

FOLLOW-UP AUDIT REPORT
OF
METROPOLITAN REDEVELOPMENT FUND
REPORT NO. 06-02-118F



City of Albuquerque
Office of Internal Audit and Investigations



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

Follow-Up: METROPOLITAN REDEVELOPMENT FUND
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FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a Follow-up Review of Audit No. 02-118, Metropolitan Redevelopment Fund (MRF). The purpose of our follow-up was to review the status of the audit recommendations that had been implemented by the Planning Department and the Office of Economic Development.

Background Information Relating to Audit No. 02-118

MRF was created by Council Bill No. O-153 Enactment No. 64-1979, effective July 1, 1979. Pursuant to the New Mexico State statute that enacted the Metropolitan Redevelopment Code, *New Mexico Statutes, 3-60A Metropolitan Redevelopment*, gave the Albuquerque City Council the power to create the Metropolitan Redevelopment Agency. The legislative intent of the Code was to “authorize municipalities to acquire, own, lease, improve and dispose of properties in a metropolitan redevelopment area to the end that such municipalities may be able to promote industry and develop trade or other economic activity by inducing profit or non-profit corporations, federal governmental offices, hospitals and manufacturing, industrial, commercial or business enterprises to locate, expand or remain in such area and to secure and maintain a balanced and stable economy in an area declared to be a slum or blighted area.” The City of Albuquerque has wide-reaching powers to accomplish these goals.

Currently, responsibilities relating to the MRF are divided between the Office of Economic Development (OED) and the Planning Department (Planning) - Albuquerque Metropolitan

Redevelopment Agency (AMRA). AMRA deals with redevelopment of the City's Designated "blighted" areas. The Office of Economic Development works on economic issues that are dealing with the Mayor's Office economic initiatives. Organizationally the MRF is split between the two programs.

We determined the following:

RECOMMENDATION NO. 1:

The audit determined that the MRF did not have adequate financial management support to properly manage MRF monies. The MRF activities were divided between the OED and ADS and neither had direct financial assistance necessary to properly control its program activities. Several contracts were charged to MRF in error, one activity was overspent, and the required annual financial report presented to City Council was incomplete and inaccurate. The OED did not have an accountant nor did it receive any direct assistance in its day-to-day financial needs. OED personnel did not have the experience to determine remaining budget balances and encumbrances and funds obligated.

The audit recommended that the Chief Administrative Officer (CAO) and Planning ensure that the MRF has adequate financial management support. This could be accomplished with City personnel or by contracting the services of an accountant or financial person.

The CAO responded to the audit as follows, "The Administration will ensure the Planning Department and DFAS work together to address this finding."

Planning responded to the audit as follows, "The Planning Department will work with DFAS to address this finding."

ACTION TAKEN

The audit recommendations have been fully implemented. Planning's Metropolitan Redevelopment Division informed the OIAI in writing that "The Metropolitan Redevelopment Agency added a Fiscal analyst Position (M-15) to staff in August 2004, with over 10 years experience. The Metropolitan Redevelopment Agency is now preparing Annual Reconciliation Reports which verify City CAFR numbers." OED informed the OIAI in writing that "OED now has a staff person with a Certificate of Accounting and more than five years experience in accounting to oversee the minor activity managed by OED."

RECOMMENDATION NO. 2:

City Ordinance 14-8-4-6 ROA 1994 states, "The Metropolitan Redevelopment Agency shall file annually with the City Council a report of its activities for the preceding fiscal year, which report shall include a complete financial statement setting forth its assets, liabilities, income and operating expenses as of the end of such fiscal year."

The audit determined that for fiscal year (FY) 97 through FY2001 these financial statements were incomplete and inaccurate and did not present income or expenditures accurately or completely. The project data presented also was not complete or accurate and listed the property at market value rather than historical cost, as it should be presented. The MRF financial reports also did not include a balance sheet as required by the Ordinance. The February 28, 2001, MRF financial report did not agree with the City's Comprehensive Annual Financial Report (CAFR). The revenue numbers for the same period also do not agree with the CAFR.

We recommended that the CAO and Planning ensure that the MRF was provided with the technical expertise needed to prepare the complete and accurate annual financial reports. We recommended that the MRF financial records be reconciled to the City's general ledger and any necessary corrections be made.

The CAO responded to the audit as follows, "The Administration will ensure the Planning Department and DFAS work together to address this finding. Staff from DFAS and Planning met January 22, 2003 to address future financial management."

The Planning Department responded to the audit as follows, "The Planning Department will work with DFAS to address this finding."

ACTION TAKEN

The audit recommendations have been partially implemented. Planning's Metropolitan Redevelopment Division stated that the Metropolitan Redevelopment Agency was now preparing Annual Reconciliation Reports which verify City CAFR numbers.

Planning's Metropolitan Redevelopment Division provided OIAI with a copy of the FY2004 report, but stated that the FY2005 report had not yet been finalized. OIAI reviewed the

FY2004 report, and noted that the report did not contain the required financial statement reporting its income and operating expenses as of the end of the fiscal year.

FOLLOW-UP RECOMMENDATION

Planning should include a financial statement reporting its income and operating expenses as of the end of the fiscal year in the annual report which is submitted to City Council.

RESPONSE FROM PLANNING

“The FY/05 Metropolitan Redevelopment Fund annual report submitted to the City Council will include all required financial information (assets, liabilities, income and operating expenses) in accordance with Sec. 14-8-4-6 ROA 1994. The Planning Department respectfully notes that this same information is included in the City’s annual CAFR (combining balance sheet and combining statement of revenues, expenditures and changes in fund balances for nonmajor governmental funds).”

RECOMMENDATION NO. 3:

The audit determined that several payments to a contractor were not properly supported as required in the contract terms. Without the supporting documentation the City and MRF could not ensure the contractor was paid correctly. There was no financial review of payments made to ensure that these payments were made in accordance with the terms of the contract.

We recommended that the CAO-OED review all requests for payment from MRF contractors to ensure the remittance conformed to contract terms, and to verify that the goods or services were delivered as per scope of services.

The CAO-OED responded to the audit as follows, “The recommended changes have been made.”

ACTIONS TAKEN

The audit recommendations have been fully implemented. OED stated that it now has a staff person with accounting experience reviewing contracts to ensure payments are properly

supported. OED also informed OIAI that all payments to contractors are reviewed by at least two staff.

RECOMMENDATION NO. 4:

The Purchasing Division Contract Guide, page 5, paragraph B1 states, “regardless of the dollar amount of the contract amount, no authority to proceed with the scope of services will be given by any City of Albuquerque employee until the receipt of a signed purchase order . . .”

A contract between an architectural firm and OED in the amount of \$14,035 was signed and dated May 31, 2000. The audit review of the invoice submitted for payment showed that the scope of work was completed before the contract was signed. The invoice from the contractor stated that it was for professional services from April 1, 1999 through May 31, 2000. In addition, there was another OED contract where a large part of the contract was completed before the contract was signed.

The audit recommended that CAO-OED officials not allow contractors to begin their work until the appropriate City officials have signed the contract.

The CAO-OED responded to the original audit as follows, “OED no longer follows this practice.”

ACTIONS TAKEN

The audit recommendations have been fully implemented. The addition by the OED of a staff person with a Certificate of Accounting and more than five years experience in accounting to oversee the minor activity managed by OED will help to ensure that the OED complies with the requirements of the Purchasing Division Contract Guide. OED also informed OIAI that it did not issue any contracts in FY2004 and FY2005.

RECOMMENDATION NO. 5:

OED used the services of a contractor who had a citywide contract for real property appraisal services. In the body of the contract under the compensation and method of payment section the contract stated, “For performing the Services specified in Section 1 hereof, the City agrees to pay the Contractor at the rates set out in Exhibit C, which rates include any applicable gross receipts taxes.”

The OED, DFCS, the Legal Department, Planning, the Solid Waste Management Department, the Public Works Department and the Department of Finance and Administrative Services (DFAS) - Capital Improvements Program all paid the contractor for services. When the contractor billed the City for these services the contractor added gross receipts tax to its billing. For the contract in question the contractor was paid \$183,118 between March 1998 and May 2002. Based on an average gross receipts tax rate of 5.6%, the City overpaid this contract by \$9,700.

The audit recommended that each of the user departments review their invoices from the contractor and collect any overpayments made to the contractor. The personnel responsible for approving contract payments should be familiar with the terms of the contract.

DFAS responded to the original audit, for all user departments as follows, "The City will 1) ensure that vendor invoices within the terms of the contract, 2) seek recovery of any overpayments, and 3) ensure contract compliance in the future."

ACTIONS TAKEN

The City's Chief Financial Officer (CFO) researched this issue and determined the following: Vendors who sell services, such as real property appraisal services, to the City are subject to GRT on their receipts from the sale of that service. Rather than including their liability in a single, base rate, this contractor chose to state the amount due for services and to add GRT, a perfectly acceptable practice as long as the total amount billed for both service and tax did not exceed the contract amount. Based upon the determination by the CFO that the vendor had billed the City in an acceptable manner, this audit finding is resolved.

RECOMMENDATION NO. 6:

In its presentation of the FY2002 budget, the City administration stated that the City of Albuquerque's Performance Plan was established as an integral part of the City's management and budget process. As stated in the FY2002 Performance Plan document, "The performance-based budgeting focuses on results and more specifically to measure results and outcomes, service effectiveness and efficiency. Improved effectiveness, in turn, depends upon developing a clear understanding of the impact services are having on customers and community conditions. At the highest level, Goals Progress Indicators measure overall progress toward achieving Desired Community Conditions associated with each Goal."

We determined that the MRF did not participate in the performance-based budget process for FY2002. There were performance measures for OED and ADS for the general fund portion of these programs, but did not include the funding from MRF.

The audit recommended that OED and ADS develop performance measures that include the funding from the MRF.

The CAO-OED responded to the audit as follows, "OED will identify performance measures for the FY04 budget."

Planning responded to the audit as follows, "The Albuquerque Development Services (ADS) and the Metropolitan Redevelopment Fund (MRF) will be integrated into the FY04 budget and expressed clearly with performance measures delineated for each. The department and ADS recently participated in a session to outline performance measures for the division and other sessions are planned with ADS and other divisions in the department."

ACTIONS TAKEN

The audit recommendations have been fully implemented. Planning has developed performance measures for the Albuquerque Metropolitan Redevelopment Agency, which are now included in the City's annual performance plan. OED stated that due to the relatively minor amount of funds OED manages at this time, measures related to the MRF are incorporated into OED's main performance measures.

RECOMMENDATION NO. 7:

The audit determined that a contractor who provided board secretarial services for both the MRF and the Lodgers Tax Advisory Board was reimbursed entirely out of MRF monies. Per discussions with OED officials the contractor spent at least 30% of her time on Lodgers Tax Fund matters. The contractor was paid a total of \$58,775 over a 3½-year period. OED funds have been used for unauthorized purposes, not in accordance with MRF guidelines.

According to OED officials, they were advised that they could not charge a payment to two different funds. The Lodgers Tax Fund should have been responsible for 30% of the \$58,775 or \$17,633. The Lodgers Tax Fund does not have an appropriation for the services provided. The contractor is no longer being used. Currently, OED and ADS share the duties that were previously performed by the contractor.

The audit recommended that in the future, OED collect costs for services provided by a contractor to other organizations that were charged to MRF.

The CAO-OED responded to the audit as follows, "OED will collect for services provided by a contractor to other organizations that are charged to MRF."

ACTIONS TAKEN

The audit recommendations have been fully implemented. The OED stated that during FY2004 and FY2005, the OED did not pay for any services (charged to the MRF) that were provided by a contractor to other organizations. OED also stated that all payments to contractors are reviewed by at least two staff.

RECOMMENDATION NO. 8:

A contract that included a two-day workshop and meeting sessions with local workforce development and economic development staff did not appear to meet the intent of the governing legislation. In discussions with OED officials the reason for the workshop was to provide input for developing strategies for providing opportunities for the low-income residents and at-risk youth that lived within the redevelopment area. This contract appeared to be outside of the intent of the Metropolitan Development Code.

The legislative intent of the Code is to "authorize municipalities to acquire, own, lease, improve and dispose of properties in a metropolitan redevelopment area to the end that such municipalities may be able to promote industry and develop trade or other economic activity by inducing profit or non-profit corporations, federal governmental offices, hospitals and manufacturing, industrial, commercial or business enterprises to locate, expand or remain in such area and to secure and maintain a balanced and stable economy in an area declared to be a slum or blighted area."

The audit recommended that the CAO-OED better document how contracts meet the intent of the metropolitan development code.

The CAO-OED responded to the audit as follows, "OED will better document how future contracts meet the intent of the metropolitan redevelopment code by periodically reviewing the code and specifically reviewing it when contracts are considered."

ACTIONS TAKEN

The audit recommendations have been fully implemented, as a result of OED's commitment to better document how future contracts meet the intent of the metropolitan redevelopment code. OED stated that it did not issue any contracts in FY2004 and FY2005.

RECOMMENDATION NO. 9:

The audit noted that divisions of two City departments managed the MRF. The CAO Department, Office of Economic Development and the Planning Department, Albuquerque Development Services both had responsibilities related to the MRF. OED and ADS did not always work well together and coordinate their efforts. This type of fragmentation of functions among City departments responsible for a specific policy can prevent a program from having control over the full continuum of services being provided. This can lead to poor accountability. It may also be more efficient and productive to consolidate all MRF activities under one department.

The audit recommended that the CAO consider consolidating all MRF activities under one department to increase efficiency and accountability. The divisions should also coordinate their activities to increase efficiency and accountability.

The CAO responded to the audit as follows, "The Administration will review the benefits of consolidating the MRF functions. The two offices have made extensive progress on coordination and will continue to do so."

ACTIONS TAKEN

Planning's Metropolitan Redevelopment Division stated that the Administration determined that it was beneficial to the City to consolidate the Metropolitan Redevelopment Agency into the Planning Department, rather than into the Office of Economic Development, or any other department. The reason for not consolidating MRA and OED is that the focus of the agencies differs. The MRA is focused on redevelopment of retail and commercial development with some housing involved. The OED focus lies strictly with industrial development. However, close coordination is maintained with the MRA and OED regarding economic development issues, and issues related to coordination with the Albuquerque Development Commission (ADC), since both agencies are staff to this commission.

Based upon this Administration determination, this audit finding is resolved.

CONCLUSION

The Planning Department has made improvements in the management of the Metropolitan Redevelopment Fund. The City Council will receive more valuable and timely information if the reports of income and operating expenses are submitted as of the end of each fiscal year.

We appreciate the assistance and cooperation of Planning and OED personnel during the follow-up audit.

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