

REPORT TO

CITY COUNCIL

ON THE

CITYWIDE FISCAL YEAR 2005 THIRD QUARTER BUDGET

05-103B



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

INTRODUCTION

City Ordinance 2-10-11 (B) ROA 1994 requires the Internal Audit Division to perform a quarterly review of City expenditures and encumbrances for each fiscal year. This report is presented to the City Council to satisfy the Third Quarter of Fiscal Year 2005 requirement.

The projections for the third quarter of fiscal year 2005 (FY05) are attached as Tables A and B. These projections were compiled by the Office of Management and Budget (OMB). City Ordinance allows the Mayor to adjust the City’s budget as necessary for no greater than \$100,000 or 5% of a program’s appropriation, whichever is less. For each anticipated over-expenditure in excess of \$100,000 *or* 5% of appropriations, we requested an explanation as to what is generating the projected over-expenditure. We then assessed management’s plans, if any, to resolve the anticipated over-expenditure. We also requested an explanation from programs whose projected expenditures were under the appropriated amount by \$100,000 *and* 5%.

RESOURCES AND FUND BALANCE

The following is an analysis of changes in General Fund revenues, appropriations and fund balance.

	FY05 APPROVED BUDGET (000’s)	FY05 REVISED BUDGET (000’s)	FY05 3rd QUARTER PROJECTIONS (000’s)
Resources:			
Revenue*	\$ 393,124	\$ 406,573	\$ 406,418
Beginning fund balance	<u>51,587</u>	<u>64,786</u>	<u>64,786</u>
Total resources	444,711	471,359	471,204
Appropriations/Expenditures:	<u>401,803</u>	<u>409,064</u>	<u>403,781</u>
Fund Balance	<u>\$ 42,908</u>	<u>\$ 69,295</u>	<u>\$ 67,423</u>
Fund balance adjustments	<u>(486)</u>	<u>(162)</u>	<u>(162)</u>
Fund balance reserves	<u>(40,078)</u>	<u>(39,197)</u>	<u>(39,197)</u>
Available fund balance	<u>\$ 2,344</u>	<u>\$ 22,936</u>	<u>\$ 28,064</u>

* Revenues are projected, actual revenues may vary

PROJECTED OVER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to overspend \$100,000 or 5% of appropriations, whichever is lower.

GENERAL FUND PROGRAMS

There are 105 appropriated General Fund operating programs. The General Fund is used to account for resources and expenditures traditionally associated with governments that are not required to be accounted for in another fund. Appropriations are at the program level, the level at which expenditures may not legally exceed appropriations. The following General Fund programs are in jeopardy of exceeding budget appropriations:

Program 27525 – Albuquerque Fire Department CIP Funded Employees program is projected to exceed its budget of \$92,000 by \$41,000. The CIP funded positions have been approved and will be fully funded through a reimbursement from Capital Projects Fund 305.

NON-GENERAL FUND PROGRAMS

There are 23 Non-General Operating Funds with 70 appropriated programs. The Non-General Fund programs at risk of overspending are as follows:

Program 21508 - Metropolitan Detention Center (MDC) Community Custody program in the Correction/Detention Fund (#260) is projected to overspend its \$1,145,000 budget by \$80,000. The projected overexpenditure is due to the increase in participants in the program. The Community Custody Program is an intensive community supervision program that includes inmate tracking, weekly drug testing and counseling. Accordingly, the increase in population directly impacts the cost of electronic monitoring equipment and drug testing supplies.

While conducting testwork, we noted a \$50,985 charge to the electricity expenditure line item that was incorrectly recorded to this program. Management intends to correct this error through a journal voucher.

The City and Bernalillo County share in the costs to run MDC. Accordingly, if MDC overspends it will be necessary for the City and Bernalillo County to appropriate additional funds.

Program 54501 – The Solid Waste Management Department (SWMD) Collections program in the Refuse Disposal Fund (#651) is projected to overspend its appropriated budget of \$13,752,000 by \$1,190,000. SWMD management reports that the increase in fuel costs is responsible for the projected over-expenditure in FY05. Fuel was budgeted at an average cost of \$.89/gallon for FY05; however, the actual average cost for a gallon of fuel was \$1.67 during the third quarter. Despite salary savings and other cut-backs SWMD plans to make, it appears the Collections program will be overspent for FY05.

While conducting testwork, we noted a journal voucher in the amount of \$297,133 was incorrectly recorded to this program. The purpose of the journal voucher was to transfer

the cost of rebuilt equipment to Solid Waste Capital Fund #653, because the useful life of the equipment had been extended. The entry was reversed during posting and the Solid Waste Operating Fund #651 was charged for the expenditure. Management intends to correct this error prior to the year-end closing process.

Programs 57502 – Transit Operations and 57504 – Special Events in the Transit Operating Fund #661 are projected to overspend their budget by \$238,000 and \$20,000, respectively. The Operations program is projected to overspend primarily because of the utilities, supplies and contractual services line items. Electricity, gas, phone and water charges have come in significantly higher than anticipated at the Westside Transit Facility (WSTF), which was opened in FY05. One-time connection fees and meter costs for gas, phone and water have also contributed to the increase in expenditures. Transit management reports that supply use has increased due to an aging fleet. Transit also spent \$44,600 through the third quarter on an armored car/deposit verification service that is recorded in the contractual services line item. This was implemented at the request of the Administration and the expense wasn't included in the program's FY 05 budget.

During testwork we noted that Transit spent approximately \$6,300 in registration and travel costs for four employees to participate in the National Bus Rodeo Competition in Atlanta, GA. These discretionary expenditures are not essential to the operation of the Transit Department and should not be purchased when the program is at risk of overspending appropriations.

The Special Events program is projected at the end of the third quarter to overspend its \$293,000 budget by \$20,000. There are numerous payroll-related charges including PERA, other employee benefits and Retiree Health Care, that are not recorded to the appropriate program. These items, which total approximately \$37,000, should be recorded in the Operations program.

PROJECTED UNDER-EXPENDITURES

The following are explanations provided by the responsible departments for programs anticipated to underspend their budget by \$100,000 and 5% of appropriations.

GENERAL FUND PROGRAMS

Program 23510 – Cultural Services Department CIP Biopark program is projected to underspend its budget of \$1,945,000 by \$236,000. Biopark management reports that 15 of its 31 temporary CIP positions were vacant near the end of the third quarter. The vacancy rate is expected to drop to 11 positions at the end of the fourth quarter.

Programs 31506 - Family and Community Services' (FCS) Provide Mental Health Services programs is projected to underspend its \$2,355,000 by \$185,000. The Provide Mental Health Services program receives a portion of the ¼ cent Public Safety Tax. FCS

management reports that much staff time was spent early in the fiscal year developing the programming. Also, the program got a late start on the procurement process to get provider contracts in place.

Program 25550 – *Department of Finance and Administrative Services (DFAS) Citizens Services* program is projected to underspend its \$1,453,000 budget by \$450,000. This program supports the 311 Call Center and is a new program for FY05. Program management reports that the majority of the call agents are being hired just prior to the go-live date of the project, July 1, 2005, to eliminate staffing inefficiencies. Management believes the actual unspent amount at the end of FY05 will be less than the third quarter projected amount due to the staffing approach being used.

Program 25590 – *Department of Finance and Administrative Services (DFAS) – Tourism/Convention Center* program is projected to underspend its \$2,597,000 budget by \$140,000. The Convention Center is currently managed by SMG, a private operator. SMG contributed \$400,000 during FY05 for capital improvements at the Convention Center. DFAS management report that \$300,000 of this amount has already been expended on improvements. The City is negotiating with SMG on how the remaining \$100,000 will be spent. This \$100,000 has been re-appropriated for FY06.

Program 41501 – *Office of Internal Audit and Investigations* is projected to underspend its \$1,189,000 budget by \$214,000. The primary reason for the projected under expenditure is salary savings. At the end of the third quarter, four of Internal Audit's 12 positions were unfilled. Internal Audit has a difficult time filling these positions due to the higher salaries that are available to potential applicants in public accounting and private industry. Management anticipates the actual unspent amount to be even higher than the 3rd quarter projections because the projections assume all four of the vacancies would be filled from March 2005 through the end of the fiscal year; however, the four positions remain vacant at the end of the 4th quarter.

Program 45502 – *Parks Management* program in the Parks & Recreation Department is projected to underspend its \$12,096,000 budget by \$709,000. During FY05, \$927,922 was transferred from the general fund to the Albuquerque/Bernalillo County Water Authority to repay monies owed on a FY 2000 Memorandum of Understanding (MOU) between the Public Works Department and Parks & Recreation. The MOU specified the amount Parks & Recreation would pay for the construction of a sanitary sewer life station and water lines at Balloon Fiesta Park. The Parks Management program is reducing expenditures in order to revert as much as possible to the general fund at the end of the fiscal year.

During testwork of this program, we noted a \$5,500 expenditure charged to the Parks Management program that should have been recorded to the Quality and Affordable Golf program. Management intends to correct this error through a journal voucher prior to year-end.

NON-GENERAL FUND PROGRAMS

Program 56509 – Vehicle Pollution Management program in the Air Quality Fund (#242) is projected to underspend its \$1,252,000 budget by \$124,000. Management reports that the projected underexpenditure is due to several large professional services expenditures have not yet been incurred. These include vehicle reference tables which are installed on the emissions analyzers out in the field and database information that is used to generate statistical reports on pass/fail rates, error rates, etc. Management anticipates the actual unspent amount to be significantly less than the third quarter projection.

Programs 54502 Disposal, 54503 Administrative Services and 54504 Recycling in the Refuse Disposal Operating Fund (#651) are projected to underspend by \$350,000, \$398,000 and \$220,000, respectively. Wherever possible management is making cut-backs in these programs in an attempt to minimize the total fund over expenditure given the Collections program, as discussed earlier, is projected to overspend by \$1,190,000 due to increased fuel costs.

Program 44502 – Quality and Affordable Golf in the Golf Operating Fund (#681) is projected to underspend its \$3,406,000 budget by \$197,000. Management reports this underexpenditure is intentional so the Fund is able to improve their working capital balance in FY06 and meet debt service requirements. During testwork of this program, we noted a \$281 purchase card expenditure that was incorrectly charged to the Golf program. This expenditure should have been recorded to the Open Space program in Fund 851. Management intends to correct this error through a journal voucher.

CONCLUSION

Although a few programs are in jeopardy of exceeding appropriations, most projected over-expenditures appear to be manageable and will not have a negative impact requiring additional appropriations. Based on the information provided by the departments **it appears that three programs will likely require additional appropriations.** These programs are:

<u>Department/Program</u>	<u>Projected Over-Expenditure</u>
Corrections Department – Community Custody	\$ 80,000
Solid Waste Management Department – Collections	1,190,000
Transit Department – Operations	<u>238,000</u>
Total	<u>\$ 1,508,000</u>

EXECUTIVE RESPONSE FROM THE CAO

“The CAO concurs with your findings. Since the fiscal year closed prior to the issuance of this report, it is not possible to reduce FY/05 expenditures. However, we anticipate that a year end clean-up appropriation will be necessary to increase appropriations at the fund level if the fund is overspent as a whole due to the problems in the programs you identify. Before the Combined Annual Financial Report for Fiscal Year 2005 is concluded, it is not possible to know if the clean-up appropriations can be completely supported by fund balance for Funds 260, 651 and 661.

“Corrections Department – Community Custody

“While it is likely that, in the final close, the expenditures will exceed the appropriation level in the Community Custody Program, it is also likely that unanticipated revenue will be sufficient to support the additional appropriation without affecting the General Fund.

“The Corrections and Detention Fund 260 third quarter overall revenues for FY/05 were estimated to come in above the original estimate by \$438 thousand. This increase is primarily from Federal program reimbursements initiatives for SCAPP (\$248 thousand) and Southwest Border (\$271 thousand). Please note that this may be the last funding for SCAPP, and applications are now available to obtain what may be the last funding available for Southwest Border. In addition, the third quarter estimate of revenues for the care of prisoners is expected to be down by \$100 thousand due to the reduction in parole violators held at MDC.

“Solid Waste Management Department – Collections

“While Collections expenditures are likely to exceed the appropriation level, revenues to the Refuse Disposal Operating Fund 651 are projected to come in over budget by \$931 thousand. The Enterprise revenues, Residential and Commercial Collection, Landfill Fees, and Recycling, are forecast to be higher in all categories. Recycling revenue has the greatest increase over budget with a 45% increase. Miscellaneous revenue is projected to come in slightly above budget due to an increase in common fund interest. The higher than expected interest revenue helps to offset a decrease in Graffiti revenue. It cannot yet be determined if the additional revenue will be sufficient to support additional FY/05 appropriations that may be required in the Collections program without requiring additional General Fund support.

“Transit Department – Operations

“Transit Operations expenditures will most likely exceed the appropriations level. However, as of the third quarter of FY/05, Transit Operating Fund 661 fare and pass revenue is anticipated to be approximately \$306 thousand over the FY/05 approved budget estimate. This is a result of the full implementation of Rapid Ride and its support services in the third quarter of FY/05. Interest on investments is about \$72 thousand over the original FY/05 approved budget estimate, while advertising and other revenue is about \$31 thousand over the original FY/05 approved budget estimate.”

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