

**CITY OF ALBUQUERQUE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2003**

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. 11 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. 3 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:

	CFDA No.
South Valley Wastewater Facility Construction	66.606
Section 8 Rental Voucher	14.855
Public Housing Capital Fund Program	14.872
Water Reclamation and Reuse Program	15.504

8. The dollar threshold for Type A programs of the City is \$1,866,213
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, 2003**

B. FINDINGS- FINANCIAL STATEMENTS AUDIT

01-09 Disaster Recovery Plan

Condition. The DFAS Information Services (IT) Division needs to complete the disaster recovery plan.

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

Cause. The City has not completed the process of developing and testing a comprehensive disaster recovery plan.

Effect. The City could incur substantial losses in both time and money restoring operations to the predisaster level.

Recommendation. The City needs to complete the process of developing 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 area, 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 Systems Committee biannually.

Management Response. ISD hired RESPEC, Inc. to complete in three phases a disaster recovery plan for major computer systems. They completed phases one and two and expect to finish the final phase by June 2004 with the completion of the disaster recovery site at Pino Yards. This completion is contingent upon Public Works Department signing a memorandum of understanding by December 1, 2003 for the use of the space at Pino Yards.

**CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2003**

B. FINDINGS- FINANCIAL STATEMENTS AUDIT

01-11 Fixed Assets

Condition. The Transit Department provided a list of fixed assets for the year ending June 30, 2003. This list did not agree to the City wide fixed asset system for this particular department. We could not determine which list contained the accurate information.

Criteria. Proper fixed asset management requires that each department account for all fixed asset purchases. 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. This condition is also referred in 12-6-10 NMSA 1978.

Cause. General ledger accounts are not reconciled to an individual listing of fixed asset in the system.

Effect. Fixed asset balances could be over or understated. Fixed assets could also be listed that are not in use or present in the department. 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 and reconciled to the City wide fixed asset system. Fixed assets should be reconciled to the trial balance amounts.

Management Response. We agree with this finding. The accounting division will ensure that assets purchased, via capital acquisition funds, will be entered on the City's capital asset system.

01-17 Budget Overspending

Condition. The budget was overspent, at the program level, 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". This condition is also referred in 6-6-6 NMSA 1978.

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.

**CITY OF ALBUQUERQUE
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B. FINDINGS- FINANCIAL STATEMENTS AUDIT

02-21 Fixed Asset Inventory

Condition. The City completed an inventory of its buildings for the year ending June 30, 2003; however did not complete an inventory of equipment and other related fixed assets. The City also has a difference between individual fund capital outlay and capitalized fixed assets.

Criteria. As of June 30, 2002, GASB 34 was 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. This condition is also referred in 12-6-10 NMSA 1978.

Effect. It is essential to maintain records to demonstrate accountability for general capital assets acquired in governmental fund types. 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.

Management Response. We concur with this finding. City departments will be tasked to complete an inventory of assets that are greater than one thousand dollars by June 30, 2005. This inventory will be handled annually in accordance with administrative instructions. Additionally the accounting division will reconcile the differences in the capital acquisition fund and the listing of City wide fixed assets by June 30, 2004.

02-26 Bank Accounts Not Adequately Collateralized

Condition. We noted two bank accounts are improperly uncollateralized by approximately \$6,019,000.

Criteria. If the pledged collateral in an aggregate amount is not equal to one half of the amount of public money in each account (Section 6-10-17 NMSA 1978), there should be a finding in the audit report.

Cause. Unknown

Effect. The City is not maintaining the required collateral.

**CITY OF ALBUQUERQUE
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B. FINDINGS- FINANCIAL STATEMENTS AUDIT

02-26 Bank Accounts Not Adequately Collateralized (Cont.)

Recommendation. We recommend that the City obtain the proper collateralization for the bank accounts.

Management Response. Senior Treasury staff will initiate contact with the City's fiscal agent two days prior to the semi-annual transfer of funds for debt service payments and confirm that arrangements have been made to assure adequate collateralization on the day these funds are withheld from the REPO for transfer to Depository Trust Company.

03-01 Expenditure posted incorrectly

Condition. We noted a FY02 travel expenditure that was improperly posted in FY03.

Criteria. Proper and correct timing of all expenditures is required to ensure that expenditures are posted in the correct period. This condition is also referred in 6-6-3 NMSA 1978.

Cause. Unknown

Effect. This type of improper accounting results in overestimated expenditures and could result in budget overruns. If expenditures are not recorded in the correct year, management is unable to determine the accurate financial position.

Recommendation. We recommend that the City of Albuquerque carefully review expenditures for date of service and expense category to ensure expenditures are properly recorded.

Management Response. This issue has been addressed through the accounting division. All expenditures are to be reviewed at fiscal year-end to ensure that they are reflected in the period in which the expense was incurred. Additionally, the central travel liaison has developed a systematic tracking mechanism to ensure timely payments after the completion of each trip.

03-02 Untimely Posting and Reconciliation of Cash Transactions

Condition. During our review of the Internal Audit follow-up review report (Ref. No. 03-99-111F2), it was noted that the Albuquerque Police Department (APD), Evidence Unit (EU) is not preparing complete transmittals for checks written and deposits made with the bank the day of the actual transactions. As a result, APD Fiscal Division is unable to make the appropriate entries to the general ledger in a timely manner, which makes it difficult to timely reconcile the EU cash journal, the fiscal division's records, and the general ledger to the bank statement.

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B. FINDINGS- FINANCIAL STATEMENTS AUDIT

03-02 Untimely Posting and Reconciliation of Cash Transactions (cont.)

Criteria. To ensure timely posting of transactions and accurate reconciliations of cash activity, the EU should prepare its transmittals daily in order to reflect an accurate balance of evidence cash in the general ledger. This will allow the fiscal division to reconcile all recorded cash activity to the bank statement and the general ledger and prompt immediate attention toward questionable or unusual reconciling items. This condition is also referred in 6-6-3 NMSA 1978.

Cause. Unknown

Effect. APD fiscal division is unable to make the appropriate entries to the general ledger in a timely manner. Although the fiscal division does have good controls over cash activity by reconciling their cash records to the general ledger and the bank statement on a monthly basis, the untimely reporting of cash activity could lead to questionable cash transactions. It was also noted during the Internal Audit follow-up review, that the accountant performing the reconciliation discovered that eight fraudulent checks and two fraudulent bankcard transactions were charged to the EU checking account in September 2002. The bank ultimately fully reimbursed the EU in the amount of \$1,173.50 and APD closed the bank account and reopened another account. However, APD did not investigate the fraudulent activity or report it to the internal audit department.

Recommendation. We recommend that all daily cash activity in the EU be promptly and completely submitted to the APD fiscal division for recording into the general ledger. This will help strengthen the EU's control over its cash activity and allow the fiscal division to perform timely cash reconciliations.

Management Response. We concur with this finding. It is the City's policy that all cash is recorded and deposited within 24 hours of receipt. The accounting division will enforce the policy with APD to ensure compliance.

03-03 Transit Parts Inventory: Discrepancy in Final Parts Listing

Condition. During our observation of the Transit Department's parts inventory, our test counts of selected items agreed with the Department's counts and with the final inventory listing provided by the Department. However, after we received the final inventory listing, we received a revised final listing that reflected a discrepancy in quantity for one of the items we test counted.

Criteria. Inventory should be counted accurately and completely during the physical inventory count to ensure proper value and safeguarding of assets.

Cause. Unknown

**CITY OF ALBUQUERQUE
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Year Ended June 30, 2003**

B. FINDINGS- FINANCIAL STATEMENTS AUDIT

03-03 Transit Parts Inventory: Discrepancy in Final Parts Listing (cont.)

Effect. The inventory count is the most reliable way of ensuring that the quantities reflected on the system are accurate. If the counts were recorded based on the first physical inventory, the value would have been understated.

Recommendation. We recommend that all like-kind inventory items be stored in the same location to obtain an accurate count of the items during the inventory count. There are additional comments for inventory improvements contained in report no. 01-105 issued by the Internal Audit Department on October 10, 2003.

Management Response. We agree with the recommendation, Transit has already implemented this recommendation.

03-04 Expenditures in the Parking Fund

Condition. Expenditures and assets were recorded in the Parking Division that do not appear to be related to the function of the division.

Criteria. The Parking Division's function is to account for the operations of the parking facilities owned by the City. This condition is also referred in 6-6-3 NMSA 1978.

Cause. Proceeds from the Series 2000A bonds were recorded in the Parking Division because the bonds were to be used for three new parking structures and for several unrelated parking activities. The primary driving force behind the use of these bond proceeds was to increase development in the downtown area, and to increase downtown vitality.

Effect. There are assets recorded for the Parking Division that are unrelated and therefore assets are overstated.

Recommendation. We recommend that the City evaluate the unrelated activities and determine what the proper accounting is for these expenditures.

Management Response. The City will record the assets and depreciation in the proper fund.

**CITY OF ALBUQUERQUE
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B. FINDINGS- FINANCIAL STATEMENTS AUDIT

03-05 Unapproved Audit Contract

Condition. The City contracted with an independent public accountant (IPA) to perform audit activities within the City without state auditor approval.

Criteria. Section 2.2.2.8 of the 2003 Audit Rule states, "In accordance with Section 12-6-12 the agency and IPA shall not enter into any financial, special audit or any other non- audit service contract without the prior written approval of the State Auditor."

Cause. The departments were contracting directly with IPAs to perform audit activities.

Effect. The City could unknowingly enter into a contract with an IPA who does not have the required waiver to perform State Auditor financial statement audits.

Recommendation. Ensure written approval of the audit contract is obtained from the State Auditor prior to the commencement of all financial statement, special audit or other non-audit service contracts.

Management Response. The City has made all departments aware of the requirements of the State Auditor. All departments have provided the Accounting Division a listing of all IPAs that are performing auditing, accounting or bookkeeping services. The Accounting Division is responsible to ensure that awareness is emphasized as an agenda item in the Financial User Group quarterly meetings.

03-06 Accounts Receivable – Air Quality Division

Condition. The Air Quality Division's accounts receivable ledger had credit balances of over \$11,000. These credit balances have not been investigated, refunded to customers or determined to be proper.

Criteria. Good accounting practice and the City's Administrative Instruction No. 2-2 relating to accounts receivable require timely handling of accounts receivable at all stages of the process. This condition is also referred in 6-6-3 NMSA 1978.

Cause. After a discussion with the division accountant it was determined that there was improper accounting, training and supervision.

Effect. The City has understated receivables and revenue and needs to reimburse customers for overpayments.

Recommendation. We recommend that the department research each credit balance and follow Administrative Instruction No. 2-2 for each phase of accounts receivable.

Management Response. We concur with this finding. The receivables with a credit balance will be researched and handled in an appropriate fashion by June 30, 2004.

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

01-18 Federal Claim

Department of Justice-CFDA#16.710

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.

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. The City of Albuquerque has reviewed the report from The Department of Justice and disagrees with a large portion of the amount the federal agency is questioning.

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

Questioned Costs. The original amount in questioning was \$4,152,447. In response to the federal agency and after a thorough review of the City's records by City personnel, the City has reimbursed The Department of Justice the sum of \$151,636 in the current year and is not anticipating further reimbursement. The City is awaiting final determination from the Department of Justice.

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

Management Response. The City will ensure that APD review any applications for DOJ grant and monitor all expenses and drawdowns against the COPS grant to ensure compliance with the grants scope and the unlimited use of funds as stated on the application.

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

03-07 Section 8 Housing Choice Vouchers-Form 9886

CFDA#: 14.871-Department of Housing and Urban Development

Condition. During our testing of eligibility, we noted that the required HUD Form 9886 was not completed or maintained in our sample of tenant files.

Criteria. HUD requires a federally prescribed general release form for employment information (Form 9886) to be completed and maintained in tenant files.

Cause. Housing Authority does not require this form to be completed by tenants.

Effect. All tenant files appear to lack required HUD information.

Questioned Costs. None

Recommendation. The Housing Authority should ensure that staff is aware of required HUD forms and that these forms are properly completed and maintained in the tenant files.

Management Response. Housing Authority concurs with the finding. Prior to January 2003 Albuquerque Housing Services (AHS) had not required the use of form HUD-9886, Authorization for the Release of Information/Privacy Act Notice as required by federal program regulations.

A memorandum directive to all program technical staff for both the public housing and Section 8 program areas which states effective immediately the use of form HUD-9886 would be required as part of the admissions and annual recertification documentation process. In addition, the Housing Authority has included the requirement of the use of the 9886 form in the Housing Authority's Administrative Plan and the Admissions and Continued Occupancy Policy to be adopted on December 1, 2003.

This will result in a HUD-9886 form to be included in every tenant file as of January 2004.

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

03-08 Reporting Federal Grants

Condition. The City has several federal, state, and local grant revenue sources. The City also has many other revenue sources each year. It was determined that there are federal grants that have been received, recorded and expended properly in the general ledger, and not reported properly on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA is used to report federal expenditures to the Federal Clearing House and is required to be tested based on the level of expended funds to determine proper compliance with federal awards.

Criteria. All grant revenue sources need to be identified, properly recorded, and reported (if necessary) to comply with Federal OMB standards and to maintain good accounting practices.

Cause. The revenue is recorded based on the department's identification and recommendation of postings.

Effect. If revenue sources are not properly posted and monitored, all federal sources could be jeopardized for future funding because of improper reporting and compliance requirements.

Recommendation. We recommend that the City develop a plan to accumulate the information and properly record the expenditures in the SEFA.

Management Response. We concur with this recommendation. The Department of Administrative Services is requesting the reinstatement of a centralized position within the Accounting Division. The City will include this in the Fiscal-Year 2005 budget request.