

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2002**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Albuquerque (City).
2. 36 reportable conditions were disclosed during the audit. The reportable conditions are as shown in Part B.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. 4 reportable conditions were noted during the audit of the major federal award programs of the City and none are considered to be material weaknesses. These reportable conditions are listed in Part C.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs are reported in Part C of the Schedule.
7. The programs tested as major programs include:

	<b>CFDA No.</b>
Urban Mass Transit	20.507
CDBG	14.218
CDBG-HOME	14.239
8. The dollar threshold for Type A programs of the City is \$1,724,560.
9. The City was determined to be a low risk auditee.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**01-07 Travel & Per Diem**

*Condition.* Travel expenses of the special investigations division are not documented in accordance with the City's travel regulations or in compliance with state statute 6-5-8 NMSA 1978. Copies of the hotel receipts, car rental receipts, per diem calculations and other miscellaneous costs did not support some travel expenses for the division employees.

*Criteria.* All travel expenses should be properly documented to receive reimbursement. Receipts should support all expenses. State statute 6-5-8 NMSA 1978 details the requirements for travel and per diem and should be consistently handled. All travel payments and reimbursements should be properly followed according to the City's travel regulations.

*Cause.* It appears that the division personnel who approve and pay the travel expenses were not aware of the documentation requirements.

*Effect.* Improper expenses could be reimbursed to personnel that would cause the City to incur costs that are not proper.

*Recommendation.* We recommend that the division personnel obtain copies of the City's travel regulations and use these regulations in documenting their travel expenditures. Also the personnel should request training in the handling of travel and per diem.

*Management Response.* The SID Division is in compliance with the City of Albuquerque's Travel Rules and Regulations for non-undercover or regular travel. However, due to the unique nature of the assignments in SID undercover travel may necessitate travel to be arranged by SID rather than the Fiscal Division. Written procedures are in place in the Special Investigation Division for this type of travel. Travel expenses (hotel receipts, car rental receipts, per diem calculations and all other costs) are properly documented. Reimbursements and receipts support all expenses. Personnel in the division are aware of the documentation that is required for travel.

**01-08 Transit - Parking Division**

*Condition.* Upon on review of the cash controls at the parking division, we noted the following items that have not been reported to the State Auditor:

- Alleged embezzlement is being investigated and new cash controls are being reviewed.
- There is no requirement that two people be present in the counting room.
- There were altered logs for the daily parking revenues that were not reviewed on a daily basis.
- Informal controls relating to the on-site counts at the separate parking lots. Also, at the City/Counting building, the parking attendants are not always charging an exiting person the correct amount, or at all, for the days parking.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**01-08 Transit - Parking Division (Continued)**

*Criteria.* Controls over cash should be strong to properly safeguard access to cash. Any discovery of alleged embezzlement or other possible criminal statute violation in connections with its financial affairs has to be reported in writing to the State Auditor pursuant to Section 12-6-6NMSA 1978.

*Cause.* The internal auditor's office was not made aware of the above mentioned items, therefore, did not notify the State Auditors office of the possible violation. The cash handling controls needed to be reviewed and updated.

*Effect.* If cash is not safeguarded possible theft or errors in reporting of cash can occur.

*Recommendation.* We recommend that the new polices (currently being documented) be put into place immediately and that a policy relating to notifying the State Auditor of possible criminal violations established and monitored.

*Management Response.* We will be notifying the State Auditor of the violation. The Parking Division cash is now counted with Transit revenues at 601 Yale. These revenues are counted by a Transit finance employee in the presence of a Security Guard. There are also two video cameras in the vault.

Our "Check Off Daily Parking Revenues Form" ensures that revenues generated at each cash-in take location are verified by both the closing parking attendant and parking attendant supervisor during the closeout procedures with the parking attendant. Both initials are obtained on this summary form for each revenue drop. In addition, this summary sheet is reviewed and verified by both the "opening parking attendant supervisor" and the operations manager when the safe is opened and the bank bags are transferred from the "parking attendant operation" to the operations manager prior to transport to the cash counting/processing vault at the Yale Center. Furthermore, all verified cash bags are verified a third time by the cash processing clerk on this form when the bank bags are submitted for cash processing and deposit preparation.

Our parking attendants try to recover all parking charges that are due at the time that a customer exits. Exceptions do occur from time to time and we have authorized our attendants under certain conditions to allow this to happen. An example would be if a customer refuses to pay and a line of vehicles are waiting behind that customer to exit. If a supervisor or security officer is not immediately available to manage this situation, and a long line of customers waiting to be processed exists, and internal traffic problems occur as a result of this situation, rather than forcing those customers waiting in line to have to wait even longer (possibly adding more time to their parking bill), open the gate and let the refusing customer exit. We ask the parking attendant to obtain a license plate number if possible for future reference if this customer is a person who consistently creates this situation. If the customer exiting line is not long, they are instructed to establish a "short pay" with the customer who has no money or refuses to pay.

**CITY OF ALBUQUERQUE**  
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**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**01-08 Transit - Parking Division (Continued)**

*Management Response (Continued).* If time allows, we obtain their name, number, and address and establish an "accounts receivable" to collect the parking charge. It just depends on the situation, the length of the customer waiting line, and other factors that allow our attendants and other parking staff to handle this type of situation. For effective customer service, we have authorized our attendants to deal with this type of a situation in a responsible manner to reduce inconvenience for other customers that expect to be processed in a timely and reasonable manner.

In addition, as with cashier operations in the banking and retail industry, our cashier attendants make mistakes such as not charging the proper amount, giving too little or too much change to a customer, dropping change on the floor when giving a customer change, etc. We feel that our attendants do a good job on a daily basis, at times under much stress, and do, at times receive substantial abuse from customers. We monitor this cash operation, meet regularly with our attendants, take corrective action when necessary, and try to minimize errors in the cash collection process as much as possible.

**01-09 Disaster Recovery Plan**

*Condition.* The Information Technology (IT) Department regularly tests and restores backup files and has started to develop a disaster recovery plan, including offsite locations far enough from the downtown area to be available in the case of a longer-term disaster. However, the lack of offsite contracts or sites, equipment located at those site, a written plan that includes the business users in key areas such as Finance, and Mayor's office, dependence on goodwill of vendors and available IT staff makes recovery less certain, and assuredly longer to accomplish. The lack of written documentation means that some steps could inadvertently be left out, increases the possibility that recovery would not work as planned, and general business operations would not be restored in a timely manner.

*Criteria.* To ensure a successful recovery of computer operations and general business operations in the event of a disaster, a comprehensive site with equipment contingency plan, and a written disaster recovery plan, encompassing data, hardware, telecommunications, business processes, insurance and vendor notifications should be developed and then tested.

*Cause.* The City has not properly allocated resources to develop and test a comprehensive disaster recovery plan.

*Effect.* The City could incur substantial losses in both time and money restoring operations to the pre-disaster level.

**CITY OF ALBUQUERQUE**  
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**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**01-09 Disaster Recovery Plan (Continued)**

*Recommendation.* We encourage management to develop offsite locations capable of supporting the City in the event of a disaster and to build and document a comprehensive business recovery plan that includes each IT and key business areas, and then test the disaster recovery procedures using the plan. We also recommend that the individual in charge of developing and testing the disaster recovery plan be involved in reporting the status of the plan to the Information Steering Committee each time it meets.

*Management Response.* The contract to develop a formal project initialization plan, work plan and scope of work for the development of the City's Disaster Recovery Plan has been completed. The next phase is funded (\$54,214) and is in the procurement process. It involves having the contractor assess the City's exposure to possible disasters, the determination of critical functions and equipment, the determination of mitigating activities that can be instated, and the development of a Business Impact Analysis (BIA) that will also provide monetary and business effects of outages. The final phase, also funded, involves the completion of the Disaster Recovery Plan, but is dependent on the BIA phase.

In addition, the City Information Systems Division has entered into a formal Memorandum of Understanding with the Public Works Department over long-term use of computer room space for disaster recovery at the City's Pino Yards on the North side of the City. Additional computer room will be made available by the Albuquerque Police Department at the new Crime Lab opening in the North Valley.

**01-10 Strategic Plan**

*Condition.* Strategic planning is a process whereby an organization's management meet to examine the organization's basic purpose and to develop goals and strategies to achieve that purpose in a constantly changing environment. We understand the Information Systems Department has both a Technical Review Committee and an Information Steering Committee that assist in short-term planning and prioritization. The Information Systems Department does not have a current long-term strategic plan.

*Criteria.* Information system expenditures are generally significant and should be approached with a great deal of long-term planning to maximize the value to the City. Systems planning and implementation should be done jointly with a review of the current processes to determine how processes can be changed to be more efficient.

*Cause.* The Department has not allocated resources to develop a strategic plan since 1989.

*Effect.* Over the long term, the Department may not be allocating its information technology resources in the most efficient manner.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**01-10 Strategic Plan (Continued)**

*Recommendation.* We encourage the Department to complete the development of the long-range information systems plan and ensure that there is a mechanism for the plan to be updated regularly. We believe that information systems will be a key to the future success of the City and deserves significant attention by management. Some of the benefits of developing a strategic plan are:

- Optimization of data processing expenditures.
- Increased user satisfaction with data processing systems.
- Efficient utilization of technology within the Organization.
- Improved coordination of information system development activities with the City's strategic goals and objectives.
- Satisfaction of organizational information needs.

*Management Response.* The City has created a draft City-wide Information Technology Strategic Plan that has been reviewed, but not formally adopted by the Information Services Committee (ISC). It was recommended at that time to break the plan into several sections. Over the coming months, the committee would perform a detailed review and approval each section.

This committee has just been reformed (due to the change in administration) and approved by the City Council. The approval process for the Information Technology Strategic Plan is on the agenda for their first meeting.

The related web-based information technology (IT) project budgeting application has been placed on hold for the coming fiscal year due to severe budgetary constraints. While few, new information technology projects are anticipated, a high level E-Government Control Board has been established to monitor such projects.

We will revisit the IT budgeting issue as part of our potential financial system replacement. If we do not replace the existing financial systems, we will pursue implementation of the IT project budgeting application that was placed on hold.

**01-11 Fixed Assets**

*Condition.* The transit department provided a list of its fixed assets. This list included items that are listed as being recorded in Fund 110 – General Fund (\$1,161,370) and Fund 641 – Parking (\$200,072). We could not determine if these assets are included in the proper fund.

**CITY OF ALBUQUERQUE**  
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**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**01-11 Fixed Assets (Continued)**

*Criteria.* Proper fixed asset management requires that each division account for all fixed assets purchased by the division. This includes supporting all retirements of fixed assets with proper documentation, tracking the location and usage of the fixed assets. Items that are impaired, salvaged, or transferred should be adjusted out of accounts and records.

*Cause.* Personnel entered the fund locations 110 and 641 in error. General ledger accounts are not reconciled to an individual listing of fixed asset in the system. There are no detailed listings of the fixed assets recorded in the general ledger for the enterprise funds.

*Effect.* Fixed asset balances could be over or understated. Fixed assets could also be listed that are not in use or present in the division. Construction in progress amounts may be capitalized in the funds and not in the fixed asset system.

*Recommendation.* All of transit's items should be identified with fund 661. Fixed assets should be reconciled to the trial balance amounts. This becomes even more critical with the implementation of GASB 34 and other related pronouncements.

*Management Response.* Financial Reporting has become aware that the capital assets detail has some errors in identifying the fund which claims ownership for certain assets. The section is currently in the process of correcting errors in connection with the implementation of GASB Statement No. 34.

**01-12 Housing Division**

*Condition.* During our audit of the Housing Division, we noted a discrepancy between the detailed reconciliation and the ending general ledger account balance.

*Criteria.* Good accounting practice includes reconciliation procedures in order to verify that recorded balances are correct.

*Cause.* Unknown.

*Effect.* Unreconciled amounts could result in incorrect balances shown on the general ledger.

*Recommendation.* We recommend that reconciliations and review of reconciliations are performed and any differences be investigated in order to determine the proper treatment.

*Management Response.* We concur with the recommendation.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**01-17 Budget Overspending**

*Condition.* The budget was overspent in several departments.

*Criteria.* Per ordinances Section 2-11-12 ROA 1994 “Approval constitutes proposal as budget; expenditures must be authorized”, and Section 2-11-16 “Transfer of funds and expenditure authority within budget”.

*Cause.* Several programs in various funds were overspent as budget adjustments were not approved prior to spending.

*Effect.* Overspending of the budget occurred which violates city ordinances.

*Recommendation.* Overspending of the budget is not to occur. We recommend that all budget adjustments be approved prior to spending and budget to actual reviews be made timely.

*Management Response.* The City Administration will work with the offending departments to improve budgetary controls over spending.

**02-01 Cash Receipts**

*Condition.* During a site visit to the Albuquerque Biopark, we observed that two cashiers were working in the same cashier booth. One was on shift, the other was on break, but both computer systems were logged into the Gateway Ticket System. Also, a cash bag used to open up the shift contained cash and was left out. The Administrative System Officer immediately logged off one of the computers and took the cash in the cash bag and placed it in the safe.

*Criteria.* Proper cash handling procures should be followed.

*Cause.* Unknown

*Effect.* Misappropriation of cash

*Recommendation.* We recommend that a policy be put in place to safeguard assets. Computer systems should be logged off when not in use and cash bags should be counted and stored in the safe at all times.

*Management Response.* It is standard procedure to secure all cash at all times per the City of Albuquerque Cash Handling Manual. Supervisory staff will monitor frequently to assure that the procedure is being followed at all times.



**CITY OF ALBUQUERQUE  
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Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-01 Cash Receipts (Continued)**

*Management Response (Continued).* The BioPark will also adopt detailed written instruction regarding this issue by February 1, 2003. The employee, in this instance did not follow the above procedures; therefore the employee was disciplined.

**02-02 Inventory**

*Condition.* During our inventory observation at Fleet Management, Auto Parts, and per discussion with the Fleet Manager, the Auto Parts area does have obsolete items. Obsolete parts are still recorded at full value. Currently, there is no money in the budget to make the entry to adjust to the value of useable parts (i.e. to write off obsolete items). We understand that appropriations must be set aside by the City Council. Per discussion with the Fleet Manager, an adjustment will be made to remove obsolete items from the inventory by 2004. A list of obsolete items was not available and thus, the total value of obsolete items cannot be determined.

*Criteria.* Inventory should be properly valued to reflect the most accurate ending balance stated in the City's financial statements.

*Cause.* The process of determining obsolete parts has not been identified.

*Effect.* Inventory is improperly recorded on the City's year-end financial statements.

*Recommendation.* We recommend that a list of obsolete items, with estimated values be generated for proper tracking purposes.

*Management Response.* During the past three budget years Fleet Management has consolidated seven shops into the two currently operating. The result of combining the inventories is a number of slow or no use parts. By definition obsolete parts refers to "parts not in use or out of date". Based on the age and diversity of the fleet the City currently operates, determining which of the parts currently in inventory are obsolete will be time consuming. Fleet Management is developing a formal process/criteria to determine which parts are obsolete and how to document and remove them from inventory. This process should be in place and detailed obsolete parts listings available by December of 2002. Fleet will request an appropriation to remove obsolete parts from inventory as part of the FY/04 budget process.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-03 Padlocks on Transit Fuel Inventories**

*Condition.* During our inventory testing at Transit (601 Yale SE) we noted that underground fuel tanks are not padlocked.

*Criteria.* Inventory should be safeguarded to reduce the risk of misappropriation.

*Cause.* Management has not considered it necessary up to this point to install padlocks.

*Effect.* Fuel inventory could be misappropriated if not properly safeguarded.

*Recommendation.* We recommend that management consider installing padlocks. We appreciate that the underground fuel tanks are within a compound surrounded by high fences; however, this is a relatively simple and inexpensive measure that can be taken to improve the security of inventory.

*Management Response.* Transit agrees and will install a padlock on the tank.

**02-04 Pino Yards Warehouse: Inaccurate Counts**

*Condition.* During our inventory testing at the Pino Yards warehouse, we noted 6 out of 30 items where City staff had miscounted inventory.

*Criteria.* Inventory should be counted accurately so that the books reflect actual quantities on hand.

*Cause.* The items which had been miscounted were, in most cases, hard to count. Some items were on stacked pallets above head height and were not fully visible from the floor. Other items were partially or fully hidden behind other pallets. Apparently, the warehouse staff attempted to count the items without using a forklift to bring pallets into clear view.

*Effect.* The inventory count is the most reliable way of ensuring that the quantities reflected on the system are accurate. If counts are not performed with due care, the purpose of performing a count is undermined.

*Recommendation.* We recommend that management revise the inventory counting procedures to emphasize that staff should make use of the forklift for any items which are otherwise hard to view properly. This may take more time, but the result is a more accurate count. To avoid excessive disruption to normal warehouse routines, management may additionally wish to consider implementing a system for cycle counts.

**CITY OF ALBUQUERQUE  
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**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-04 Pino Yards Warehouse: Inaccurate Counts (Continued)**

*Management Response.* We concur that miscounts were evident due to counters failure in using a forklift to bring down pallets to be physically counted more accurately. We will revise our counting procedures accordingly.

**02-05 Pino Yards Warehouse: Items on Hand but not in System**

*Condition.* During our inventory testing at the Pino Yards warehouse, we noted that one item (D090030) was physically on hand, but there was no entry for the item (not even a zero entry) in the system. This item has been on hand for some years without ever having been recorded in the system.

*Criteria.* Inventory should be recorded accurately so that effective management decisions can be taken.

*Cause.* We understand that the City generally does not perform physical-to-book inventory checks. The reason that this item was originally unrecorded is unknown, but if physical-to-book checks had been performed, the discrepancy would have come to light considerably sooner.

*Effect.* If the system does not reflect all inventory on hand, replacement inventory may be ordered unnecessarily. From an accounting point of view, inventory will also be understated in the balance sheet.

*Recommendation.* We recommend that management revise the inventory counting procedures to include physical-to-book checks, possibly on a rotational basis.

*Management Response.* We concur that the item mentioned was physically on hand, but not recorded. The item had been written off as obsolete stock in a liquidation of obsolete stock a few years prior and was inadvertently excluded from scrap disposal that was conducted at that time. So it has remained in the stock yard apparently skipped in the counts since it is no longer part of the inventory listing. The Warehouse holds supporting documentation in the activities associated with the write-off and intent to dispose by scrap. It will be the intent of the Warehouse to proceed with disposal for scrap and retaining any revenue earned as a miscellaneous revenue in Fund 715, the fund in which the item was required.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-06 Inaccuracies in Inventory System at Pino Yards Warehouse**

*Condition.* During our inventory testing at the Pino Yards warehouse, we noted two out of sixteen items of instances where the system reflected incorrect quantities for items on hand.

*Criteria.* Inventory should be recorded accurately so that effective management decisions can be taken.

*Cause.* The discrepancies are usually due to issuing wrong items, customers ordering wrong items, and incidental situations, as a result, not booked out in the system.

*Effect.* If the system reflects overstated quantities for inventory on-hand, inventory may not be restocked in sufficient time to avoid stock-outs. From an accounting point of view, inventory will also be overstated in the balance sheet.

*Recommendation.* We recommend that management consider implementing a barcode system. All items of inventory should be barcoded. Movements of inventory (both in and out) should be tracked by scanning items in and out. This will reduce the time taken to record inventory movements and should as a result improve the system's accuracy.

*Management Response.* We concur that there were a number of discrepancies between the perpetual listing and the actual count. The discrepancies however are not out of the ordinary for an annual inventory procedure in an organization with the number of items, transactions and activity that goes on over a 12 month period. The discrepancies in most cases are small and minor, and wash out between the pluses and minuses, resulting in a determining level of accuracy in dollar value of inventory which turned out to be less than a 2/10 of 1% growth which is outstanding. The fact that there are discrepancies and we are adjusting for those at the end of inventory in itself is one of the primary objectives of an inventory. It is the intent of the Warehouse to practice monthly cycle counts in FY03 to improve the level of accuracy.

**02-07 Inventory – Fleet Management**

*Condition.* Two items (Nos. 15-6863 and 15757258) were selected for testing from the inventory list at the Parts Warehouse, Fleet Management, on Sixth Street and could not be located. These items were listed as being in a bin that didn't exist. (Bin A-A-A). Per discussion with City personnel, the items were purchased and went out of inventory but were not billed to the departments and were not removed from inventory.

*Criteria.* Inventory should be properly valued to reflect the most accurate ending balance stated in the City's financial statements.

**CITY OF ALBUQUERQUE**  
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**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-07 Inventory – Fleet Management (Continued)**

*Cause.* Fleet management did not show these items as reconciling items to the inventory count.

*Effect.* Inventory is overstated and departments are not being properly billed for parts received.

*Recommendation.* We recommend that all inventory items be properly recorded and shown on the inventory listing.

*Management Response.* Bin location A-A-A is used for identification of parts showing a quantity in the database but not a hard bin location. The bin does exist (in its abstract form) as a means of tracking and identifying such parts to allow us to either assign a hard bin location (if stocked), or otherwise ensure that the parts are issued to work orders. Fleet has hundreds of receipt, issue and credit/return transactions daily, not all are (or can be) completely resolved at the end of each day. Given the age and diversity of the City's fleet the repair process for older units may take as long as 60 days. This means close out and data entry of parts and labor may be delayed for that duration. We agree that properly recording all parts is critical to proper inventory management and to that end the process utilizing bin A-A-A was put in place.

**02-08 Inventory Software - Fleet Management**

*Condition.* It appears that the Fleet Management department has overstated inventory due to a system error. The computer system was relieving the general ledger by the marked up value instead of actual cost every time a sale is recorded. It also appears that the perpetual inventory did not reveal this problem. This inventory costing problem began in December 2001 and was not discovered until June 2002, when a physical inventory was performed.

*Criteria.* Inventory should be properly valued to reflect the most accurate ending balance stated in the City's financial statements.

*Cause.* There is a software glitch in the City's updated system.

*Effect.* The general ledger inventory will need to be adjusted by approximately \$210,000.

*Recommendation.* We recommend that the City adjust the general ledger accordingly, and decipher a way to resolve the glitch.

**CITY OF ALBUQUERQUE  
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Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-08 Inventory Software- Fleet Management (Continued)**

*Management Response.* The City updated the Vehicle Information Software in December 2001. The new windows based program was a substantial improvement over the DOS based program in use at the time. As with many software updates it was not problem free. The system is designed to markup parts issues by a percentage preset by the user. During the FY/02 year end inventory Fleet Management discovered this feature has not worked since the December 2001 update. This software bug resulted in parts being issued at cost and the general ledger being relieved at cost less the markup. User departments were under billed by \$211,318 in the first 11 months of FY/02. Fleet's June FY/02 billing recovered the \$211,318 under billing for parts in addition to the regular monthly parts usage. The general ledger was relieved accordingly.

**02-09 Payroll- Pay Rate Verification**

*Condition.* During our payroll testing for the Environmental Health Department, we noted in 8 out of 23 items selected, that there was no documentation available in the employee personnel files to verify the rate of pay at the department level or at Human Resources.

*Criteria.* Employees' rates of pay and any increases should be formally documented in their personnel files.

*Cause.* Unknown

*Effect.* Employees may dispute paychecks provided to them.

*Recommendation.* We recommend that personnel files be maintained to ensure that information be included in the files to substantiate the rate of pay for employees to avoid any disputes that may arise.

*Management Response.* Part of this issue is being addressed with the Human Resources Department. As far as our own Departmental files, our Human Resources Coordinator has ensured that any documentation regarding rate of pay verification processed by the Department is in order and in the appropriate file. Human Resources typically does not forward documentation for "Across the Board" increases, to the Department. However, our Department Human Resources Coordinator always maintains an updated pay plan.

**CITY OF ALBUQUERQUE  
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**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-10 Payroll - Comp Time**

*Condition.* In one out of twenty-three of the payroll files tested for the Environmental Health Department, it was noted that there was a “non-scheduled time off” form indicating that the employee was using one hour of “comp time.” The payroll register did not reflect the “comp time” taken and we noted that the employee timecard showed that the employee was clocked in at the time the “comp time” was supposed to be taken. It appears that hours recorded in the employee files as “comp time” did not agree to what the payroll register reflected as comp time.

*Criteria.* Payroll files should be maintained accurately.

*Cause.* It appears that the employee had obtained an approval of comp time off and subsequently decided not to take the time off.

*Effect.* The employee’s payroll file did not appropriately reflect actual time worked.

*Recommendation.* We recommend that procedures be put in place to ensure that comp time taken by employees is properly reflected in the payroll registers for tracking purposes.

*Management Response.* In March of this year all formerly approved internal comp time policies were rescinded. Directives were sent to all Department personnel requiring strict adherence to City approved policies, rules and regulations regarding comp time use and accrual. Therefore, all comp time accrual and use will be tracked by the Ross System accordingly.

**02-11 Payroll - Missing Files**

*Condition.* Specific payroll files selected from the Animal Services Division, of the Environmental Health Department, could not be located. The files requested were for a specific pay period and thus, information was not available for us to continue our testing. Per inquiry and observation in this division, it was noted that there are possibly other missing source documents, errors, and other violations of city policy, regarding payroll procedures.

*Criteria.* Payroll files should be properly safeguarded.

*Cause.* Unkown

*Effect.* Specific payrolls for this department are unsupported and could be disputed by employees.

*Recommendation.* We recommend that policies and procedures be implemented and followed to ensure that proper documentation is maintained for all employees.

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**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-11 Payroll - Missing Files (Continued)**

*Management Response.* New Directives were issued to the Animal Services Division regarding payroll procedures. A series of informational and training workshops were completed on September 4, 2002, covering the proper payroll rules and regulations. Follow up audits will be conducted throughout the remainder of FY/03 to ensure strict adherence to the rules and regulations. Any deficiencies will be dealt with immediately in a proper manner.

**02-12 Payroll-Timecards**

*Condition.* For one employee out of twenty-three tested, in the Environmental Health Department, we noted that the type of hours on the employee time card, request for leave slip and the Payroll Summary Sheet did not match the amount on the payroll register.

*Criteria.* The amount paid to employees should be supported by and agreed to time cards, request for leave slip's, etc.

*Cause.* Unknown

*Effect.* Employee may have been paid inappropriately.

*Recommendation.* We recommend that procedures be implemented to ensure that employee time cards, and other supporting documentation for leave taken agrees to what is input into the payroll system.

*Management Response.* A new Directive was issued in August of FY/02 to all Department staff describing the proper timecard protocol. A workshop was held on September 4, 2002, to ensure that all affected staff was trained on the new Time Card Directive. Follow up audits will be conducted throughout the remainder of FY/03 to ensure strict adherence to the rules and regulations. Any deficiencies will be dealt with immediately in a proper manner.

**02-13 Parking Facility Buildings**

*Condition.* We noted a parking facility on Third and Copper that the City leases to an unrelated party as to which no payments have been received in the current year nor have any billings been prepared by the City as of October 15, 2002.

*Criteria.* The City should ensure that lease payments are received and billings are current.

*Cause.* The City has not billed the lessee for the current year rent.



**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-13 Parking Facility Buildings (Continued)**

*Effect.* The City is not in compliance with the lease or managing cash flow opportunities. If the lessee is delinquent and has not been billed, the City might not have proper recourse.

*Recommendation.* Due to the City's budget constraints, earned revenue should be billed in a timely manner.

*Management Response.* Management concurs with the findings. On October 29, 2002, DFA met with the Parking Department and Legal Department to resolve this issue. The Legal Department has determined that based on the terms of the contract the lessee is not in default of rent payments at this time. The lessee was to make no rent payments until April 4, 2002. The lessee has notified the City's Administration that they will be deferring payments based on the current revenue stream at this structure. The lessee legally must pay six months before the end of the first year of the lease, April 4, 2003. In order to maintain compliance with the contract, the Treasury Division will submit a monthly report to the Accounts Receivable Section of DFAS. Accounts Receivable will be responsible for billing this customer on a monthly basis. On November 6, 2002, the lessee was billed for all amounts due since April 4, 2002 and will continue to be billed monthly.

**02-14 Family and Community Service - Accounts Receivable Billing**

*Condition.* There is an accounts receivable balance of \$133,604 in the City Housing fund that has not yet been billed.

*Criteria.* Accounts receivable should be billed on a timely basis.

*Cause.* Unkown

*Effect.* Failure to submit billings could create cashflow problems for the City.

*Recommendation.* We recommend that all billings are submitted on a timely basis.

*Management Response.* The Department of Family and Community Services has initiated the process of billing for the outstanding accounts receivable. We are taking appropriate corrective action to ensure that the billing for this receivable is completed on a quarterly basis.

**02-15 Debt Service Coverage for Golf Bond**

*Condition.* The debt service coverage covenant has not been met for the Golf Series 2001 Bond as of June 30, 2002.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-15 Debt Service Coverage for Golf Bond (Continued)**

*Criteria.* According to the covenants of the bond, the debt service coverage requirement is a ratio of 1.50. The debt service coverage as of June 30, 2002 is 1.43.

*Cause.* Unknown

*Effect.* The City is not maintaining the debt covenant requirements, which could cause the City to have to repay the bond or bond ratings to be affected.

*Recommendation.* The City should ensure that the debt covenant requirements are being met.

*Management Response.* The City acknowledges that the actual debt service coverage as of June 30 2002 was 1.43x, which is below the required debt service coverage of 1.50x. The difference in actual versus required debt service coverage calculates to net revenues being short only \$25,210 out of the required \$517,500. The reasons the debt service coverage was lower than required debt service coverage of 1.50x are set forth below:

- In fiscal year 2002, golf rounds for the City declined 10.7 % from fiscal year 2000. At the national level, golf rounds decreased approximately 24%. Fiscal year 2000 was considered a prime year for the City's golf courses. This trend was experienced both at a local, state and national level. The City's decline in golf rounds was less severe than that of national and other competing state and local golf courses. The decline in golf rounds is attributed to the slow growth in the local economy. In other competing golf courses around the City, golf rounds decreased approximately 10–20 %.
- In late June, a prime month for golf, smoke alerts were posted due to forest fires in both Arizona and Colorado. Smoke alerts were posted on a daily basis for a period of two weeks advising potential golfers of high levels of smoke throughout the City's air. These smoke alerts kept both senior and junior golfers off the courses.
- Two new public accessible golf courses that are privately owned were added to the supply of golf courses in the Albuquerque MSA. The two new golf courses are Paa-Ko Ridge and Twin Warriors. The opening of these two new golf courses has increased the competition for golf dollars and rounds in the Albuquerque area. There are now 15 publicly accessible golf courses within a 50 mile radius.
- In May 2002, there was a water rate increase of 9%, increasing operating expenses in May and June 2002. May and June are two of the highest watering months for the City's golf courses. Although the golf fund received additional water appropriations, more water was required to offset the very dry and very windy weather, resulting in higher water expenditures for the year.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-15 Debt Service Coverage for Golf Bond (Continued)**

*Management Response (Continued).* To meet the debt service coverage covenant for fiscal year 2003, the City is implementing a plan for reducing expenditures by 5% for the current fiscal year. In addition, the City incorporated a rate increase of 5% on golf rounds on March 1, 2002 in anticipation of a decline in revenues for both fiscal year 2002 and 2003. We are optimistic that with these timely and proper safeguards we will be able to meet the required debt service coverage in fiscal year 2003.

**02-16 Bank Account not Recorded in the Risk Fund**

*Condition.* During our testwork, we noted that an Employee Assistance Program bank account held at the Bank of America was not recorded on the general ledger.

*Criteria.* All cash accounts should be properly recorded in the general ledger system. The general ledger system is the mechanism to properly account for activity in a specific account.

*Cause.* The department chose not to record this account.

*Effect.* This asset is not recorded and there is no accountability for this account.

*Recommendation.* We recommend that the City record the cash account, and review all funds within each department to determine if any other similar accounts have been missed.

*Management Response.* We concur. Risk Management and Accounting staff have reconciled this essentially petty cash account with receipts. This account is used to reimburse employees in regard to confidential information regarding counseling services. This account will be set up as a cash imprest account on Risk Management's balance sheet. Accounting will ask departments to verify that there are no other such accounts outstanding.

**02-17 Proper Posting of Journal Vouchers - Fire Training for Fireman**

*Condition.* Per review of a special audit performed by the internal audit department for the City, we noted that the training classes provided in the fire department were recorded in fire suppression and paramedic budget areas, instead of training. This change was done by a journal entry.

*Criteria.* Expenditures should be coded to the proper areas based on type and appropriation.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-17 Proper Posting of Journal Vouchers - Fire Training for Fireman (Continued)**

*Cause.* The fire department had new recruit training classes. This type of class is for attrition classes that are necessary to replace retirement and other vacancies. These classes are funded from vacancy savings in other budgeted areas. It would be difficult to budget in the beginning of the year the classes that would occur through out the year, since they are based on retirements, however budget adjustments are made in the middle of the year and this particular type of adjustment for these classes was not made until internal audit requested the adjustment.

*Effect.* When expenditures are not coded correctly, the cost of services and expenses could be misleading and the budget could be circumvented without approval. Correcting this journal voucher will result in an over expenditure in the training line which will require approval.

*Recommendation.* We recommend correcting the journal voucher. Due to the budget restraints, this may have occurred in other departments as well; therefore, we recommend that each department thoroughly review the journal vouchers to ensure that they are proper.

*Management Response.* We accept your recommendations. Once the Journal Vouchers are reversed, the Training and Safety program will be overspent. We do not intend to "clean-up" the Fire Department programs as we are only taking year-end "clean-up" action when a fund is overspent. Cadet attrition classes have never been budgeted, but rather are funded from vacancy savings created when firefighters retire. In FY/03 and future years, we will adjust the Fire Department program appropriations at mid-year to more accurately reflect actual expenditures as a result of attrition cadet classes. In FY/04 we will budget for salaries associated with cadet attrition classes, as well as track expenditures to adjust program appropriations at mid-year.

We will encourage all departments to review their journal vouchers to assure they are posted properly.

**02-18 Proper Recording of General Fund Allocations**

*Condition.* The Parking Fund was not charged with the actual indirect overhead. The amount charged was \$295,000 and should have been \$476,037. We also noted that street maintenance expenditures were not charged to the Gas Tax Road Fund. In the prior year, such expense was \$19,200. was charged to the Gas Tax Road Fund.

*Criteria.* Indirect expenditures should be properly expensed based on the indirect cost plan. Also all expenditures should be properly reflected in the proper fund and line item.

*Cause.* It appears that the remaining indirect overhead in the parking fund was not charged because it would have caused that line item to be over spent. The cause of the street maintenance expenditures that were not charged to the Gas Tax Road Fund is unknown.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-18 Proper Recording of General Fund Allocations (Continued)**

*Effect.* If all charges and expenditures are not properly recorded as an accurate cost of the fund, it's costs are undeterminable and proper budgeting can not be done.

*Recommendation.* We recommend that all funds absorb indirect costs, regardless of the financial situation and that all expenditures be properly recorded to reflect the actual cost in each fund.

*Management Response.* The incorrect amount that was charged to the Parking Fund for indirect overhead was due to an error not any deliberate attempt to bring down the expenses in the Parking Fund. An error was made in the calculation for the Parking Division's indirect cost by using an incorrect rate. We will avoid the reoccurrence of this error by requiring another individual to review each calculation and assure that the correct rates are being used.

The second portion of the condition paragraph "*We also noted that street maintenance expenditures were not charged to the Gas Tax Road Fund,*" deals with an issue of Solid Waste doing refuse removal for streets. Some portion of the \$86,000 should have been charged to the Gas Tax Road Fund. This was inadvertently overlooked. The net impact to the General Fund is zero, as that fund is heavily subsidized by the General Fund. However, the Accounting Division of the Department of Finance and Administrative Services will work closely with both departments involved to see that the appropriate charges are made in FY/03.

**02-19 Family and Community Services Procurement Problems from State Auditor**

*Condition.* Per our review of a special audit performed by the State Auditor, we noted several findings related to the Family and Community Services Department as follows:

- Conflicts of interest existed between members of the City's Development Commission created by Albuquerque Code of Ordinance, Chapter 14, Article 8 Section 62 and the developer, the Albuquerque Hispano Chamber of Commerce, regarding the BUENO Foods Warehouse project.
- The winning bid for the BUENO Foods Warehouse project did not meet required criteria.
- The Department committed violations in awarding the contract for the Old Albuquerque High School Project.
- The Department renewed social services contracts without verifying that contractors performed services or met goals.
- The Department did not enforce contractor reporting requirements, adversely impacting the Department's oversight responsibilities.
- The Department increased contractor compensation without an increase in the scope of services or an extension of the time of performance after the Old Albuquerque High School project contract was awarded.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-19 Family and Community Services Procurement Problems from State Auditor  
(Continued)**

- The Department committed contract approval violations and paid for services prior to the effective dates of contracts.
- The Department violated the assignment and transfer of interest clause of a contract and paid \$35,000 for services prior to having authority to do so.
- The Department awarded over \$900,000 in social services contracts without seeking proposals.
- The Department improperly expended \$55,588 in state awarded appropriations.
- The Department may have overpaid contractors in excess of \$64,000.
- The Department approved budget amendments in violation of the City's administrative requirements.

*Cause.* Unknown

*Effect.* The Department did not comply with the City Procurement Rules. Budgeted expenditures become difficult to monitor and process especially at the end of a contract period. There is the potential for higher costs, collusion and the member's use of confidential information acquired by virtue of their authority, for private gain. The Department may have paid public funds without receiving services in exchange.

*Recommendation.* We recommend that the Family and Community Services Department follow the City Procurement Rules and comply with administrative and contract requirements.

*Management Response.* The Department of Family and Community Services has prepared a comprehensive response to the findings identified in the special audit performed by the State Auditor. The Department is in the process of attempting to resolve these findings with the assistance of the City of Albuquerque, Office of Internal Audit. The Department will take appropriate corrective action to insure that City Procurement Rules as well as administrative and contract requirement are followed.

**02-20 Audit Report Due Date**

*Condition.* The report was not submitted by the due date.

*Criteria.* Per the 2.2.2 NMAC Audit Rule 2002, *Requirements for Contracting and Conducting Audits of Agencies*, annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-20 Audit Report Due Date (Continued)**

*Cause.* Budget reductions, loss of personnel, and implementation of GASB34 has delayed the CAFR process.

*Effect.* The annual audit report was not submitted to the Office of the State Auditor by the due date.

*Recommendation.* We recommend that the required approval be obtained in advance of the Office of the State Auditor's due date in order to submit the annual audit report by the due date.

*Management Response.* The cleanup resolution was submitted very early this year and would have enabled the administration to submit the report to the State Auditor's Office by the due date. However, several issues arose this year that will result in late filing again. Loss of key personnel, and budget reductions that resulted in those positions not being filled has delayed the preparation of the CAFR. Also, implementation of GASB 34 has delayed the process, as has the addition of 10 days in the process, required under the new audit rule, from completion until it may be submitted.

**02-21 Fixed Asset Inventory**

*Condition.* The City has not completed an inventory of its fixed assets for the year ending June 30, 2002.

*Criteria.* As of June 30, 2002, GASB 34 is required to be implemented for the City, which requires that capital assets be reported in the basic financial statements. The inability to properly monitor fixed assets not only results in the inability to produce timely and accurate financial statements, but can also impair the City's ability to safeguard its assets.

*Effect.* It is essential to maintain records to demonstrate accountability for general capital assets acquired in governmental fund types, even though they are charged to expenditures as incurred in those funds. Due to the required implementation of GASB 34, it is essential that adequate accountability be made of all capital assets. To maintain adequate accountability, the City should conduct periodic physical inventory of capital assets and adjust the records accordingly to comply with GASB 34.

*Cause.* Unknown.

*Recommendation.* We recommend that proper resources of funding and personnel be allocated to accomplish this project.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-21 Fixed Asset Inventory (Continued)**

*Managements Response.* Management concurs with the finding. It is vital that an inventory be conducted. The City will look for ways to achieve this objective through the use of additional personnel or contracting with an outside party.

**02-22 Lodgers' Tax Quarterly Report Submissions**

*Condition.* The City of Albuquerque did not file the September 30, and December 31 Quarterly Lodgers' Tax Reports.

*Criteria.* Pursuant to Section 3-38-17.2(B) NMSA 1978, the report is due no later than 30 days following the close of the quarterly reporting period.

*Cause.* Unknown

*Effect.* The City is in violation of state statute.

*Recommendation.* We recommend that the Quarterly Lodgers' Tax Reports be submitted in a timely manner.

*Managements Response.* We concur with your recommendation and will submit future reports in a timely manner.

**02-23 GEAC Accounting Software**

*Condition.* We noted that the City's primary financial application, GEAC, has been in place for a considerable length of time (between 20 and 30 years). Certain modules of this software are either no longer supported by the vendor, or will not be supported in the near future.

*Criteria.* The City should maintain its ability to initiate, record, and process transactions, and to obtain access to audit evidence.

*Cause.* The City has not allocated resources through the budgetary process to replace GEAC. This type of large systems is generally budgeted through the capital budget program.

*Effect.* Because some modules of GEAC are no longer supported, the City could experience significant downtime if the software malfunctioned. The City's ability to record and obtain access to financial information could be significantly impaired, or data could be lost. The City could be forced to obtain replacement software at short notice, resulting in significant additional expense.



**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-23 GEAC Accounting Software (Continued)**

*Recommendation.* The City should plan to replace its financial accounting software soon (possibly within 1-2 years) and allocate sufficient resources to achieve this.

*Managements Response.* The City concurs. We have recognized the need and are currently in the process of moving forward to acquire an integrated financial package. The Request For Proposal (RFP) is currently out in the vendor community. The responses to RFP are due back to the City on December 6. The RFP review committee anticipates completing their review and sending their recommendation to the Mayor by the end of January 2003.

Our goal is to complete the legal process and start implementing the system by May 1, 2003. The first sections will be the utility billing and the constituent relationship management (CRM). We anticipate work commencing on the core financial systems in July.

**02-24 Housing Division**

*Condition.* During our audit of the Housing Division's Family Self-Sufficiency (FSS) escrow investment accounts, we noted the Division is not accurately tracking and recording some participants' escrow balances.

*Criteria.* The Division should ensure on a consistent basis that each participant's FSS balance is accurate and that any necessary monetary changes to the Division's monthly contributions to the investment account based on participant's change in income be properly adjusted and recorded in the escrow account.

*Cause.* There is some miscommunication amongst the FSS Coordinator and those responsible for adjusting the participant's FSS amount based on the participant's income level. Also, there is unrestricted access to the FSS tracking software program currently being used to monitor each participant's FSS balance and too many individuals have the capability to make changes to a participant's electronic file.

*Effect.* The FSS escrow investment balance could be understated due to the necessary transfers not being made from the Division's general cash account to the FSS escrow investment account.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-24 Housing Division (Continued)**

*Recommendation.* Although a thorough audit is done on each participant's FSS balance at each calendar year-end to ensure accuracy, and again when a participant successfully completes the FSS program, the Division should audit the balances at fiscal year-end, as well, to ensure accurate and complete balances are reflected in the annual financial statements. Also, any changes to a participant's FSS monthly contributions should be promptly communicated to the FSS Coordinator, and the necessary changes made within the FSS tracking software program should be restricted to a limited number of authorized personnel. The Division should implement full utilization of the automated FSS tracking system, as well.

*Managements Response.* We concur with the recommendation.

**02-25 Family and Community Services- Reconciliation of Program Income**

*Condition.* We noted that the Family and Community Services Department is not properly reconciling program income.

*Cause.* Revenue accounts were not evaluated by each activity and several reclassifications caused actual program income to be much lower than estimated.

*Effect.* The City expended more money than necessary.

*Recommendation.* Per our review of grant documents, the City is still eligible to draw down eligible expenditures. We recommend, that the City determine the amount eligible and obtain reimbursement from the U.S. Department of Housing and Urban Development.

*Managements Response.* The Department of Family and Community Services is in the process of reconciling both the entitlement drawdowns and the program income for the Community Development Block Grant Program. The Department will ensure that all revenues are reconciled to the general ledger and the U.S. Department of Housing and Urban Development, Integrated Disbursement and Information Systems Report on a monthly basis. Additionally, the Department will research prior year expenditure to determine if any adjustments are needed to properly distribute costs between entitlement and program income revenue sources.

**02-26 Bank of America is Improperly Collateralized**

*Condition.* We noted that the Bank of America account is improperly uncollateralized by \$734,906.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-26 Bank of America is Improperly Collateralized (Continued)**

*Cause.* Unknown

*Effect.* The City is not maintaining the required collateral.

*Recommendation.* We recommend that the City obtain the proper collateralization for the Bank of America account.

*Managements Response.* Treasury staff reviews the collateral position at city depository banks. In July the city received the monthly Bank of America collateral report showing the ending June balances and collateral position. Total balances were \$2,837,064 for 3 accounts secured by securities with a market value of \$639,176. Required collateral would be \$1,368,520; half the balance after deduction \$100,000 for FDIC coverage. With a shortfall of \$729,356, we requested additional collateral to secure city deposits. On July 9, an additional security with a market value of \$1,000,481 was pledged to the accounts. The total position was increased to a market value of \$1,643,119, sufficient to collateralize city deposits at Bank of America.

The City is now set up on a monthly review (by the City and the bank). If collateral greatly exceeds the balances, collateral is released. The daily ledger balances can fluctuate between \$1-5 million. Average ending ledger balances at Bank of America are \$2.5 million. Collateral level is about 66% of this amount. We started with Bank of America in March. Initial collateral levels were based on the March ending balances. Review was set quarterly as with the prior bank. We were set up beginning in June for monthly reports, which we are now receiving.

**02-27 Real Property Division - Delinquent Accounts**

*Condition.* We noted that the Real Property division at the City is not reviewing delinquent accounts.

*Cause.* The Real Property Division was short staffed during the current year.

*Effect.* Failure to collect on these accounts could cause cashflow problems for the City.

*Recommendation.* We recommend reviewing the escrow account activity on a regular basis to determine the status of the escrow accounts.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)**

**02-27 Real Property Division - Delinquent Accounts (Continued)**

*Managements Response.* The City understands that the escrow company monitors all fund 850 accounts relating to the sale of the Ellena Gallegos Trust Lands. The City also understands that the escrow company notifies the Property Manager when accounts become delinquent. Upon notification of delinquency, a collection letter is sent from the City with the subsequent commencement of foreclosure if necessary.

**02-28 CMO's and Affordable Housing**

*Condition.* We noted items with Affordable Housing and CMO's that may be potentially unrecorded.

*Cause.* Unknown

*Effect.* The City's financial statements may be misstated.

*Recommendation.* We recommend that this issue be researched thoroughly.

*Managements Response.* These items have always been considered to be independent of the City of Albuquerque, with no right to make any claim upon City assets. Information has come to our attention in recent weeks that this issue should be readdressed and researched in depth. This will be done during FY/03.

**02-29 Information Expert System- Gross Receipts Tax Payable**

*Condition.* We noted that the IE system incorrectly calculated governmental gross receipts taxes due.

*Cause.* Unknown

*Effect.* Gross receipts taxes payable are overstated.

*Recommendation.* We recommend that the City correct the program calculation error.

*Managements Response.* The City acknowledges that the computer program incorrectly calculated governmental gross receipts taxes due, in a very specialized circumstance. This occurred only at the beginning of the fiscal year in a certain fund that is reported with a project life-to-date balance. This processing error within the computer program will be corrected as soon as feasibly possible.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

**00-2 Urban Mass Transit**

CFDA#: 20.507-Federal Transportation Administration

*Condition.* We noted that a vendor used for purchases of goods and services for a federal program was not tested for suspension and debarment.

*Criteria.* Programs receiving federal funds are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended to debarred. Covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 and any non-procurement transactions.

*Cause.* Unknown

*Effect.* Because verification of the status of the vendor is not performed, there is a deficiency in internal controls over compliance with procurement, suspension and debarment requirements.

*Questioned Costs.* None

*Recommendation.* The program should ensure that vendors are not included on the suspension and debarment list by either getting certification statements from the vendor or examining the list of suspended and debarred parties provided on the internet.

*Management Response.* The Transit Department agrees with the external auditor's recommendation. To address this particular instance, the Transit and Legal Departments have worked together to develop a construction bid document to be used for Federal Transit Administration funded construction projects.

**CITY OF ALBUQUERQUE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2002**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD**  
**PROGRAM AUDIT (CONTINUED)**

**01-18 Federal Claim**

Department of Justice-CFDA# unknown

*Condition.* The federal government may assess a claim against the City of Albuquerque to recover federal funds that might have been spent for purposes other than adding personnel.

The Department of Justice is reviewing the expenditures and their appropriateness per the grant agreement.

*Criteria.* When applying for a grant, the applicant should submit accurate information and once the award has been received, the recipient is required to spend the money as directed in the grant document.

*Cause.* The Department of Justice, who issued the federal grant to the City, is questioning how the grant money was spent.

*Effect.* It is possible that the City may be disqualified for future Department of Justice grant awards.

*Questioned Costs.* Possibility of entire reimbursement of grant awards (\$4,152,447).

*Recommendation.* We recommend that the City review information submitted in applications to grantors and examine procedures for monitoring grants to ensure that compliance requirements are being adhered to.

*Management Response.* In July, the Albuquerque Police Department received a copy of the Office of the Inspector General's draft audit report of the Community Oriented Policing Grants. Presently, the Police Department along with other areas of City government such as the Office of Management and Budget is working on researching and responding to specific concerns associated with each grant.

**02-30 Indirect Cost Plan**

*Condition.* During our review of the indirect cost plan and allocation of costs, we noted that the plan submitted for the year ending June 30, 2002 to the cognizant agent (Department of Transportation) is not the plan currently being used by the City. The plan and costs charged to each fund for the year ending June 30, 2002 was the plan calculated and submitted for the year ending June 30, 2001.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD  
PROGRAM AUDIT (CONTINUED)**

**02-30 Indirect Cost Plan (Continued)**

*Criteria.* The indirect cost plan that is submitted to the cognizant agent should be used to allocate charges to the various funds.

*Cause.* The City felt that the FY01 indirect cost plan was a more appropriate plan.

*Effect.* The City has misinformed their cognizant agent and may not be in compliance with numerous grants.

*Recommendation.* We recommend contacting the cognizant agent as soon as possible to inform them which indirect cost plan the City is currently using and verify if any adjustments need to be made. We also recommend that in the future, a plan be submitted, and the approved plan be allocated appropriately.

*Management Response.* We agree, the City did submit a new plan to the Department of Transportation, for the Year ending June 30, 2002, and then utilized the plan that was in place in fiscal year 2001. The plan was submitted at that time because it had changed. The cognizant agency's role is to approve the plan as complying with OMB Circular A-87 and thus give assurance to other grantor agencies that the City is in compliance and the rates charged by the City will be in accordance with A-87. Their role is to approve the city's methodology used in the plan rather than approving specific rates for a specific year. The cognizant agency has never indicated that a particular City plan was not in accordance with A87. We have never received any notification from the cognizant agency on a submitted plan. History suggests that the cognizant agency is not terribly concerned with the plan or the rates.

The City is not required to annually submit the plan. This suggests two things: 1) the cognizant agency is not required to be informed for each year what specific rates will be charged and 2) grantor agencies do not rely upon acquiring approved rates from the cognizant agency for any particular year, but rather place their trust that the agency has approved the methodology utilized in preparing the rates.

As we reviewed the consultants' work and acquired a better understanding of their plan, we concluded that some of the central service programs did not belong in the OMB plan. In our estimation those costs were not allowed by A-87. Central service programs included by the consultants that the City felt should be excluded were Real Property, Legal Services, Chief Administrative Office, Office of Management and Budget (here the cost of grant budgeting is allowable but the cost of city wide budgeting is not allowable, therefore we excluded all), OMOI and City Clerk. The inclusion of new central service programs was the primary reasons we submitted a new plan. Another reason was to adjust appropriated costs of central service programs for actual costs.

**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD  
PROGRAM AUDIT (CONTINUED)**

**02-30 Indirect Cost Plan (Continued)**

*Management Response (Continued).* The rates in the 2002 plan were in many instances much higher than the 2001. We preferred to err on the conservative side by providing the lower rates to providers. Using a plan's rates simply because we submitted that plan, and with full knowledge that the plan contained probable unallowable costs did not seem to be the appropriate action.

We did not mislead any grantor agency who inquired about the rates in effect for fiscal year 2002. When a grantor agency requested evidence of the indirect overhead rate for FY 2002 grant, they were supplied with the rates from the 2001 cost plan that was actually to be applied to their grant. The package sent to the grantor agency was comprised of 1) schedule F from the 2001 plan showing the rates for each user department 2) the certification letter from the 2001 plan signed by the Department of Finance and Administrative Services director 3) the transmittal letter 4) the 1995 letter from the cognizant agency stating that there was not need to submit the plan unless there was a material change in the allocation method or costs allocated.

Although no grantor suffered injury by the use of an older plan, the City should have filed a subsequent report, and will do so in the future.

**02-31 Federal Major Programs**

Urban Mass Transit- CFDA# 20.507

CDBG- CFDA# 14.218

CDBG-HOME- CFDA# 14.239

Questioned Costs - Unknown

*Condition.* During our review of internal audit reports, it was noted that the Albuquerque Housing Services Division, Purchasing Division and Transit did not comply with the public purchases ordinance and federal statutes regarding the use of local preference.

A contract was awarded to a vendor whose bid was higher than another vendor's. The higher bidder was selected. Documentation relating to the bid evaluation stated, "Recommend award of bid to the vendor...they are the lowest responsive bidder as a result of local vendor preference...The bid offer received from the (Low Bidder) was not eligible for local preference because the vendor did not sign the Local Vendor Preference Form...".

*Criteria.* The City's Public Purchase Ordinance (Section 5-7-17) states, "This section shall not apply to any purchase of goods or services...when the expenditure of federal funds designated for a specific purchase is involved." Also, federal regulations (24 CFR 85.36) prohibit the use of local geographical preference in the evaluation of bids.



**CITY OF ALBUQUERQUE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2002**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD  
PROGRAM AUDIT (CONTINUED)**

**02-31 Federal Major Programs (Continued)**

Urban Mass Transit- CFDA# 20.507

CDBG- CFDA# 14.218

CDBG-HOME- CFDA# 14.239

*Cause.* Unknown

*Effect.* The City is not in compliance with the public purchases ordinance and federal regulations.

*Recommendation.* We recommend that the Albuquerque Housing Services Division, Purchasing Division and Transit comply with the public purchases ordinances and federal statutes and not take local preference into consideration in a bid award when federal funds are involved.

*Management Response.* The City concurs that separate contract awards must be made when federal funds will be utilized to pay for contract expenditures. The Purchasing Division in the Department of Finance and Administrative Services, has modified the structure of procurements with federal funding considerations to include very specific language that excludes the application of geographical preferences for evaluation purposes. Also, any additional federal requirements provided by the using departments are being addressed in the procurements.

Albuquerque Housing Services has assigned a buyer to ensure the requisitions forwarded to Purchasing will include proper documentation of any special requirements relating to purchases.

Transit has created a Purchasing Review Committee responsible for ensuring that procurement using federal funds have all necessary federal language attached and that requisitions make mention of federal requirements that must be met.

**CITY OF ALBUQUERQUE**  
**STATUS OF PRIOR YEAR AUDIT RECOMMENDATIONS**  
**Year Ended June 30, 2001**

**REPORTABLE CONDITIONS**

00-2	Urban Mass Transit Suspension and Debarment	Repeated
00-5	Comprehensive Grant Program Davis Bacon Act	Resolved
01-1	Inventory-Measuring Device	Resolved
01-2	Inventory Counting Process	Resolved
01-3	Inventory Counting Process	Resolved
01-4	Violation of Statutes	Resolved
01-5	Payroll	Resolved
01-6	Cash Handling- Senior Affairs	Resolved
01-7	Travel & Per Diem	Repeated
01-8	Transit-Parking Division	Repeated
01-9	Disaster Recovery Plan	Improved
01-10	Strategic Plan	Repeated
01-11	Fixed Assets	Repeated
01-12	Housing Authority	Improved
01-13	Early Head Start Suspension and Debarment	Resolved
01-14	Reimbursement Requests	Resolved
01-15	Audit Report Due Date (renumbered 02-20)	Repeated
01-16	Loss Reserve Data	Resolved
01-17	Budget Overspending	Repeated
01-18	Department of Justice Federal Claims	Repeated