

REPORT TO CITY COUNCIL
FISCAL YEAR 2008 - 2ND QUARTER
CITYWIDE BUDGET PROJECTIONS AUDIT

REPORT NO. 08-103B



City of Albuquerque
Office of Internal Audit and Investigations

FY08 2nd 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 2nd 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 2nd 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?

Five General Fund and eight Other Operating Fund programs are projected to overspend by more than 5% or \$100,000.

Recommendation:

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

Objective:

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

Twenty-nine programs in the General Fund and 11 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?

Two programs in the General Fund and one Other Operating Fund program 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?

The approximate available fund balance is (\$4,223,000).

Objective:

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	\$ 41,556,000
Actual 2 nd Quarter General Fund Reserves	<u>\$ 44,085,000</u>
Requirement Exceeded	\$ 2,529,000

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

July 30, 2008

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

Audit: FY08 – 2nd 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 2nd Quarter requirement. The expenditure projections for the 2nd 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 2nd 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, June 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.

	FY 08 APPROVED BUDGET (000's)	FY 08 2nd QUARTER PROJECTIONS (000's)
<i>Resources:</i>		
Revenue ¹	\$ 475,298	\$ 463,883
Additional Revenue by resolution		40
Beginning fund balance	<u>67,936</u>	<u>84,647</u>
Total resources	543,234	548,570
<i>Appropriations/Expenditures:</i>		
Fund Balance	<u>496,961</u>	<u>498,675</u>
	46,273	49,895
Fund balance adjustments	(287)	(9)
Fund balance reserves	(45,009)	(44,085) ²
2nd Quarter estimated new reversion (Not available for appropriation)	N/A	(10,024)
Available fund balance	\$ <u><u>977</u></u>	\$ <u><u>(4,223)</u></u>

¹ Revenues are projected, actual revenues may vary.

² Exceeds reserve requirement of \$41,556,000.

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 five 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.

Program 56505 – Environmental Health Department (EHD), Program Support is projected to overspend its \$1,645,000 budget by \$91,000 or 6%. As one of the leading departments in the implementation of sustainability, there are unbudgeted expenditures that the program is assuming for FY08. The projected overexpenditure is caused by spending in the Contractual Services and Travel line items. Specifically, the department has a contract for \$55,000 for a company to review and verify sustainability data and measures presented on City websites, and paid for a portion of the costs associated with the Mayor's Best Green Practices Summit in August 2007. The program has spent approximately \$15,000 on sustainability-related travel expenses.

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 \$1,157,000 or 8%. 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. PRD plans to cover this projected overexpenditure with salary savings, water conservation measures, and a reduction in other expenditures.

Program 51511 – Albuquerque Police Department (APD), Off Duty Police Overtime is projected to overspend its \$1,432,000 budget by \$182,000 or 13%. The projected overexpenditure is due to an increase in the amount paid to officers for off duty overtime. This increase is offset by additional revenue coming into the program. Revenues of \$200,000 from this program were appropriated in May 2008 to cover this increase.

Program 57509 – ABQ Ride, Transfer to Transit Operating Fund is projected to overspend its \$24,106,000 budget by \$1,007,000 or 4%. The funds in this program are a General Fund operating subsidy to the Transit Operating Fund. ABQ Ride made a grant application in FY08 to receive \$750,000 in Congestion Mitigation and Air Quality (CMAQ) funds to expand the Rapid Ride service, but the grant application was not enacted until January 16, 2008. During the 1st and 2nd Quarters, ABQ Ride expensed the anticipated CMAQ funds in the Transit Operating Fund, resulting in a larger transfer to the Transit Operating Fund. After the CMAQ funds were received, ABQ Ride transferred expenses from the Transit Operating Fund to the

CMAQ grant activity and OMB adjusted their budget projections for the 3rd Quarter. ABQ Ride management reports that this program is not expected to be overspent at the end of FY08.

OTHER OPERATING FUND PROGRAMS

There are 23 Other Operating Funds with 69 appropriated programs. There were eight 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.

Program 52501 – Albuquerque Police Department (APD), Photo Enforcement Operations in the Photo Enforcement Fund 288 is projected to overspend its \$4,702,000 budget by \$306,000 or 7%. The projected overexpenditure is due to personnel expenditures, unanticipated reimbursements of fines resulting from the administrative hearing process, and on-going maintenance and operating expenditures associated with the program that were not budgeted. An additional appropriation of \$306,000 was approved in May 2008.

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 \$2,639,000 (16%), \$257,000 (4%) and \$215,000 (4%), respectively.

In the *Collections* program, the projected overexpenditure is caused by the Overtime, Repairs/Maintenance, Fuels/Lubricants, and Tires/Tubes line items. SWMD management reports that six new residential collection drivers have been added to reduce the use of overtime. Management reports that the department recently purchased eight commercial collection and 12 residential trucks that are scheduled to arrive this summer. 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. Management plans to replace worn tires with recapped tires, which is less expensive than purchasing new 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 Weststaff employees used in place of administrative positions that have been deleted in previous years. The change from Utility Billing System (UTB) to the new Customer

Information Systems (CIS) has required additional billing personnel supplied through Westaff. Salary savings will partially offset the overspending in contractual services. Overspending of supplies in the Vehicle Maintenance activity 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. Supplies for the Edith office facility are also contributing to the overexpenditure in the Supplies line item.

In the *Clean City* program, the overexpenditure is primarily due to increased purchases of supplies for graffiti removal, contractual services for temporary employees, repairs and maintenance for vehicles, and increased fuel costs. SWMD management reports increased graffiti tags and a wetter than normal summer and fall in 2007 have placed increased demands on supplies for graffiti removal and weed control herbicides. The overexpenditure in contractual services was due to the loss of an agreement between SWMD and the Metropolitan Detention Center (MDC). In previous years, the "War on Weeds" (WOW) program used prisoner labor from MDC to remove weeds from within the City. SWMD replaced prisoner labor with temporary labor provided by St. Martin's Hospitality Center and the Albuquerque Indian Center. Vehicle repairs and maintenance will overspend appropriations due to repairs to busses, vans, interstate sweepers and other heavy equipment within the Weed & Litter Division. The Graffiti and Weed & Litter Divisions each purchased six new trucks in FY08, which should reduce repairs/maintenance costs in the future.

Programs 57504, 57514 and 57565 – *The ABQ Ride Department; Special Events, ABQ Ride, and Facility Maintenance Collections* programs in the Transit Operating Fund 661 are projected to overspend by \$165,000 (65%), \$604,000 (2%) and \$122,000 (8%), respectively.

When the 2nd Quarter budget projections were prepared for the *Special Events* program, OMB anticipated there would be more expenses allocated to the State Fair event from the ABQ Ride program than actually occurred. The budget projections were adjusted for 3rd Quarter. The Contractual Services line item is also overspent. ABQ Ride reports that some of these expenditures belong in the ABQ Ride program and intends to prepare correcting journal entries. ABQ Ride management reports that this program is not anticipated to overspend.

The *ABQ Ride* program was projected to overspend by \$604,000 or 2%. As of the 2nd Quarter, the CMAQ grant agreement had not been signed. Second quarter projections for *ABQ Ride* reflect the costs associated with the CMAQ grant for Rapid Ride service expansion. With the signed CMAQ agreement in January 2008, these costs have been transferred to the CMAQ grant activity and are no longer reflected in the *ABQ Ride* program. ABQ Ride management reports that this program is not anticipated to overspend.

The *Facility Maintenance* program's projected overexpenditure is a result of overexpenditure of utilities. This program budgets and expends nearly all of the utility expenses for the ABQ Ride Department. Management reports that the gradual phase in of the Operations Office at the Daytona Transit Facility has made it difficult to estimate and budget utility expenditures.

Program 28503 – DFAS – Fleet Management in the Fleet Management Fund 725 is projected to overspend its \$12,938,000 budget by \$214,000 or 2%. 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 29 programs in the General Fund and 11 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 two programs in the General Fund and one program in the Other Operating Funds that are projected to underspend by 10% and \$500,000. These items are highlighted in blue in the attached Tables A & B. 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 49506 – Planning Department, Community Revitalization is projected to underspend its \$4,576,000 budget by \$1,050,000 or 23%. The projected underexpenditure for this program is caused by a \$400,000 one-time FY07 appropriation that was inadvertently carried over to FY08, approximately \$300,000 in salary savings from 5 vacant positions, and \$350,000 in contractual services for various sector and redevelopment plans that have not yet been completed.

Program 51502 – Albuquerque Police Department (APD), Investigative Services is projected to underspend its \$22,090,000 budget by \$2,211,000 or 10%. The underexpenditure in this program is primarily the result of 41 vacant positions as of December 31, 2007. Management reports that when staffing levels for sworn personnel is below the budgeted 1,100 officers, greater emphasis is placed on 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.

OTHER OPERATING FUND PROGRAMS

Program 57508 – ABQ Ride, Strategic Support, in the Transit Operating Fund 661 is projected to underspend its \$3,744,000 budget by \$518,000 or 14%. The underexpenditure is primarily caused by salary savings. As of December 31, 2007, 14 of the 71 (20%) budgeted positions in this program were vacant.

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 these programs that are projected to overspend to ensure compliance with Administrative Instruction No. 2-20: Budgetary Control Responsibilities.

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.”

Budget Auditor

REVIEWED:

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

Chairperson, Accountability in Government
Oversight Committee