to underspend its \$5,720,000 budget by \$377,000 or 7%. 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 25506, 25507 and 25550 – *Department of Finance and Administrative Services, Information Services, Information Services – CIP, and Citizen Services* programs are projected to underspend their budgets by \$1,084,000 (10%), \$306,000 (100)% and \$725,000 (18%), respectively. The primary cause of the projected underexpenditures in the *Information Services* and *Citizen Services* programs is salary savings. As of May 10, 2007, the *Information Services* program currently has 20 of its 90 positions vacant and the *Citizen Services* program has 24 of their budgeted 70 positions vacant. The underexpenditure in *Information Services – CIP* is due to the fact that although this program was funded in FY07, there were no CIP projects, other than ERP, which is budgeted in Program 25506, Information Services. Management reports that all of this program's funding will revert at the end of the fiscal year.

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 has traditionally had difficulty in getting qualified applicants for open positions due to 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 \$181,000 or 17%. Management reports there were salary savings due to various vacancies during the fiscal year.

Program 24512 and 24513 – *Department of Municipal Development (DMD) Design Recovered Storm Drainage Transport and Design Recovered Parks and CIP* programs are projected to underspend their budgets by \$110,000 (6%) and \$257,000 (6%),

respectively. The projected underexpenditures in both of these programs are due to salary savings.

Programs 49504, 49506 and 49507 – *Planning Department, Code Enforcement, Community Revitalization, and Planning and Development* programs are projected to underspend their budgets by \$290,000 (10%), \$475,000 (13%) and \$153,000 (11%) due to salary savings. As of May 10, 2007, *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 51511 – *Albuquerque Police Department - Off Duty Police Overtime* program is projected to underspend its \$1,252,000 budget by \$115,000 or 9%. The projected underexpenditure in this program is primarily due to the additional appropriations for personnel expenditures for off duty overtime. Off duty police overtime had previously been paid less than time-and-one half, which is the rate of pay for regular overtime. This inequity in overtime pay did not encourage police officers to volunteer for off duty overtime and spending fell below budget. An additional appropriation was necessary to fund the new policy that brought the hourly rate for off duty police overtime up to the same rate paid for regular overtime. This program was initially budgeted at \$1,072,000. City Council passed R-06-141 on February 21, 2007 which included an additional \$180,000.

NON-GENERAL FUND PROGRAMS

Programs 27508 – *State Fire Fund* program in the State Fire Fund 210 is projected to underspend its \$1,608,000 budget by \$158,000 (10%). When the FY07 budget for this fund was submitted OMB was unaware of some additional accruals to the FY06 expenditures that equaled approximately \$250,000. OMB advised the Fire Department to reduce expenditures in FY07 to preserve a positive fund balance. The projected underexpenditures are primarily in operating expenditures.

Program 33595 – *Safety Office* program in the Risk Management Fund 705 is projected to underspend its \$1,518,000 budget by \$347,000 or 23% due to salary savings, the delayed purchase of Automated External Defibrillators (AED's), and savings in repairs and maintenance. 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 \$5,823,000 or 12%. During contract negotiations for FY07, insurance costs were estimated to increase 10% to 12%. The contracts were finalized after the FY07 budget was completed and the actual increased costs were only 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.

<u>Department - Program</u>	<u>Projected Over Expenditure</u>
City Support Function – Katrina Relief (Fund 110)	\$ 26,000
DFCS – Train Lower Income Persons (Fund 110)	4,000
SWMD – Collections (Fund 651)	1,965,000
SWMD – Administrative Services (Fund 651)	132,000
Transit – ABQ Ride (Fund 661)	1,247,000
Transit – Paratransit (Fund 661)	284,000
Transit – Facility Maintenance (Fund 661)	252,000
DFAS – Worker’s Compensation (Fund 705)	204,000
DFAS – Fleet Management (Fund 725)	326,000
HRD – Unemployment Compensation (Fund 705)	98,000
TOTAL	<u>\$ 4,538,000</u>

RESPONSE FROM THE CAO

“The report indicates \$25,747,000 available fund balance at the end of the third quarter. Virtually all of these funds were utilized in the FY/08 budget. The FY/08 budget was built using \$25,594,000 of available fund balance from FY/07, making the reported balance unavailable for current appropriation.

“None of the referenced over expenditures were addressed in the FY/08 appropriation because the over expenditure was fuel related or was unanticipated at the time that the FY/08 appropriation bill was constructed. Fuel costs continue to demonstrate significant volatility. With three months remaining in the fiscal year, the proposed and enacted budgets left the cleanup of fuel costs until final expenditures were known. Unanticipated over expenditures are being monitored and cleanup will be addressed based on final expenditures.

“Solid Waste is overspent with approximately \$1 million of fuel costs. This can be covered by revenue from the fuel surcharge. The balance of the over expenditure is from other costs such as overtime associated with the severe snow storms last winter. Solid Waste has available FY/07 revenues to cover these over expenditures and will appropriate them in the year end cleanup legislation.

“Transit is overspent due to fuel costs, bus and building maintenance, and overtime. Available fund balance is adequate to cover this over expenditure for FY/07.

“Some programs are under spent due to either vacancies or unspent program dollars. The budget office continues to monitor these programs.”