

**MANAGEMENT AUDIT REPORT**

**OF THE**

**CITYWIDE FISCAL YEAR 2004 YEAR-END CLOSE**

**05-101B**



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



***City of Albuquerque***  
**Office of Internal Audit and Investigations**  
**P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103**

August 31, 2005

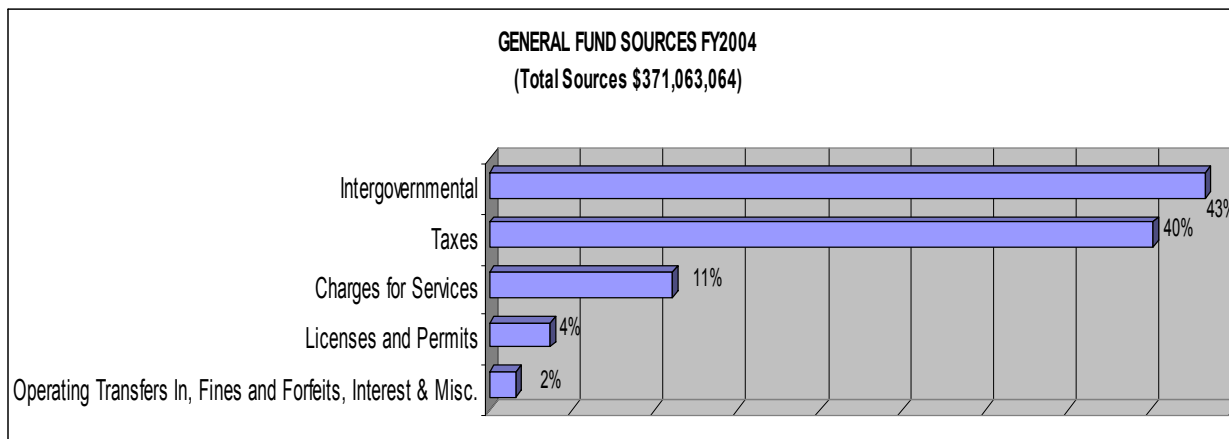
Accountability in Government Oversight Committee  
City of Albuquerque  
Albuquerque, New Mexico

Audit: Citywide  
Fiscal Year 2004 Year-End Close  
05-101B

**FINAL**

INTRODUCTION

The City of Albuquerque (the City) operating budget is prepared annually for the General, Enterprise, Special Revenue, Internal Service, Debt Service and Capital Project funds. Each year the City is required to have a balanced budget so that expenditures cannot exceed revenues and other sources. Sources of funding for the City's General Fund for fiscal year 2004 (FY04) were as follows:

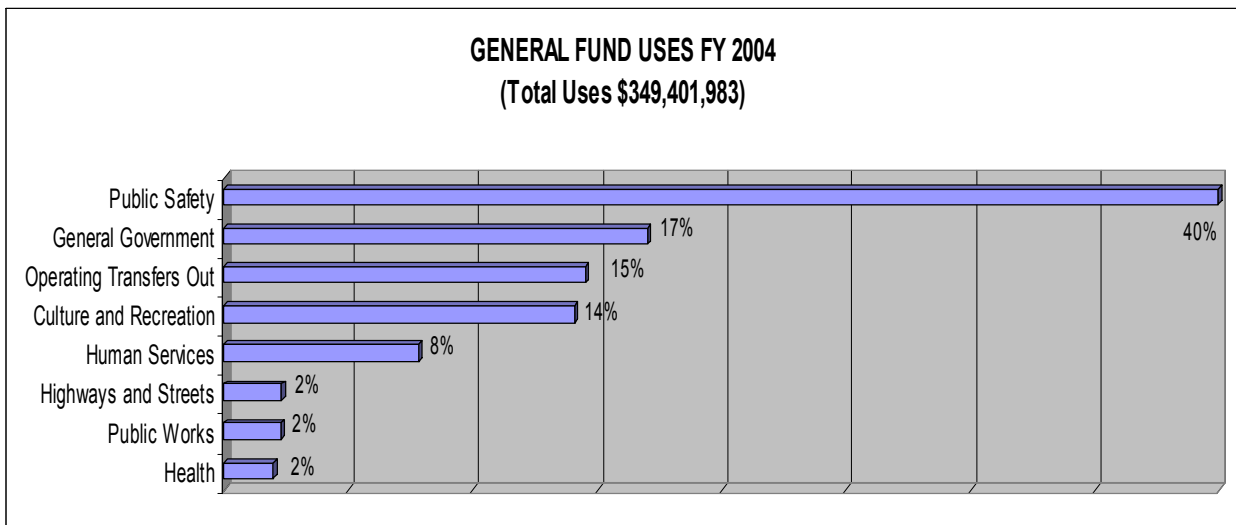


The City makes appropriations at the program level. A program is a group of activities directed to achieve specific purposes or objectives. A department can have several different programs. Expenditures may not exceed appropriations at the program level. Budgetary control is maintained by a formal appropriation and encumbrance system. The Mayor has authority to move program appropriations by the lesser of five percent or \$100,000 without City Council approval, provided the total fund appropriation does not change. With the exception of project funds, appropriations revert to fund balance to the extent they have not been expended or encumbered at fiscal year-end.

As required by the City charter, the annual budget (the Proposed Budget) is formulated by the Mayor and the Office of Management and Budget (OMB) and submitted to the City Council by April 1 for the fiscal year commencing July 1. City Council can amend the budget and votes to approve the budget at a meeting in May. The budget, as amended by the City Council is published as the Approved Budget.

A cleanup resolution may be performed in the middle of the fiscal year to make adjustments to anticipated revenues and expenditures. At the conclusion of each fiscal year the Mayor and City Council compare the budgeted versus actual revenues and expenditures. Any budget adjustments required are completed in a final “cleanup resolution” proposed by the Administration and amended and approved by City Council. OMB Management reports that cleanup bills will be proposed to City Council only when over-expenditures occur at the fund level.

General Fund uses for FY04 were as follows:



Each year the City publishes the result of its revenues and expenditures in its Comprehensive Annual Financial Report (CAFR). The CAFR is audited by the City's external auditors and is required to be filed with the New Mexico State Auditor's Office by December 1.

For a detail of FY04 budget vs. actual expenditures for all operating funds see attached Tables A & B.

### AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Have all programs spent within their appropriated budgets?
- Do journal vouchers prepared by City departments have proper supporting documentation?
- Have encumbrances been properly recorded?
- Have accounts payable balances been recorded in the proper year?
- Are accounts receivable subsidiary ledgers reconciled to the general ledger?
- Have prior year-end close audit findings been resolved, repeated or modified?

### SCOPE

Our audit did not include an examination of all functions, activities and transactions of the City. Our audit testwork was limited to transactions during the period of July 2003 through June 2004, FY04.

This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of the City's activities through the completion of fieldwork and does not reflect events or accounting entries after that date.

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

## METHODOLOGY

We reviewed a sample of expenditures from programs whose over-expenditures exceeded the lesser of 5% or \$100,000 of the program budget. This review included six items from the Fleet Management Program, 24 Refuse – Collections expenditures and 30 Transit – Operations expenditure transactions. This sample was judgmentally selected.

Another judgmentally-selected sample of 44 journal vouchers prepared by various City departments was tested for proper supporting documentation. Seven of the 44 journal vouchers tested related to reimbursing the general fund for capital project labor costs. An additional 23 journal vouchers, all which affected the general fund and were made during the year-end close process, were also reviewed.

Forty-three encumbrances were randomly selected for testwork. Twenty-four were items that had been removed from the ending encumbrance listing. Nineteen were items that were included in the ending encumbrance listing.

A statistical sample of 40 invoices paid after year-end were randomly selected for accounts payable testwork. A judgmental sample of 20 invoices was selected from the unmatched invoice listing for further review.

The accounts receivable subsidiary ledger was reviewed for the False Alarm Enforcement and Education Fund. Other areas of this fund were reviewed including various Administrative Instruction and Ordinance requirements.

All 21 purchases made from Luz de Nambe were reviewed. This testwork was conducted to follow up on a prior year finding.

## FINDINGS

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

1. THE CAO SHOULD ENSURE ALL PROGRAMS SPEND WITHIN APPROPRIATED BUDGETS.

The purpose of public budgeting is to provide government with a mechanism to allocate resources for the pursuit of goals that are consistent with community preferences and needs. The City budgets at the program level. Programs are contained within the City's different funds and are managed by departments. The program level in the Strategic Management framework is the level to which resources are appropriated in the City's budget. Although the City is required by City ordinance and State statute to balance its

budget at the fund level, the expenditures are appropriated at the program level. The City's Budget Ordinance, section 2-11-7 (B) ROA 1994 states,

A full-program budget will be prepared for all city departments each year. The program budget shall clearly identify each program that is proposed to be implemented or continued in the ensuing fiscal year and shall include the projected costs of each program.

Established City policy requires each department to adhere to the budget at the program level. The FY 2004 Proposed and Approved budgets state, "Appropriations are at a program strategy level, the level at which expenditures may not legally exceed appropriations. . ."

In addition, Administrative Instruction 2-20 states:

Program Strategies are the level at which appropriations are made. It is at this level that managers must ultimately be responsible for controlling expenditures.

All employees with budgetary control over a Program Strategy must accomplish their tasks within the approved budget. All personnel decisions and all expense decisions must be made within that framework. It is unacceptable, for an employee with budgetary control to spend in excess of the appropriated budget.

Employees such as fiscal managers and human resource coordinators who may lack direct control, but serve in a direct advisory capacity for expenditure decisions, shall provide the best information available. If the manager fails to act in a financially prudent manner upon receipt of the advice, the fiscal manager and/or human resource coordinator shall report to the manager's supervisor. This process will be repeated at ascending levels of management until the financial advice is heeded. If necessary, after following this procedure, if he/she still believes corrections have not been made in line with the advice, he/she should report directly to the Chief Financial Officer. Failure to follow this procedure will result in the same disciplinary procedure applicable to the Program Strategy Manager, described below.

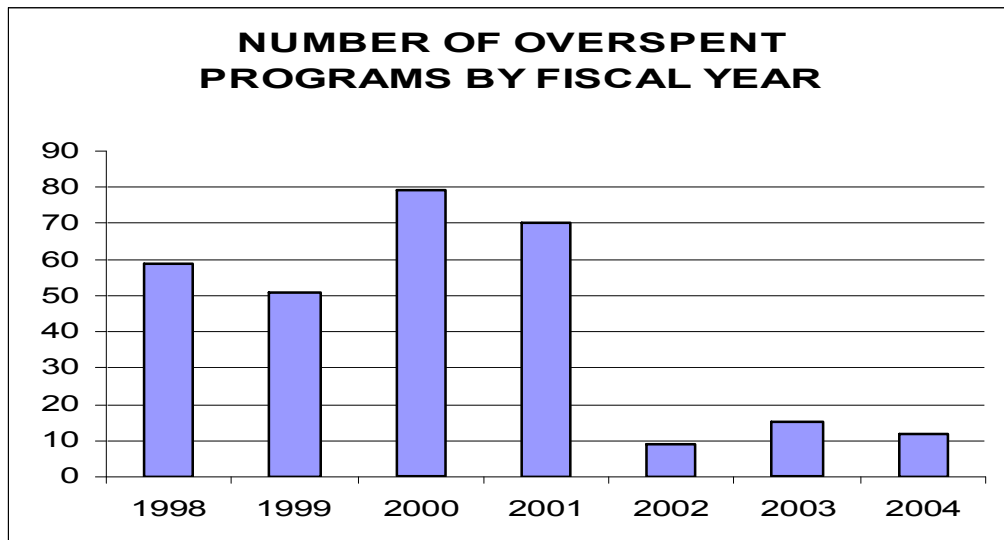
Failure on the part of the Program Strategy Manager to monitor and control expenses within the appropriated budget will be subject to disciplinary action as defined in the Personnel Rules and Regulations. Disciplinary action may include written reprimand, suspension, demotion, or dismissal.

The following programs had expenditures in excess of appropriations:

<u>Fund</u>	<u>Program</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
110	Gross Receipts Tax Audit <sup>1</sup>	\$ -	\$ 1,089,444	\$ (1,089,444)
110	Community Events <sup>2</sup>	\$ 1,339,000	\$ 1,363,484	\$ (24,484)
110	Public Library <sup>2</sup>	\$ 9,196,000	\$ 9,225,803	\$ (29,803)
110	Central Support Services <sup>2</sup>	\$ 21,989,840	\$ 22,073,052	\$ (83,212)
260	Community Custody <sup>2</sup>	\$ 1,146,000	\$ 1,155,605	\$ (9,605)
651	Collections <sup>3</sup>	\$ 13,493,000	\$ 14,341,361	\$ (848,361)
661	Operations <sup>3</sup>	\$ 18,347,660	\$ 18,564,192	\$ (216,532)
691	Transfer to General Fund <sup>3</sup>	\$ 6,000	\$ 7,458	\$ (1,458)
725	Fleet Management <sup>1</sup>	\$ 8,675,000	\$ 8,773,752	\$ (98,752)
745	Transfer to General Fund <sup>2</sup>	\$ 227,000	\$ 230,647	\$ (3,647)
Total		\$ 74,419,500	\$ 76,824,798	\$ 2,405,298

- <sup>1</sup> Final clean-up resolution approved by City Council and the Mayor increased appropriations in these programs subsequent to fiscal year-end. The appropriations listed do not reflect that clean-up resolution.
- <sup>2</sup> Program was overspent within 5% or \$100,000 and did not require an additional appropriation per City Ordinance.
- <sup>3</sup> The program was overspent by the lesser of 5% or \$100,000; however, the fund was not overspent and did not require an additional appropriation.

The number of overspent programs, as reported in the CAFR over the past seven years is as follows:



As stated above, the Mayor has authority to move program appropriations by the lesser of five percent or \$100,000 without City Council approval, provided the fund appropriation does not change. The following explanations are provided for over-expenditures in excess of these amounts:

- Gross Receipts Tax Audit – This program was created in the General Fund as a result of an audit that was conducted by the State of New Mexico Taxation and Revenue Department on the City’s gross receipts tax records for the period January 1997 through May 2003. It was determined during the audit that taxes in the amount of \$737,515 and accrued interest of \$351,929 were due to the State. The total amount of \$1,089,444 was paid out of the General Fund. As this amount was not budgeted, it was included in the final clean-up resolution.
- Collections – This Refuse Disposal Operating program in Fund 651 overspent its appropriation of \$13,493,000 by \$848,361. This overage is attributed to primarily three line items: vehicle maintenance, fuel and automotive equipment. Solid Waste Management attributes the increase in vehicle maintenance to an aging fleet. As new equipment is purchased, these costs should decrease. Management also reports the actual cost of fuel to operate the Solid Waste vehicles was significantly higher than the amount budgeted.

It was also noted during testwork that the cost of three new refuse trucks totaling \$467,000 was charged to the Operating program, contributing to the over-expenditure of the program. The trucks were initially purchased out of the Refuse Capital Fund; however, a journal voucher was then prepared to move the costs to the Operating Fund. This was done to free up monies in the Capital Fund which would be used for a critical hydrology project at the Solid Waste Main Office. The cost of these trucks should not have been transferred to the Operating Fund, as this expenditure was not budgeted in the Operating Fund. This program was not included in the final clean up resolution as Fund 651 was not overspent in total.

- Operations – The Transit Operations program in Fund 661 overspent its appropriation of \$18,347,660 by \$216,532. The primary cause of this overage is attributed to increased fuel prices from the budgeted amounts.

Another contributing factor was water and sewer costs. This line item was budgeted at \$18,730; however, actual expenditures were \$107,183. Approximately \$ 83,000 of these expenditures were related to meter installation costs at the new Westside Transit Facility. A Facilities Manager approved these charges, not the Transit Fiscal staff. This program was not included in the final clean up resolution as Fund 661 was not overspent in total.



- Transfer to General Fund – Fund 691, Sports Stadium Fund was required to transfer \$7,458 to the General Fund for indirect overhead charges, the amount budgeted was \$6,000. Historical data is not available, as this program was established during FY 2003.
- Fleet Management – This Fund 725 program overspent its appropriation of \$8,675,000 by \$98,752. This resulted in the Fund as a whole being overspent by approximately \$66,000. The over-expenditure at the program level was attributed to an error in the fuel and lubricant line item. Fleet Management reports that an operational error occurred during the year in which two departments were never billed for the fuel they received. This error was discovered and corrected during the year-end reconciliation process causing the program to be overspent. A request to cover the overage with available fund balance was included in the final clean-up resolution.

#### RECOMMENDATION

The CAO should ensure that all programs spend within the appropriated budget amounts. For those programs that are overspent, the Administration should take appropriate action in accordance with Administrative Instruction No. 2-20.

For programs that are projected to overspend, but due to contractual obligations adequate savings cannot be realized, the department that is responsible for the program and the Administration should seek an additional appropriation from City Council before the program overspends.

#### EXECUTIVE RESPONSE FROM THE CAO

##### **“Comments:**

***“The CAO respectfully notes that many of the findings in the referenced report were identified by the City prior to the issuance of this report, and that affirmative steps were taken during FY/05 to address the issues. It is unfortunate that all department directors do not always see financial accounting for departmental activities as among their highest priorities. When departmental personnel, many of whom have only the most fundamental accounting skills, do not see their work as “important”, it impacts the work product.***

***“The CAO also respectfully suggests the opening of a dialogue regarding the value of this particular report which is required by City ordinance. Annually, the City engages the services of an outside, independent public accounting firm to audit the Comprehensive Annual***

*Financial Report (CAFR) prepared by the City. In many respects, the efforts of the Office of Internal Audit and Investigations duplicate the work of the external auditor. The City has found that the work product of the Office of Internal Audit and Investigations is helpful in improving the quality of offered City services, and questions the wisdom of continuing to allocate the scarce resources of that Office to this particular task.*

*“The CAO generally agrees with the finding and will begin to phase in written reprimands associated with program strategy over expenditures. However, written reprimands for overspending a budget that closed over a year ago is not effective discipline.*

*“The CAO intends to issue written reprimands to each Department Director deemed responsible for controlling a program which overspent by 5% or \$100,000 whichever is less once the audited close of FY/05 is available, with the following exceptions:*

*“a) non-General Fund departments that reported the over expenditure by the third quarter and that have generated sufficient fund balance by reducing expenditures in other program strategies or have additional revenue to produce sufficient fund balance to cover the over expenditures and balance the fund at year-end without a General Fund subsidy, or*

*“b) General Fund programs if the department has generated sufficient reductions in other departmental program strategies to keep the department as a whole from overspending, or*

*“c) the overspending could not have been foreseen by the third quarter of the fiscal year.*

*“Each department director in turn has the ability to issue written reprimands as necessary to correct department staff. The CAO will bring the Administrative Instruction to the attention of the Directors and inform them of the intent to enforce it fully in FY/06.”*

2. THE CAO SHOULD ENSURE CITY DEPARTMENT’S JOURNAL VOUCHERS CONTAIN ACCURATE, COMPLETE SUPPORTING DOCUMENTATION.

A. CIP-Related Journal Vouchers

Several departments including the Department of Municipal Development, Public Works and Parks and Recreation prepared journal vouchers to reimburse the General Fund during FY04 for labor costs related to General Fund employees

working on CIP projects. The following items were noted while reviewing seven CIP-related journal vouchers.

- Public Works Department (PWD) – The supporting documentation used to prepare one journal voucher did not agree to the source documents. Specifically, the hours charged to various CIP projects on the employees' timesheets did not agree to the allocation of labor charges on the journal voucher. The journal voucher did not appear to be reviewed after it was prepared which resulted in an incorrect amount to be reimbursed to the General Fund and charged to various projects. PWD did recalculate the correct amount to be recorded. It was determined to not be material to the presentation of programs in the CAFR. All journal vouchers should be reviewed prior to posting to ensure their accuracy.
- Parks and Recreation Department (PRD) – One journal voucher was noted where a project, other than the one the work was actually conducted on, was charged for personnel costs. PRD personnel conducted work on the New Play Equipment – 4H Project (#7385160); however Park/Playground Equipment Renovation (#7385080) was charged because the New Play Equipment – 4H Project was already overspent. The City Council and the Mayor approved funding for these two capital projects in Council Bill No. R-01-350, at the project level. When PRD allocates personnel expenditures based on available funding instead of where the work is actually performed, they circumvent the authority given to City Council and the Mayor to implement a balanced budget. In addition it is difficult to determine what actual costs were incurred on each project.

The timesheets that PRD uses to record daily work was not completed or signed by the employee who conducted the work on the project. It was completed by the Project Crew Leader. PRD did not have a procedure in place where the employee verified the time charged to each project. Without this control, labor time may be incorrectly reported.

As of July 1, 2004, PRD is no longer preparing CIP journal vouchers. This responsibility has moved to DMD, where the Design and Development Program now resides.

- Department of Municipal Development (DMD) – During testwork we noted the method used to complete timesheets was not consistent between employees. Some employees record only the hours actually worked on the project to the project and any remaining hours are attributed to the applicable time off category (vacation, sick, etc.) These timesheets total 80 hours for the two week period. Other employees record 80 hours to specific projects and

also record time off separately. These timesheets total in excess of 80 hours for the two week period. As these employees are 100% CIP funded, all of their time is charged to CIP projects, including time off. Regardless of the method used to complete the timesheet, only 80 hours was charged for each employee; however, the reporting method should be consistent among all DMD employees. During FY04 DMD did not have a procedure in place to ensure consistent completion of timesheets by employees.

Inconsistency was also noted between departments regarding the recovery of Worker's Compensation charges assessed to each department. PWD and DMD included Worker's Compensation charges in their journal voucher to reimburse the General Fund; however, PRD did not include these charges. The costs included in the reimbursed to the General Fund should be consistent among departments. The amount reimbursed to the General Fund may be over or understated when inconsistent costs are recorded.

B. Non CIP Journal Vouchers

Thirty-seven non-CIP journal vouchers posted during the year were selected for testwork. Two of the items tested did not contain complete supporting documentation.

- The first journal voucher, posted by the Parks and Recreation Department (PRD), charged the Cultural Services and Public Works Departments (PWD) for holiday decoration expenditures related to the Twinkle Light Parade, per an agreement between these three Departments and the Department of Finance and Administrative Services (DFAS). Neither PRD nor DFAS could locate documentation as to how the costs were allocated among the Departments. A memo dated June 28, 2002 to Department Directors and Fiscal Managers regarding General Ledger – Journal Vouchers stated, “The support for each JV must immediately be available upon request by Financial Reporting, external auditors or Internal Audit.”
- The second journal voucher, prepared by the Transit Department (Transit), charged the Parking Division (Parking) for rent expense at the Alvarado Transportation Center. Transit could not provide a written lease document to support the amount charged. The amount paid, \$30,000 for the fiscal year, was simply the amount Parking had budgeted in prior years. CAO Policies and Procedures Manual, Chapter 3: Financial Directives, Article 18: Contracts and Real Property Agreements, Section B: General Policy, states “All contracts and agreements shall be in writing. It is the policy of the City of Albuquerque that written agreements be entered into for all contracts of the City.”

The posting of the two journal vouchers described above results in expenditures being recorded without proper supporting documentation. All journal vouchers recorded should contain documentation to support the amount charged. Also, all lease agreements should be written.

C. Year-End Close Journal Vouchers

Three journal vouchers in our sample of 23 incorrectly accrued items at June 30, 2004.

- One invoice, dated July 28, 2004 in the amount of \$7,080, was for FY 2005 annual maintenance support.
- One invoice, in the amount of \$21,526 was for computers ordered July 12, 2004.
- One journal voucher, totaling \$76,926, contained numerous invoices that were incorrectly accrued at year-end. Three of the invoices were for musical performances. The contracts signed by the performers state, "The fee shall be paid to the performer upon receipt by the City of properly documented invoices for payment, on the condition that the performer has performed the services to the satisfaction of the City." All three of the performances took place in July 2004. Another invoice was for the purchase and installation of carpet. A purchase order was issued in April 2004; however, the goods were invoiced and shipped in October 2004. Another item for \$5,991 was accrued in the journal voucher; however, there is no invoice to substantiate this amount. The posting of this journal voucher caused two programs, Community Events and Public Library, to be overspent by less than 5% or \$100,000. The items noted above in this journal voucher should have been encumbered at year-end as opposed to being accrued.

The financial statements for the City are prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standard Board (GASB). Those standards require the City to record expenditures as a liability in the City's general ledger when they are incurred, not when they are paid. In the cases noted above, the liability had not been incurred as of June 30, 2004 and accordingly, should not have been accrued at year-end. The Departments responsible for journal vouchers did not provide accurate information to DFAS. The recording of these items may result in the misstatement of accruals in the CAFR.

RECOMMENDATION

The CAO should ensure that City Department's journal vouchers contain accurate, complete supporting documentation. DMD should develop

procedures for recording CIP reimbursements to ensure consistent reporting. Year-end close journal vouchers should be reviewed prior to being recorded.

EXECUTIVE RESPONSE FROM THE CAO

***“The CAO agrees that journal vouchers should be accurate and include complete supporting documentation. Working through the Director of the Department of Finance and Administrative Services, there is a continuing effort to upgrade the quality and skills of accounting personnel throughout the City.”***

3. THE CAO SHOULD ENSURE CITY DEPARTMENT’S ENCUMBRANCE BALANCES ARE PROPERLY STATED THROUGHOUT THE YEAR.

The City utilizes an encumbrance system to help prevent over-expenditures. An encumbrance can be viewed as an expected expenditure. The advantage of using encumbrances is to recognize funds that have been committed for a specific expenditure before the corresponding liability has been incurred. This allows a City department to add actual expenditures and encumbrances and compare the total to the department’s appropriations. The department can then determine its budget status.

At June 30, 2004, the City’s general ledger showed an encumbrance balance of \$7,431,721 for the General Fund. The Department of Finance and Administrative Services (DFAS) management made routine accrual and other adjustments of \$4,726,551. After further review by DFAS management, it was determined that \$1,667,272 or approximately 22% percent of the remaining encumbrances required additional corrections, leaving a final balance of \$1,037,898 of encumbrances in the General Fund. This is an improvement from the prior year amount of 54% of the encumbrance balance requiring additional corrections; however, City departments are still not maintaining an accurate encumbrance balance throughout the year. It appears that department fiscal managers do not understand the need to maintain accurate encumbrance balances throughout the year. DFAS management does not have the authority over department fiscal managers to ensure that accurate encumbrance balances are maintained.

The Encumbrance Administrative Instruction (No. 3-13) defines what encumbrances are, but does not provide any language requiring encumbrance balances to be accurate throughout the year. The purpose behind maintaining an accurate encumbrance balance is to assist in projecting expenditures before a liability is incurred. It is difficult to determine the total amount of commitments by the City at any given time if the encumbrance balances are not accurate.

We also noted one item in our sample that was improperly recorded at year-end for re-appropriation in FY 2005. The invoices were dated prior to June 30, 2004 and were for services rendered prior to year-end. These invoices, totaling \$22,802 should have been recorded as accounts payable at June 30, 2004 as opposed to being re-appropriated. Under the modified accrual basis of accounting, expenses are generally recognized when the liability is incurred. The department responsible for this payment did not pick up these invoices as accounts payables at year-end. Items such as this may result in the misstatement of encumbrances and accrual balances.

#### RECOMMENDATION

The CAO should ensure that City Department's encumbrance balances are properly stated throughout the year. Also, the CAO should consider revising Administrative Instruction No. 3-13 to require encumbrance balances to be accurate throughout the year and establish consequences for failure to keep encumbrances accurate. Year-end payments should be carefully reviewed to ensure their classification is correct.

#### EXECUTIVE RESPONSE FROM THE CAO

***“The CAO has directed the CFO to amend Administrative Instruction No. 3-13 to clarify departmental responsibilities with respect to encumbrances and encumbrance balances, as well as to establish consequences for failures to maintain accurate encumbrance balances.”***

4. THE CAO SHOULD ENSURE CITY DEPARTMENT'S LIABILITIES ARE PROPERLY RECORDED IN THE CORRECT FISCAL YEAR.

A. Accounts Payable Liabilities Should Be Properly Accrued

To ensure that expenditures were recorded in the correct fiscal year, a statistical sample of 40 checks was randomly selected from a total population of 7,344 checks issued during July through August 2004. This sample achieved a 93% reliability rate. We examined an invoice from each check selected and verified if the liability was incurred during FY04 and if the corresponding expenditure was properly recorded.

Five of the 40 items reviewed should have been accrued at June 30, 2004 and were not. These items included:

- An invoice dated June 4, 2004 in the amount of \$3,011 for parts and installation. This payment was made out of Fund 305 (Capital Acquisitions) on August 12, 2004.

- An invoice dated May 31, 2004 in the amount of \$4,920 for pharmacy charges for the month of April 2004. This payment was made out of Fund 705 (Risk Management) on August 30, 2004.
- An invoice dated July 13, 2004 in the amount of \$1,936 for reimbursement of expenses incurred during the period June 1, 2004 through June 30, 2004. This payment was made out of Fund 265 (Operating Grants) on July 22, 2004.
- An invoice dated June 25, 2004 in the amount of \$543 for office equipment. Included in this amount is \$301 of previously billed and unpaid charges. This payment was made out of Fund 110 (General Fund) on August 18, 2004.
- An invoice dated May 11, 2004 in the amount of \$75 for auto parts. This payment was made out of Fund 661 (Transit Operating) on August 20, 2004.

Under the accrual basis of accounting, the method used to prepare the City's CAFR, expenditures are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. In the five cases noted above, the liability was incurred prior to June 30, 2004 and accordingly, should have been accrued at year-end. The departments who are responsible for processing these invoices did not report them to DFAS as year-end accruals. These results represent an error rate of 12.5%. An error rate this high may indicate there is a misstatement of liabilities and corresponding expenditures in the CAFR.

**B. City Departments Should Monitor Their Unmatched Invoice Listing**

The City's internal control structure requires that invoices submitted to the City by a vendor must have a matching purchase order. If the invoice has a matching purchase order and the department has received the goods or services, payment is approved by the department through a release. If any of these items are missing, the invoice is placed in the City's unmatched invoice listing.

We examined the City unmatched invoice listing as of October 11, 2004 for invoices greater than 90 days old that contained an invoice date prior to June 30, 2004. The following is a schedule of those invoices:



Department	# of Invoices	Total
Public Works <sup>1</sup>	169	\$ 209,232
Department of Finance & Administrative Services	30	\$ 126,747
Department of Senior Affairs	1	\$ 73,696
Department of Municipal Development <sup>2</sup>	51	\$ 71,927
Transit <sup>3</sup>	33	\$ 67,290
Parks & Recreation Department <sup>4</sup>	19	\$ 43,912
Police	20	\$ 28,457
Cultural Services	2	\$ (19,625)
Mayor	32	\$ 16,204
Planning	3	\$ 16,018
Convention Center	9	\$ 13,435
Vendor (Department not known)	55	\$ 13,142
Solid Waste	14	\$ 9,347
Human Resources	6	\$ 2,308
Corrections	4	\$ 1,459

*Note:* The chart above only includes departments with a balance > \$1,000.

*Note:* The above chart includes the following Enron invoices, which is still pending in litigation.

<sup>1</sup>Includes 12 invoices totaling \$25,117

<sup>2</sup>Includes 38 invoices totaling \$61,375

<sup>3</sup>Includes 3 invoices totaling \$27,775

<sup>4</sup>Includes 5 invoices totaling \$11,416

Twenty items were selected from the population described above for further review. The results were as follows:

- 5 invoices were properly not accrued at June 30, 2004 because the goods or services had not been received.
- 6 invoices belonged to the Albuquerque Bernalillo County Water Authority, a component unit of the City. These invoices are still being shown as delayed to the City's Public Works Department.
- 9 invoices were noted where all or a portion of the balance should have been accrued at year-end because the goods or services were received prior to June 30, 2004. These invoices were not accrued at year-end.

DFAS Management reports that unmatched invoice reports are distributed to department directors every two weeks via e-mail. However, it appears that the departments are not routinely clearing out the unmatched invoices. As found in the above testwork, this results in invoices not being properly accrued at year-end which may lead to a misstatement of accruals in the CAFR.

Additionally, Administrative Instruction No. 3-7 states, "It is the policy of the City to pay all vendors in accordance with the terms of the contracts or within thirty days from the date of receipt of goods or services and/or date of invoice, whichever comes last." When the invoices on the unmatched invoice listing are allowed to age longer than thirty days City departments may not be in compliance with Administrative Instruction 3-7. Delays in paying vendors may also result in the interruption of goods and services.

#### RECOMMENDATION

The CAO should ensure that City Department's liabilities are properly recorded in the correct fiscal year. Also, all departments should monitor the unmatched invoice listing and routinely research and resolve unmatched invoices older than 30 days.

#### EXECUTIVE RESPONSE FROM THE CAO

***"The CAO, working through the Director of the Department of Finance and Administrative Services, has put substantially more focus on the issue of accounts payable during FY/05. The level of unmatched invoices has a direct correlation to the aging of accounts payable and has been the subject of regular discussion at management meetings throughout FY/05. The Director of the Department of Finance and Administration and the CFO are considering what consequences might be feasible and administrable when departments fail to keep their accounts payable current."***

5. THE ALBUQUERQUE POLICE DEPARTMENT (APD) SHOULD ADHERE TO ADMINISTRATIVE INSTRUCTION NO. 2-2 AND THE ALARM SYSTEM ORDINANCE.

A. APD Should Reconcile the Accounts Receivable Balance in Accordance with Administrative Instruction No. 2-2

During FY04, the False Alarm Reduction Unit (Alarm Unit) was not reconciling the accounts receivable balance in Fund 287 – False Alarm Education and Enforcement Fund to the general ledger. At June 30, 2004, an adjustment of \$122,140 was necessary to balance the general ledger to the false alarm subsidiary ledger.

Administrative Instruction No. 2-2: Credit, Collection and Accounts Receivable Policy, Section E: Accounts Receivable Process Requirements, Item 9: Monitoring and Reconciliation of Accounts states, "Departments shall be responsible for reconciling their A/R to the centralized GL system on a monthly basis." Prior to

being informed of this Administrative Instruction, the Alarm Unit did not know whose responsibility it was to reconcile the receivable balance. The Alarm Unit should develop a process to reconcile the subsidiary ledger to the general ledger on a monthly basis. This reconciliation should be reviewed by APD Fiscal Management.

B. APD Should Conduct Consistent Collection Attempts in Accordance with Administrative Instruction No. 2-2.

At June 30, 2004, the accounts receivable balance in Fund 287 was \$342,825. Of this amount \$249,975 or approximately 73% of the balance was greater than 90 days past due and was included in the allowance for uncollectible accounts. Article 3: Alarm System Ordinance, Section 9-3-6 (A) (8): Duties of Alarm Users, requires "Paying all fines and fees under this Ordinance within 90 days of the date assessed."

During FY04, collection notices were not consistently mailed on all past due accounts because of administrative problems with printing the notices. Administrative Instruction No. 2-2 addresses collection procedures in various areas: Section E: Accounts Receivable Process Requirements, Item 10: Collection of Delinquent Accounts states, "Departments shall be responsible for the collection of their delinquent accounts. This effort will be coordinated with the Treasury Division. Any exceptions shall be approved by DFAS." Also, Section D of the Administrative Instruction specifically states the procedures which should occur after an account is 30, 60, 90 and 120 days past due.

The Alarm Unit should consistently adhere to the collection procedures described in the Administrative Instruction for all valid accounts receivable balances. If an account balance is determined to be invalid (for example, if the resident lives outside of the City limits), the entry to record the balance should be removed from the subsidiary ledger using the proper approval process. Valid, enforceable receivables that are determined to be uncollectible under the requirements of State Statute 3-37-7 should be referred to the Treasury Department in accordance with Administrative Instruction No. 2-2, Section E: Accounts Receivable Process Requirements, Item 10: Collection of Delinquent Accounts.

C. APD Should Record Revenue in the Appropriate Fund in a Timely Manner, as Required by the Alarm Ordinance.

The Alarm Ordinance, Section 9-3-16: Dedication of Revenues, Creation of False Alarm Enforcement and Education Fund states, "...Except for hearing filing fees under Section 9-3-14 and false alarm service fees under Section 9-3-13, all permit fees and fines shall be deposited into the False Alarm Enforcement and Education Fund..."

During FY04, both false alarm service fees and permit fees were deposited into Fund 287, the False Alarm Enforcement and Education Fund. As noted above, the Ordinance requires revenues, *except* for false alarm service fees, to be deposited into Fund 287. False alarm service fees should be recorded in the General Fund. A journal voucher was prepared at year-end to move the proper amount of revenue into the General Fund. A process has not been set up to either transfer the revenue into the General Fund on a consistent basis or record the false alarm service fee revenue directly into the General Fund. As a result, the revenue in Fund 287 was overstated during FY04 until the transfer was made at year-end. We recommend APD develop a process to properly record the false alarm service fee revenue into the General Fund on a timely, consistent basis.

D. APD Should Enforce the Fines Described in the Alarm Ordinance on Alarm Install/Repair Businesses and Alarm System Monitoring Businesses

The Alarm Ordinance Section 9-3-9: Duties of Alarm System Monitoring Businesses states,

(C) An alarm system monitoring business that reports an alarm to the Albuquerque Police or Fire Department without a valid business permit shall be assessed a fine of \$250 per occurrence by the False Alarm Reduction Unit. (D) Alarm system monitoring businesses shall provide a monthly report to the False Alarm Reduction Unit by the twenty-fifth day of the month listing all new alarm systems installed the previous month...A late fee of \$10.00 per day for each monthly report that is overdue shall be assessed to any alarm system monitoring business that fails to provide this report by this deadline.

This reporting requirement is also applied to alarm system installation and repair businesses in Section 9-3-8.

During FY04, late charges were not assessed on installation and monitoring companies that submitted late reports. Also, the fines were not assessed to alarm system monitoring businesses who reported an alarm without a valid business permit. A procedure has not been implemented to enforce the fines on alarm install and repair businesses and monitoring business who do not comply with the requirements of the Ordinance. When these fines and late fees are not enforced, Fund 287 may be losing additional revenues. APD should develop procedures to enforce the late fees and fines on alarm install and repair businesses and alarm system monitoring businesses as described in the Alarm Ordinance.

E. APD Should Ensure Assets Purchased with Fund 287 Monies are Being Used by the False Alarm Reduction Unit

In January 2004, the Alarm Unit purchased seven new computers. This purchase was approved by the ISD Officer. The False Alarm Enforcement and Education Fund (#287) was charged for the computers; however, only two of the seven computers purchased are being used by the Alarm Unit. The other five computers are in another APD Unit. APD reports that the Alarm Unit has received five computers which are comparable to the ones they ordered. The Alarm Unit reports that the computers they ordered had specifications which the ones they received do not have. In March 2004, the Alarm Unit purchased a laptop. The False Alarm Enforcement and Education Fund (#287) was charged for the laptop; however, it is being used by another APD Unit, not the Alarm Unit.

City policy requires each department to adhere to the budget at the program level. The FY04 Proposed and Approved budgets states, "Appropriations are at a program strategy level..." The False Alarm Reduction Unit is a separate program, with a separate budget. Assets purchased with Alarm Unit funds should be used by that Unit. When assets are purchased by one program and are received and used by another, the purpose of the budget is defeated. We recommend the computers purchased by Fund 287 be returned to the Alarm Unit or an adjustment be recorded to accurately reflect the purchase price of the computers that the Alarm Unit received.

RECOMMENDATION

APD should adhere to Administrative Instruction No. 2-2 regarding the reconciliation of the accounts receivable subsidiary ledger to the general ledger and collection procedures. APD should record revenue in the appropriate fund in a timely manner and enforce all fees and fines, as required by the Alarm Ordinance. Also, APD should ensure assets purchased with Fund 287 monies are being used by the False Alarm Reduction Unit.

EXECUTIVE RESPONSE FROM APD

***"APD concurs that it should adhere to Administrative Instruction No. 2-2. Policies were implemented in FY/05 to correct many of the deficiencies. Processes are being reviewed that will correct the remaining items in FY/06.***

***"APD implemented procedures in FY/05 to correct the time delay in moving revenue from Fund 287 to Fund 110 and to correct the asset purchasing deficiencies in Fund 287."***

6. THE FAMILY AND COMMUNITY SERVICES DEPARTMENT (FCSD), TRANSIT DEPARTMENT (TRANSIT) AND SENIOR AFFAIRS SHOULD COMPLY WITH ADMINISTRATIVE INSTRUCTION NO. 3 – 14 REGARDING THE PURCHASE OF PERSONAL-USE ITEMS FOR USE BY EMPLOYEES.

Administrative Instruction No. 3-11: Purchase of Personal-Use Items For Use By Employees states,

It is the City's policy that City funds will not be used to purchase gifts, amenities, or items for the personal use of employees or for consumption by employees, unless the items are required to perform assigned department responsibilities or function.

Purchases of personal-use items or consumable items include, but are not limited to, foodstuffs, coffee and related supplies, coffeepots, microwave ovens and television sets. The City will not pay for meals or other supplies for award ceremonies or for retirement dinners or parties. However, the purchase of a plaque or trophy for a CAO-approved awards program would be an appropriate expenditure of City monies.

An examination of City purchases from Luz de Nambe revealed the following:

- FCSD made three purchases of Nambe during FY04 for retiring employees. FCSD did not have a CAO-approved awards plan to allow these expenditures.
- Transit made a Nambe purchase for an occasion that was outside the scope of their CAO-approved awards plan. Under Transit's approved plan, Nambe may be purchased for retiring individuals; however, this purchase was for another occasion, years of service recognition. Transit could not provide documentation that an exception to the policy had been approved by the CAO.
- Senior Affairs has a CAO-approved employee recognition plan that includes monetary awards; however, it does not address the purchasing of items. Senior Affairs made two employee purchases of Nambe during the year, one for a retiring employee and one for years of service recognition. Senior Affairs believed these purchases were allowable.
- Senior Affairs also purchased Nambe items for various non-City employees as gifts of appreciation. The Office of Economic Development purchased several items for dignitary gifts. The Administrative Instruction does not address the allowability of gifts for non-City employees.

Effective June 30, 2005, Administrative Instruction No. 3-14: Purchase of Personal-Use Items for Use by Employees was issued which replaces Administrative Instruction No. 3-11. Regarding achievement awards for length of service, the revised Administrative Instruction states,

A length of service award is limited to tangible personal property, such as a plaque, watch, or trophy or similar item... Subject to budget constraints, the recommended allowable costs for a length of service award are:

- For five to nine years of service, \$15.00;
- For ten to fourteen years of service, \$25.00;
- For fifteen to nineteen years of service, \$50.00;
- For twenty or more years of service, \$75.00

A Department Director may approve a higher dollar amount for a length of service award in advance and in writing, but in no case may a length of service award exceed \$100.

The Nambe purchases described above by FCSD and Transit would also not be in compliance with Administrative Instruction No. 3-14 because each item was purchased at a cost greater than \$100.

#### RECOMMENDATION

FCSD, Transit and Senior Affairs should comply with Administrative Instruction No. 3-14 when purchasing retirement or years or service awards. Also, the CAO should develop a policy regarding the purchase of gifts for non-City employees.

#### EXECUTIVE RESPONSE FROM FCSD

*“FCS concurs with the recommendation. The CAO approved a department awards plan on December 17, 2004, which complied with Administrative Instruction No. 3-11; however, AI 3-11 was withdrawn effective June 30, 2005, and superseded by Administrative Instruction No. 3-14. The Department is now in full compliance with the new Administrative Instruction regarding purchase of personal-use items by employees.”*

#### EXECUTIVE RESPONSE FROM TRANSIT

*“Transit concurs with the recommendation and notes that they have always attempted to operate in compliance with Administrative*

***Instruction No. 3-14. Appropriate personnel action was taken against the employee who violated the Administrative Instruction.”***

EXECUTIVE RESPONSE FROM SENIOR AFFAIRS

***“The Department of Senior Affairs discontinued the practice of purchasing “length of service awards” in June of 2002. If the practice of “length of service awards” were to be reinstated by the Department, the Department would comply with Administrative Instruction No. 3-14. The Department will also comply with Administrative Instruction No. 3-14 when considering purchases for retiring employees.”***

EXECUTIVE RESPONSE FROM THE CAO

***“The CAO respectfully notes that repeated findings in various Internal Audit reports led to a substantial revision of the Administrative Instructions during FY/05 relative to the purchase of personal-use items for use by employees, conforming City guidelines to IRS rules and regulations to the maximum extent possible. The CAO will request that the CFO consider an additional change to address the issue of purchases of items used to recognize the services contributed by non-City employees, primarily volunteers. Volunteers contribute substantially to the level and quality of service offered in many departments.”***

CONCLUSION

The CAO should ensure that all programs spend within appropriated budgets. The CAO should also ensure

- Journal vouchers contain accurate complete supporting documentation.
- Encumbrance balances are properly stated throughout the year.
- Liabilities are recorded in the proper fiscal year.

APD should adhere to the requirements of Administrative Instruction No. 2-2 and the Alarm Ordinance. FCSD, Transit and Senior Affairs should comply with Administrative Instruction No. 3-14: Purchase of Personal Use Items for Use by Employees.

We appreciate the cooperation of all City Departments during the audit.



**REVIEWED and APPROVED:**

**APPROVED FOR PUBLICATION:**

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Carmen L. Kavelman, CPA, CISA, CGAP  
Acting Director

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Chairperson, Accountability in Government  
Oversight Committee

[05-101B Table A FY04 Year End Close 083105 vmd.xls](#)

[05-101b Table B FY04 Year End Close 083105 vmd.xls](#)