

REPORT TO

CITY COUNCIL

ON THE

***CITYWIDE YEAR-END CLOSE
FISCAL YEAR 2005***

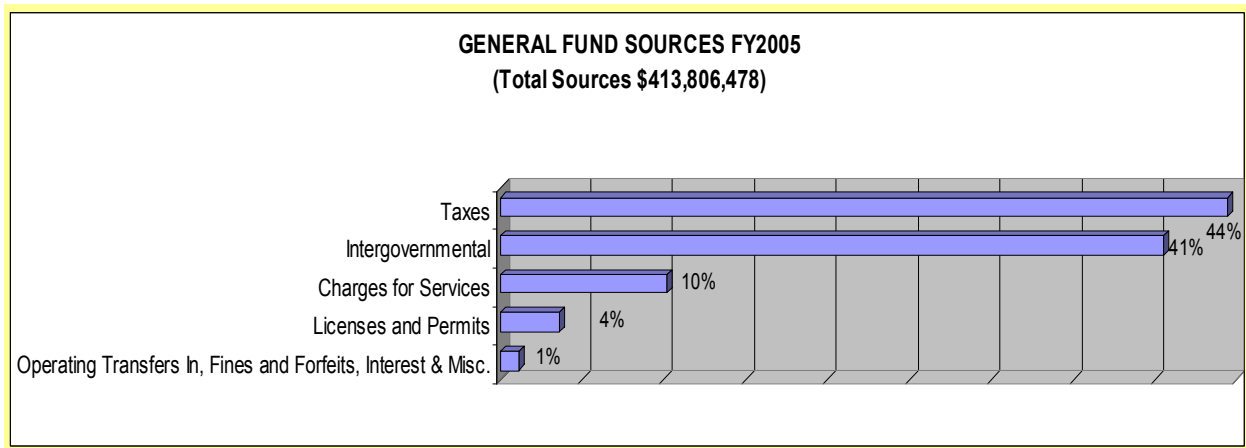
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**City of Albuquerque
Office of Internal Audit and Investigations**

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 2005 (FY05) were as follows:

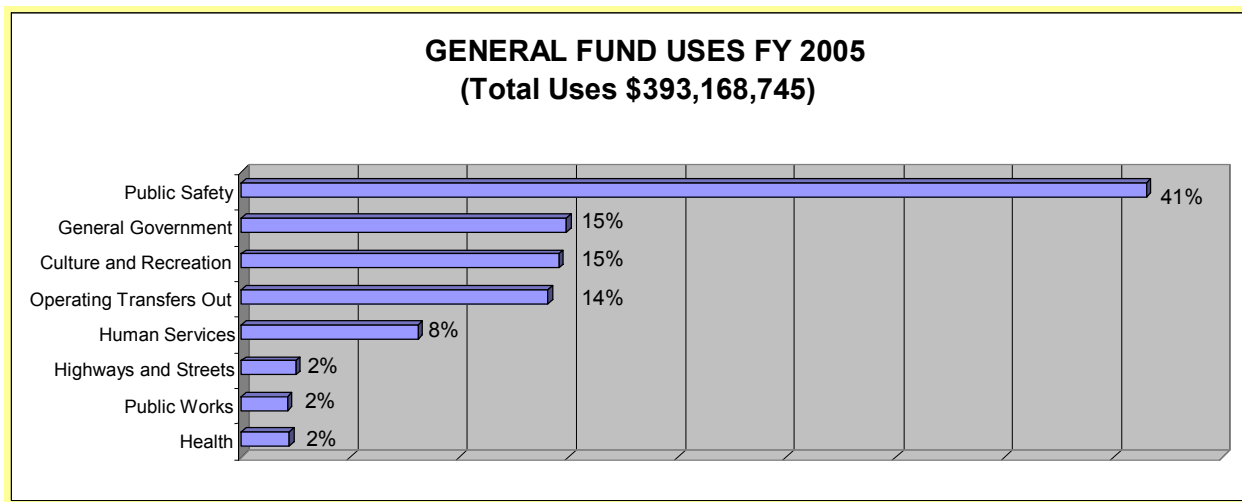


The City makes appropriations at the program level. A program is a group of activities directed to achieve specific purposes or objectives. A department can have several different programs. Expenditures may not exceed appropriations at the program level. Budgetary control is maintained by a formal appropriation 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 overexpenditures occur at the fund level.

General Fund uses for FY05 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.

See Tables A & B for a detail of FY05 appropriations and actual expenditures for all operating funds. There are 106 appropriated General Fund operating programs and 82 Non-General Fund operating programs.

OVEREXPENDITURES

The following programs had expenditures in excess of appropriations:

<u>Fund</u>	<u>Program</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>	<u>%</u>
110	Legislative Coordinator ⁴	\$ 224,000	\$ 226,500	\$ (2,500)	1%
110	CIP Library ⁴	49,000	50,755	(1,755)	4%
110	Explora Science Center ⁴	1,300,000	1,301,969	(1,969)	0%
110	Fire-CIP Funded Employees ²	92,000	161,641	(69,641)	6%
260	Administrative Support ²	4,542,000	4,701,092	(159,092)	4%
260	Community Custody ²	1,145,000	1,233,667	(88,667)	8%
651	Solid Waste-Collections ¹	13,752,000	15,199,644	(1,447,644)	11%
651	Clean City Section ³	2,887,000	3,046,204	(159,204)	6%
661	SunVan ⁴	4,303,000	4,359,808	(56,808)	1%
661	Transit-Operating ⁵	22,340,000	22,416,650	(76,650)	0%
661	Special Events ⁴	293,000	298,918	(5,918)	2%
705	Tort and Other Claims ²	17,671,000	18,275,622	(604,622)	3%
705	Transfer to General Fund ⁴	872,000	889,355	(17,355)	2%
725	Fleet Management ⁴	9,726,000	9,736,675	(10,675)	0%
735	Insurance and Administration ⁵	38,261,000	38,328,796	(67,796)	0%

- ¹ The program was overspent by greater than 5% or \$100,000. 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.
- ² The program was overspent by greater than 5% or \$100,000; however, the fund was not overspent and did not require an additional appropriation.
- ³ The program was overspent by greater than 5% or \$100,000; however, the overexpenditure was cleaned up at the fund level.
- ⁴ Program was overspent by less than 5% or \$100,000 and did not require an additional appropriation per City Ordinance.
- ⁵ The program was overspent by less than 5% or \$100,000; however, appropriations were increased in these programs subsequent to fiscal year-end because the fund was overspent. The appropriations listed do not reflect that clean-up resolution.

Several programs appeared overspent in the budget to actual statements provided by the Department of Finance and Administrative Services – Accounting Division (Accounting), which are presented in the CAFR. However, the statements contained errors and the programs were *not* actually overspent. These programs included:

<u>Fund</u>	<u>Program</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>	<u>%</u>
110	Fire-Paramedic Rescue	\$ 0	\$ 62,488	\$ (62,488)	100%
260	Detoxification Program	0	213,706	(213,706)	100%
671	Apartments-Operating	2,299,000	2,744,302	(445,302)	19%

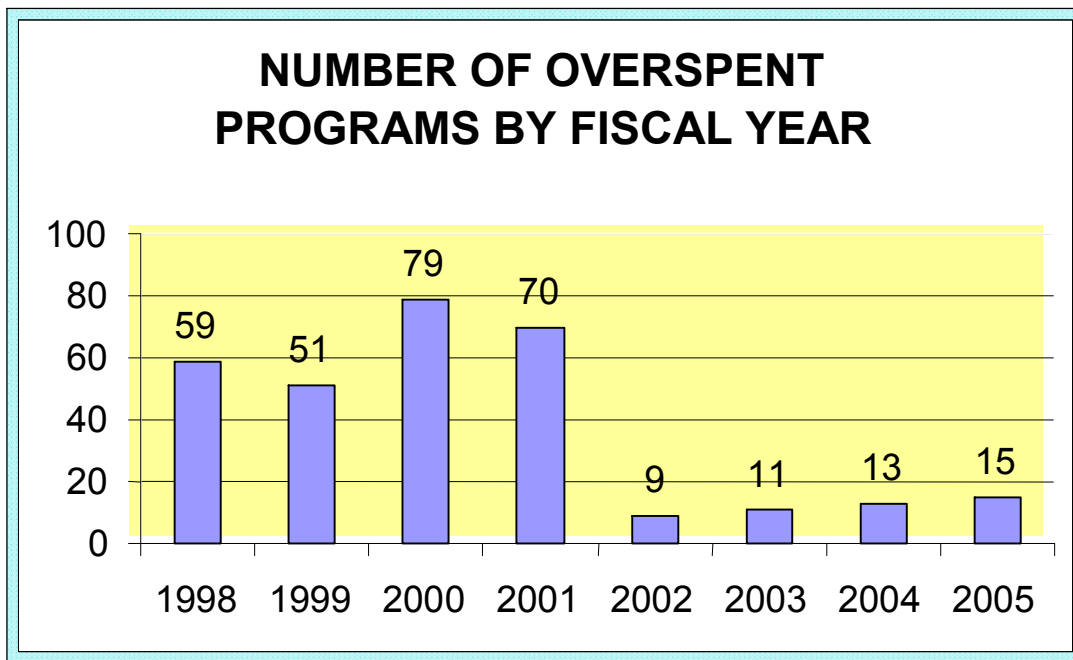
Albuquerque Fire Department (AFD) – Paramedic Rescue program has been closed for several years. Expenditures totaling \$62,488 were incorrectly posted to this closed activity. These expenditures should have been posted to the Emergency Response program, #27504. This error was not detected by AFD fiscal personnel in the budget to actual statement they were provided prior to its inclusion in the CAFR.

Metropolitan Detention Center (MDC) – Detoxification program was combined into the Corrections/Detention program #21508 several years ago. The \$213,706 of expenditures should have been reflected in that program, as it is no longer a separate program. The draft budget to actual statement provided to MDC did not include the Detoxification program. This was an error made in the final drafting of the schedule by Accounting.

Apartments – Operations program was shown to be overspent by \$445,302 because depreciation costs of \$640,131 were included as budgeted expenditures. Depreciation is a non-budgeted expense that should be accounted for separately. When this reclassification is made, the

Operations program is actually underspent. This program is administered by the Family & Community Services Department (FCS). Accounting could not provide documentation to confirm that they provided FCS with a copy of the budget to actual statement for FCS's review prior to its inclusion in the CAFR.

The number of overspent programs, as reported in the CAFR (excluding the three discussed above) over the past eight years is as follows:



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 2005 Approved Budget states, "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 explanations are provided for programs whose overexpenditure exceeded the lesser of \$100,000 or 5%.

GENERAL FUND PROGRAMS

Program 27525 – *Albuquerque Fire Department (AFD) CIP Funded Employees* program overspent its \$92,000 budget by \$69,641. The CIP funded positions were approved and fully funded through a reimbursement from Capital Projects Fund 305. This program was not included in the year-end clean up resolution because AFD was not overspent at the fund level.

NON-GENERAL FUND PROGRAMS

Program 21502 – *Metropolitan Detention Center (MDC) Administrative Support* program in the Correction/Detention Fund (#260) overspent its \$4,542,000 budget by \$159,092. Electricity costs account for the majority of the overexpenditure. The electricity line item was budgeted at \$525,000. Actual costs for FY05 were \$842,972.

MDC reports that FY05 was the second year the new jail had been in operation; however, budgeted amounts were based on FY04 charges, which didn't include a full year of operation of all pods.

During the review of program expenditures we noted a year-end adjustment for \$24,902 that was incorrectly posted to the Administrative Support program. The adjustment should have been recorded to the Corrections/Detention program. If this adjustment had been posted correctly, the actual overexpenditure in the Administrative Support program would have been \$134,186 or 3%.

Program 21508 – *Metropolitan Detention Center (MDC) Community Custody* program in the Correction/Detention Fund (#260) overspend its \$1,145,000 budget by \$88,667. This overexpenditure was caused by the increased population 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.

Program 54501 – *The Solid Waste Management Department (SWMD) Collections* program in the Refuse Disposal Fund (#651) overspend its appropriated budget of \$13,752,000 by \$1,447,644. SWMD management reports that the increase in fuel costs is the primary cause for the overexpenditure in FY05. Fuel was budgeted at an average cost of \$.89/gallon for FY05. The actual average cost for a gallon of fuel was significantly higher than this during the year.

1 st Quarter	\$ 1.28 / gallon
2 nd Quarter	\$ 1.48 / gallon
3 rd Quarter	\$ 1.47 / gallon
4 th Quarter	\$ 1.71 / gallon

The repairs and maintenance line item was also overspent by 35%. This is due to increased repairs and maintenance on the fleet. Contractual services also accounted for a portion of the overexpenditure. SWMD had several vacancies throughout the year that were filled by a temporary employment service. Some of this contractual services overexpenditure is offset by salary savings.

Program 54505 – *Clean City Section* program in the Refuse Operating Fund #651 overspend their \$2,887,000 budget by \$159,204. Overall, the scope of services increased in this program during FY05. This resulted in an increase in supplies, such as rakes, vests, paint, bags, etc. The other services line item increased due to additional restroom facilities that were provided for additional work crews. Overtime costs increased due to several vacant positions and large item pickup and graffiti removal that was performed on holidays.

Program 33542 – *Tort and Other Claims* program in the Risk Management Fund (#705) overspent its \$17,671,000 budget by \$604,622. Risk Management reports a large settlement on a civil lawsuit claim was paid during FY05.

UNDEREXPENDITURES

There were 61 general fund and 28 other fund programs that were underspent by 100% *or* 5%, whichever is lower. Of these, programs whose underexpenditures exceeded \$500,000 *and* 10% of the approved budget were selected for review. The following explanations are provided for those programs.

GENERAL FUND PROGRAMS

Program 17501 – *Council Services* program underspend its budget of \$2,572,500 by \$761,675. Salary savings accounted for a portion of the underexpenditure in this program; however, the majority is related to the contractual services line item. Contractual services was budgeted for \$881,500, following several budget increases throughout the year. Actual expenditures totaled approximately \$200,000, a 77% underexpenditure. Several contracts totaling \$214,808 were reappropriated to FY06. Also, over a \$400,000 transfer to Capital Projects Fund 305 was included in the FY05 CIP clean-up bill.

Program 31504 – *Provide Early Childhood Education* program in the Family and Community Services Department (FCS) underspent its \$4,947,000 budget by \$617,333. Underspent personnel line items is the primary reason for the underexpenditure in this program, as personnel costs account for over 80% of this program's budgeted expenditures. FCS reports that this program contains many teacher positions which are generally difficult to fill and the turnover rate is high.

Program 31506 – *Provide Mental Health Services* program in FCS underspent its \$2,355,000 budget by \$1,168,102. Over 90% of the budgeted expenditures in this program are in the contractual services line item. FCS reports the FY05 budget included funds for the development of several new mental health programs. Many of these initiatives were not only new to FCS, but relatively new to the community as well. Prior to the RFP process taking place, FCS conducted town hall meetings throughout the City to gain an understanding of the types of services desired by the public. This lengthened the amount of time it took to get the programs into place resulting in an underexpenditure in the contractual services line item.

Program 31509 – *Substance Abuse Treatment* program in FCS underspent its budget of \$5,328,000 by \$572,744. Again, over 90% of the budgeted expenditures in this program are in the contractual services line item. FCS reports the program got a late start on the RFP process which resulted in the underexpenditure for the year.

Program 31516 – *Partner with Public Education* program in FCS underspent its budget of \$5,248,000 by \$755,902. The primary cause of the underexpenditure in this program are the personnel and contractual services line items. The contract with Albuquerque Public Schools (APS) accounts for the majority of the appropriation in the contractual services line item. APS provides programming and submits a reimbursement for their costs. In recent years, APS has not spent the full contract amount.

Program 25550 – *Citizen Services* program in the Department of Finance and Administrative Services Department underspent its \$1,453,000 budget by \$645,804. Personnel line items account for primarily all of the underexpenditure. This program supports the 311 Call Center and was a new program for FY05. The majority of the call agents were hired as close as possible to the go-live date, July 1, 2005 (FY06), to eliminate staffing inefficiencies during the pilot phase of the project.

Program 27521 – *Logistics* program in the Albuquerque Fire Department (AFD) underspent its budget of \$4,910,000 by \$505,681. The primary cause of the underexpenditure relates to a command vehicle for \$500,000 that was ordered in FY05, but not received. This amount was reappropriated to FY06.

When this program was reviewed in total, the automotive and machine/equipment capital line items were significantly underspent in this program; however, the supplies line item was overspent. Upon further review of the supplies line item, we noted expenditures totaling \$445,077 that were incorrectly charged to supplies. These items individually had a cost >\$1,000 and should have been charged to the machine/equipment capital outlay account. Accounting reviews the capital outlay accounts to determine those items that should be tagged, tracked and capitalized for reporting purposes. These items would not be picked up by Accounting as AFD did not post them to capital outlay accounts.

Program 41501 – *Office of Internal Audit and Investigations (OIAI)* program underspent its \$1,189,000 budget by \$514,511. The underexpenditure in this program is due to salary savings and an unspent appropriation for an Inspector General function. During all or a portion of FY05, the following positions were vacant: Director, Senior Auditor, Principal Auditor and Audit Supervisor. OIAO had difficulty filling these positions due to the higher salaries that are available to potential applicants in private industry and public accounting. OIAI was also appropriated \$250,000 for an Inspector General. This position could not be filled until the OIAO Director was selected, as the Director is responsible for hiring the Inspector General.

NON-GENERAL FUND PROGRAMS

Program 57537 – *Transfer to Sales Tax Debt Service* in the Parking Facility Revenue Debt Service Fund (#645) underspent its \$2,780,000 budget by \$832,750. The Parking debt service has a variable interest rate. The payment was budgeted using a 6% interest

rate; however, the rate that was actually paid was 2% so less money was transferred to make the debt service payment.

Programs 54502 – The *Disposal* program in the Refuse Disposal Operating Fund (#651) underspent its \$4,581,000 budget by \$647,182. Management made cut-backs in this program, wherever possible, in an attempt to minimize the total fund overexpenditure given the Collections program, as discussed earlier, was overspend by \$1,447,644. This was primarily accomplished by keeping numerous positions vacant in order to generate salary savings.

Program 30511 – *Transfer to Apartment Debt Service* program in the Apartment Operating Fund (#671) underspent its \$947,000 budget by \$947,000 or 100%, according to the budget to actual schedule published in the CAFR. It was determined that this statement contained errors and the actual expenditures were \$876,561, resulting in an underexpenditure of \$70,439 or 7%.

Program 30516 – *Apartment Debt Service* program in the Apartment Operating Debt Service Fund (#675) underspent its \$947,000 budget by \$880,000 or 93%, according to the budget to actual schedule published in the CAFR. It was determined that this statement contained errors and the actual expenditures were \$512,491, resulting in an underexpenditure of \$434,509 or 54%.

The Apartment Funds are administered by FCS. As discussed earlier, Accounting could not provide documentation to indicate that they provided FCS with a copy of the budget to actual statement for FCS's review prior to its inclusion in the CAFR.

Program 33541 – *Workers Compensation* program in the Risk Management Fund (#705) underspent its \$9,313,000 budget by \$3,508,300. The claims payment line item is the reason for the underexpenditure in this program. Worker's comp claims expenses are difficult to predict given the uncertainty in the number and value of the claims that are filed.

RECOMMENDATIONS

The CAO should ensure that all programs spend within the appropriated budget amounts. For those programs that overspent, the Administration should take appropriate action in accordance with Administrative Instruction No. 2-20, Budgetary Control Responsibilities. The CAO should determine the reasons for programs being significantly underspent and monitor them throughout the year. AFD should review its procedures for determining which accounts are charged for capital outlay expenditures to ensure the items are appropriately tagged and recorded as capital assets. Accounting should have controls in place to ensure all departments receive

final drafts of the budget to actual statements to review prior to their inclusion in the CAFR.

RESPONSE FROM THE CAO

“The CAO agrees that active monitoring of both expenditures and revenues are required to mitigate both over- and under-spending. The constraints imposed by the current accounting system make this a challenging task at both the CAO and the Department level because the information needed for effective and efficient management decisions is not available on a timely basis. The CAO meets as necessary with Directors to discuss their responsibilities under AI 2-20 and will initiate disciplinary action as appropriate with the close of FY/06.”

RESPONSE FROM AFD

“AFD made organizational changes early in FY/06 to ensure that all expenditures are posted to their correct account and activity numbers. The changes included assigning accounts payable and accounts receivable duties to two separate individuals, all items with a cost of more than \$1,000 are being recorded to a separate list, and a supervisor reviews all payables prior to processing the payment.”

RESPONSE FROM DFAS – ACCOUNTING

“DFAS concurs that Departments should receive final drafts of the budget to actual statement to review prior to the inclusion in the CAFR. The Accounting Division will implement a procedure where the final draft of the budget to actual statement is e-mailed to the Departments prior to their inclusion in the CAFR. These will be e-mailed to the financial managers in the applicable Departments and will provide evidential documentation for Accounting. We will continue to publish the CAFR schedule and discuss it at the Financial User Group meetings (FUG).”