

FINAL

**SPECIAL AUDIT REPORT
OF
METROPOLITAN REDEVELOPMENT FUND**

REPORT NO. 02-118



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**



City of Albuquerque
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Internal Audit Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Metropolitan Redevelopment Fund
02-118

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INTRODUCTION

The Office of Internal Audit performed a special audit of the Metropolitan Redevelopment Fund (MRF). This audit was requested by City Council. 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 the MRF is divided between the Chief Administrative Officer Department (CAO) - Office of Economic Development (OED) and the Planning Department (Planning) - Albuquerque Development Services Division (ADS). The ADS portion of the program was transferred from the Department of Family and Community Services (DFCS) to Planning in September 2002. Funding is still in DFCS. Albuquerque Development Services 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.

As of March 31, 2002, MRF had existing projects with appropriations totaling \$10,123,843 as follows:

<u>Project Name</u>	<u>Bond Amount</u>	<u>Grant Amount</u>	<u>Total</u>
Old Albuquerque High School	\$1,835,750	\$1,000,000	\$ 2,835,750
Plan Implementation	1,206,400		1,206,000
Property Management	1,758,000		1,758,000
Albuquerque Development Services	1,511,999		1,511,999
General Fund/OED	403,000		403,000
General Fund/ADS	327,000		327,000
Federal Courthouse Utility	350,000		350,000
Economic Dev/ Tech Transfer	0	200,000	200,000
Downtown Redevelopment	1,473,694		1,473,694
Office of Economic Development	58,000		58,000
Total MRF Appropriations	<u>\$8,923,843</u>	<u>\$1,200,000</u>	<u>\$10,123,843</u>

The City partially finances Metropolitan Redevelopment Fund projects by using Incremental Tax revenue in accordance with the Metropolitan Redevelopment Code Section 3-60A-20. The procedures used in the tax increment method are:

1. After the project has been approved by City Council, the county assessor will be notified to determine the net taxable value of the parcels of property within the project area at the time of notification.
2. The new taxable value shall be determined as of January 1 of the tax year following the year in which the improvement or rehabilitation is completed.
3. The amount by which the property tax revenue exceeds that which would have been received before the inclusion of the metropolitan redevelopment project will be credited to the metropolitan redevelopment fund.
4. This is done annually for a maximum of twenty years.

SCOPE

This audit and its conclusions are based on a review of the internal control structure and an examination of various transactions and reports. Our fieldwork was completed on July 24, 2002.

This report is based on our examination of the auditee's activities through the completion date of our fieldwork and does not reflect events or accounting transactions subsequent to that date.

Our audit did not include an examination of all the functions, activities, and transactions of the MRF. Our audit test work was limited to the following areas:

- Review activities for the period from fiscal year 1998 to July 24, 2002 to determine if such activities are consistent with allowable activities under the program.
- Determine if proper approval procedures were used regarding appropriations and expenditures.
- Examine goals and objectives that apply to the fund.
- Evaluate compliance with City rules and regulations related to the above items.

This audit was conducted in accordance with Government Auditing Standards, except standard 3.33, requiring an external control review.

FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities which would improve its effectiveness, efficiency and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities which appear to be functioning well are not usually commented on in audit reports. The following findings concern areas, which we believe would be improved by the implementation of the related recommendations.

1. THE CAO AND PLANNING SHOULD ENSURE THE MRF HAS ADEQUATE FINANCIAL MANAGEMENT SUPPORT.

The MRF does not have adequate financial management support to properly manage MRF monies. As detailed in the following findings the MRF activities are divided between the OED and ADS and neither has 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.

Currently, the OED does not have an accountant nor does it receive any direct assistance in its day-to-day financial needs. OED personnel do not have the experience to determine remaining budget balances and encumbrances and funds obligated. Errors were identified as follows:

- OED officials learn of over expenditures after the fact. As of March 31, 2002, the Plan Implementation activity was overspent by approximately \$77,000.

- One OED contract was overpaid because the contract indicated that gross receipts tax was included in the hourly rate quoted in the contract but the contractor added gross receipts tax to the charge for services.
- As shown in Finding No. 2, ADS staff prepares the annual financial report that has been inaccurate and incomplete.

As shown in the table above the MRF has over \$10,000,000 in funds from bond issues and grants. Accounting is an administrative function and should be part of the MRF cost.

The New Mexico State Statutes, 3-60A-10, Metropolitan Redevelopment, allows a municipality to pay “. . . reasonable administrative costs and carrying charges related to the planning and execution of plans and projects.” The City could contract for accounting services for the MRF if the CAO and Planning are unable to provide the financial assistance needed.

RECOMMENDATION

The CAO and Planning should 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.

EXECUTIVE RESPONSE FROM CAO

“The Administration will ensure the Planning Department and DFAS work together to address this finding.”

EXECUTIVE RESPONSE FROM PLANNING

“The Planning Department will work with DFAS to address this finding.”

2. THE MRF ANNUAL FINANCIAL REPORTS SHOULD BE COMPLETE AND ACCURATE.

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.” 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 Ordinance requires that the financial reports be for the fiscal year, which ends on June 30 of each year. The most recent financial report available for the MRF is as of February 28, 2001. As a result, it is difficult to determine the MRF financial status for the fiscal year. The MRF financial reports also do not include a balance sheet as required by the Ordinance.

The February 28, 2001 MRF financial report does 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. For example, the MRF financial report shows revenue from rental of property as \$247,012. The CAFR lists rental property revenue for FY2000 and FY2001 as \$95,869 and \$77,868 respectively. It is apparent that the individual who prepares the MRF financial reports has not tied the numbers to the City's general ledger.

MRF personnel prepare their annual financial reports using data supplied by the City's Capital Implementation Program (CIP) fiscal staff. This is life to date information, rather than reflecting only the activities for the current fiscal year. As a result, the revenues and expenditures on the MRF financial reports do not agree with the CAFR. The MRF financial reports should be prepared based on general ledger activity for the current fiscal year.

The February 28, 2001 MRF financial report shows the MRF fund balance as \$1,917,852. However, the FY2000 and FY2001 CAFRs show the MRF fund balance as \$2,235,689 and \$2,221,648 respectively. The MRF staff should work with CIP and the City's Accounting Division to determine the accurate MRF fund balance.

The current financial statements are incomplete and inaccurate and could be misleading. As a result, the City Council does not receive accurate information on which to base its decisions regarding the MRF funding and appropriations.

RECOMMENDATION

The CAO and Planning should ensure that the MRF is provided with the technical expertise needed to prepare the complete and accurate annual financial reports. One option would be to contract for these services. The MRF financial records should be reconciled to the City's general ledger and any necessary corrections should be made.

EXECUTIVE RESPONSE FROM CAO

"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."

EXECUTIVE RESPONSE FROM PLANNING

"The Planning Department will work with DFAS to address this finding."

3. MRF MANAGEMENT SHOULD REVIEW ALL REQUESTS FOR PAYMENT FROM CONTRACTORS.

Several payments to a contractor were not properly supported as required in the contract terms. The contract terms stipulated that payment would be made based on the number of hours worked by an attorney. The hourly rate for each attorney was provided as a part of the contract. Several payments were made to the contractor based on a statement that provided no detail as to how many hours were worked on the contract. The name of the attorney working on the contract also was not identified.

Without the supporting documentation the City and MRF cannot ensure the contractor was paid correctly. The contractor may have been overpaid or underpaid. This is caused by the lack of management and financial review of payments. MRF management is ultimately responsible for the accuracy of monies paid out for MRF activities. There was no financial review of payments made to ensure that these payments were made in accordance with the terms of the contract.

RECOMMENDATION

The CAO-OED should review all requests for payment from MRF contractors to ensure the remittance conforms to contract terms, and to verifying that the goods or services were delivered as per scope of services.

EXECUTIVE RESPONSE FROM CAO-OED

“The recommended changes have been made.”

4. OED SHOULD NOT ALLOW CONTRACTORS TO BEGIN THEIR WORK UNTIL THE APPROPRIATE CITY OFFICIALS HAVE SIGNED THE CONTRACT.

A contract between an architectural firm and OED in the amount of \$14,035 was signed and dated May 31, 2000. A 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.

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 purchase order is issued only when a valid contract has been signed by the appropriate personnel. When the contractor performs work in violation of the City’s purchasing rules and regulations, liability issues can arise. The City is liable for any acts the contractor may have committed while working on behalf of the City in its work on this contract.

In addition, there was another OED contract where a large part of the contract was completed before the contract was signed. The contract was dated September 7, 1999. The scope of services included the following, "B. The workshop titled Existing Work Force Development Conditions and Economic Development, will take place on June 28, 29, and 30, 1999, . . ."

The amount of the contract was \$3,790.40. The invoice date was July 5, 1999.

RECOMMENDATION:

CAO-OED officials should not allow contractors to begin their work until the appropriate City officials have signed the contract.

EXECUTIVE RESPONSE FROM CAO-OED

"OED no longer follows this practice."

5. THE CITY SHOULD COLLECT OVERPAYMENT FROM A CONTRACTOR FOR CONTRACT OVERBILLING.

OED used the services of a contractor who had a Citywide contract with the City 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."

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 it's 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.

RECOMMENDATION:

Each of the user departments should review their invoices from the contractor and collect any overpayments made to the contractor. Personnel responsible for approving contract payments should be familiar with the terms of the contract.

EXECUTIVE RESPONSE FROM DFAS

"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."

6. PERFORMANCE MEASURES SHOULD BE DEVELOPED FOR THE MRF.

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."

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.

RECOMMENDATION

OED and ADS should develop performance measures that include the funding from the MRF.

EXECUTIVE RESPONSE FROM CAO-OED

"OED will identify performance measures for the FY04 budget."

EXECUTIVE RESPONSE FROM PLANNING

"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."

7. IN THE FUTURE, OED SHOULD COLLECT COSTS FOR SERVICES PROVIDED BY A CONTRACTOR TO OTHER ORGANIZATIONS THAT WERE CHARGED TO MRF.

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.

RECOMMENDATION

In the future, OED should collect costs for services provided by a contractor to other organizations that were charged to MRF.

EXECUTIVE RESPONSE FROM CAO-OED

“OED will collect for services provided by a contractor to other organizations that are charged to MRF.”

8. OED SHOULD BETTER DOCUMENT HOW CONTRACTS MEET THE INTENT OF THE METROPOLITAN DEVELOPMENT CODE.

A contract that included a two-day workshop and meeting sessions with local workforce development and economic development staff does 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 appears 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.”

RECOMMENDATION

CAO-OED should better document how contracts meet the intent of the metropolitan development code.

EXECUTIVE RESPONSE FROM CAO-OED

“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.”

9. THE CAO SHOULD CONSIDER CONSOLIDATING ALL MRF ACTIVITIES UNDER ONE DEPARTMENT.

Divisions of two City departments currently manage the MRF. The CAO Department, Office of Economic Development and the Planning Department, Albuquerque Development Services both have responsibilities related to the MRF. OED and ADS do 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.

RECOMMENDATION:

The CAO should 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.

EXECUTIVE RESPONSE FROM THE CAO:

“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.”

CONCLUSION

By implementing these recommendations, the CAO-OED and Planning ADS will better fulfill their responsibilities for the Metropolitan Redevelopment Fund.

We appreciate the assistance and cooperation of the OED and ADS personnel during the audit.

Principal Auditor

REVIEWED AND APPROVED:

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Internal Audit Officer

APPROVED FOR PUBLICATION:

Audit Committee Chairman