

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

01-17 Budget Overspending

Condition. The budget was overspent at the program level in several departments or at the fund level. We have been informed that this was viewed as a means to improve the long-term budgeting process. The following programs within the General Fund and the Golf Fund were overspent:

International Trade – program	\$40
CIP Library – program	\$1,511
Explora – program	\$2,658
Parks and Recreation – Strategic Support – program	\$20,105
Promote safe use of firearms - program	\$19,269
Quality Recreation – program	\$84,167
Golf Fund	\$12,994

Criteria. Per ordinances Section 2-11-12 ROA 1994 expenditures are to be within budgeted amounts.

Cause. Several programs in various funds were overspent as budget adjustments were not approved prior to spending.

Effect. Overspending of the budget occurred which violates City ordinances.

Recommendation. Overspending of the budget is not to occur. We recommend that all budget adjustments be approved prior to spending and budget to actual reviews be made timely.

Management Response. The City has made a conscious decision to report actual program expenditures. In order to minimize and monitor overspending, the City produces quarterly expenditure reports and provides the information to the Departments and the Office of Internal Audit and Investigation. The Office of Internal Audit and Investigation uses the information to produce quarterly expenditure reports to the City Council. This process has shown a successful track record of reducing the number of programs and funds overspent at the end of the year. In Fiscal Year 2000, 79 programs were overspent. In 2007, the number was reduced to six programs in the General Fund. The Office of Management and Budget has the administrative authority to cover 5% or \$100,000 of the program budget overages which would include all of the program budget variances. The City has increased rates for services in the Golf Fund; however, the City expects it will take a few years before this rate increase will have an impact on the fund. The Office of Management and Budget will continue to use the information on overspending to budget correctly and the quarterly projections to convince the departments to alter their behavior to avoid an over expenditure.

CITY OF ALBUQUERQUE
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

02-21 Capital Assets Inventory Deletions

Condition. In FY 2007, the City has shown great improvement in the accounting of Capital Assets compared to prior years. However, in our testwork of current year 2007 Capital Asset Deletions, we noted that 33 out of 75 items tested were disposed of with out record of the surplus/salvage form which notes authorization of disposal by the department.

Criteria. Good accounting practice requires retention of fixed asset deletion support. The City's Policies and Procedures require copies of the salvage form to be sent to accounting prior to removing the asset from the general ledger.

Effect. Without proper authorization and recording of fixed asset deletions, the City's risk of asset misappropriation increases.

Cause. The retention of documents is maintained in a variety of departments and locations. Turnover and the lack of knowledge of employees responsible for such document retention have also contributed to improper record retention.

Recommendation. To maintain adequate accountability, the City should obtain and retain proper authorization prior to disposing of assets. We recommend that proper accounting is conveyed to all city employees with the responsibility of accounting for fixed asset deletions. Additional training may be necessary to ensure proper procedures are understood and followed.

Management Response. The City concurs with this finding. The City will ensure that Departments retain supporting documentation related to the disposal of capital inventory and other adjustments.

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-01 Travel Procedures

Condition. Thirty T-Card transactions out of a population of 944 transactions were tested as to the propriety of the transaction; whether the amount is supported by the appropriate documentation; is recorded correctly as to account, fund, activity and fiscal period and whether there has been compliance with the City's Travel Regulations. Two of the T-Card transactions tested were for purchases that were not travel related. One transaction was for the purchase of a 3' x 5' banner for use at volunteer fairs. The banner contains the MOVE Logo and was an advertisement for the Mayor's Office of Volunteerism and Engagement. The second transaction was for the purchase of bottled water for a MOVE training session.

Criteria. The City uses credit cards designated as "T-Cards" to purchase airline tickets and to reserve lodging or rental cars for City employees traveling on official business. The T-Cards are defined in Chapter 1, IV, D, #16 of the City's Travel Regulations, dated January 1, 2005. No other purchases are to be made with T-Cards.

Cause. The City employees who made these purchases probably were unaware of the City's intent to restrict the use of T-Cards to those enumerated in the criteria.

Effect. The two transactions described in the condition are in violation of the City's policy and are a misuse of T-Cards.

Recommendation. The City's orientation/training for T-Card Holders should emphasize the proper use of the card. Also, the accounting procedures behind the use of the card should be included in the training for current and new T-Card holders. This step/procedure can be included in the agreement signed by both the T-Card Coordinator and T-Card Holder for the Department.

Management Response. The City concurs with this finding. The T-Card holder had been given a user profile that allowed the card to be used for both T-Card for both travel and non-travel purchases. The T-Card has since been changed to allow only travel related purchases in accordance with City travel regulations.

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-10 False Alarm Service Fees

Condition. The following deficiencies related to the treatment of receivables and revenues from false alarms service fees were noted:

- Approximately 77% of receivables are greater than 120 days past due and only minimal, if any, collection efforts have been made.
- Reconciliations of the accounts receivable detail listing and general ledger are not being completed on a regular basis.

Criteria. Administrative Instruction No. 2-2 states that each department shall be responsible for reconciling its accounts receivable to the centralized general ledger system on a monthly basis. It also states that the department shall be responsible for collection efforts and to coordinate with the Treasury Department for combined efforts. In addition, the Alarm Ordinance, Section 9-3-16 requires that false alarm service fees should be recorded in the general fund.

Cause. False alarm fees are not considered to be a significant part of the police department and, therefore, efforts in this area have been limited.

Effect. Non-compliance with Administrative Instruction No. 2-2 and overstatement of accounts receivable and other assets.

Recommendation. We recommend City follow all Ordinances and Administrative Instructions and make considerable efforts to collect all receivables.

Management Response. The false alarm unit has improved collection procedures according to Administrative Instruction No. 2-2. The level of collection efforts increased in FY07 and the unit expects to continue improvements in FY08. The false alarm unit reconciles bank information to the false alarm software information and to the general ledger source data on a daily basis. The Department agrees that the information should also be reconciled to the City general ledger when the month end information is available and is implementing procedures to do so. The false alarm revenues not belonging to the Police Department False Alarm Enforcement and Education fund continue to be transferred to the general fund consistently and on a timely basis. The false alarm software system does not interface with the City general ledger system, so the adjustments are made manually each quarter.

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-12 Debt Service Coverage for Golf Bond

Condition. The debt service coverage has not been met for the Golf Series 2001 Bond as of June 30, 2007.

Criteria. According to the covenants of the bond, the debt service coverage requirement is a ratio of 1.50. The debt service coverage as of June 30, 2007 is (.06).

Cause. Insufficient revenue to comply with coverage requirement.

Effect. The City is not maintaining the debt covenant requirements which could cause the City to have to repay the bond or bond ratings to be affected.

Recommendation. The City should ensure that the debt covenant requirements are being met.

Management Response. We concur with this finding. The City will review expenditures relative to revenues and make appropriate adjustments to ensure compliance with debt service coverage.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

05-13 Audit Report Due Date

Condition. The report was not submitted by the due date.

Criteria. Per section 2.2.2.9A (1) (d) NMAC Audit Rule 2006, Requirements for Contracting and Conducting Audits of Agencies, annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

Cause. Staff changes.

Effect. The annual audit report was not submitted to the Office of the State Auditor by the due date.

Recommendation. We recommend that the required approval be obtained in advance of the Office of the State Auditor's due date in order to submit the annual report by the due date.

Management Response. We concur with this finding and are taking actions to prevent this situation in the future.

CITY OF ALBUQUERQUE
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-02 Citation Revenues

Condition: During 2006, the police department contracted with a third party vendor to perform functions related to processing fines for red light violations. This contractor provides equipment, processes citations, and collects and submits revenues associated to the citations. However, controls and procedures to help ensure the accuracy and completeness of these revenues are not in place as of June 30, 2007.

Criteria: Sound accounting requires that controls are in place allowing to ensure the accuracy and completeness of revenue transactions.

Cause: The City and the contractor have not developed a billing reporting system in a format that the City can utilize to reconcile traffic violations submitted by the City to the Contractor of revenues received by the contractor.

Effect: There is an increased risk that revenues received and reported are incomplete. The City is unable to verify that all amounts collected are submitted to the City.

Recommendation: We recommend that the City design and implement polices and procedures which will help ensure the completeness of revenues and cash collections for red light violations.

Management Response: The City concurs with this finding and will continue to work with the contractor. Controls exist to help ensure the completeness of revenues and cash collection for the photo enforcement program. City police department personnel determine which potential traffic and red light violations cases are submitted to the contractor for billing. All violation fines are remitted by the citizen via the mail or credit card to a lockbox account. APD staff reconciles all funds going into the lock box with all funds received by the City in the general ledger. For the fiscal year ending 2007, the general ledger revenues received by the City agreed with the lockbox records of funds due to the City.

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-03 Pet Licensing Revenues

Condition. The City has contracted with a third party vendor to perform functions related to processing licenses for pet owners. The vendor, in addition to providing licenses, collects and submits revenues to the City. Although the City has access to the vendor's database, we noted that as of June 30, 2007, deposit reports do not agree to the database due to the vendor not capturing all information. Therefore, the burden is on the individual purchasing the license to inform the City when a tag is not received. Thus, there are no controls in place allowing the City to ensure that all revenues received by the vendor are submitted to the City or that all licenses purchased are processed properly as of June 30, 2007.

Criteria. Sound accounting requires that controls should be in place to ensure all activity is properly recorded and all collections are made.

Cause. There are no controls in place ensuring that all revenues are properly submitted to the City or that all licenses are processed properly.

Effect. It is possible that the third party vendor could withhold revenues and that individuals purchasing licenses could not receive corresponding tags.

Recommendation. We recommend that the City establish procedures that verify revenues and related activity from the third party vendor and reconcile deposits with data captured by the vendor database on a regular basis.

Management Response. The City concurs with this finding. The City currently reconciles the revenues as reported to the City's bank account each month. However, the City is working with the Contractor to establish a process that allows the City to more easily reconcile the licenses sold each month between the Contractor report and the ACC's licensing software. There are 'suspense' items (license transactions) that don't post for a variety of reasons, and these now must be manually identified in order to reconcile. The City expects this finding to be resolved in FY08. EHD/ASD IT staff have developed a report which details/reconciles the difference between the license revenue reported by PetData and the revenue reported through the EHD/ASD software application-Chameleon. EHD/ASD staff run the report monthly, work with the vendor (PetData) to resolve the differences identified, and document resolution.

CITY OF ALBUQUERQUE
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-04 Travel and Per Diem

Condition. Thirty-five travel and per diem transactions out of a population of 5,096 transactions were tested as to the propriety of the transaction; whether the amount is supported by the appropriate documentation; is recorded correctly as to account, fund, activity and fiscal period and whether there has been compliance with the City's Travel Regulations. In our sample, we noted the following.

- One employee failed to submit the final paperwork documenting the actual costs of his travel within the 30 day limit established by the City's Travel Regulations.
- Ten mileage reimbursements were for amounts that were incorrect. None of these discrepancies were material.
- One petty cash reimbursement of \$85.41 for supplies was erroneously charged to the in-state travel object code.
- The Participant Time and Attendance Report for one volunteer in the Foster Grandparent Program was not signed by the volunteer and it was not certified by the host agency, Youth Development, Inc.

Criteria. The City's travel regulations establish the guidelines that must be followed with respect to travel and per diem vouchers.

Cause. The City's travel regulations were not followed in the above instances.

Effect. The transactions noted above are in violation of the City's travel regulations.

Recommendation. We recommend that the City increase emphasis on compliance with the Travel Regulations. Also, the travel coordinators should receive training on how travel-related transactions are recorded in the general ledger and the importance of accuracy in these transactions.

Management Response. The City concurs with this finding and will take corrective action. The City however does believe that there are adequate procedures in place to minimize the late submittal of final employee travel reimbursement. Employees are advanced 80% of their estimated travel needs prior to traveling, which usually results in an amount owed back to the employee after the trip has been completed. The employee will not receive final payment until he or she completes the final reimbursement request. In addition, that employee will not be eligible for the 80% travel advance on their next travel until the final travel reimbursement documentation is submitted.

CITY OF ALBUQUERQUE
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-08 Accounts Receivable

Condition. During our accounts receivable test work in the General Fund, we noted that there are accounts receivable clearing accounts with the same balances in 2005, 2006 and 2007.

Criteria. Good accounting practice and the City's Administrative Instruction No. 2-2 relating to accounts receivable require timely handling of accounts receivable at all stages of the process.

Cause. The City has not been reconciling accounts receivable clearing accounts in a timely manner.

Effect. The City may be overstating accounts receivable.

Recommendation. The City should reconcile accounts receivable clearing accounts in a timely manner.

Management Response. The City is allocating additional staffing resources to assist Departments in researching and resolving aged account receivables balances.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-09 Cash Imprest Fund Reconciliation General Fund Cash Imprest Account

Condition. During our cash testwork, we noted that the General Fund Cash Imprest Account has not been properly reconciled.

Criteria. The State Auditor Rule 2.2.2.10 J, Section 12-6-5, NMSA 1978 states that any violation of good accounting practices be included in the annual report. Good accounting practices include reconciling cash accounts soon after month-end in order to detect errors or irregularities in a timely manner.

Cause. The General Fund Cash Imprest Account is a petty cash account. The account is also used for the War on Weeds Program. The program is funded through transfers from the General Fund Cash Imprest Account to the Solid Waste Department. The program is reconciled through journal vouchers that record the expenses in the Solid Waste Department and reduce the General Fund Cash Imprest Account for the transfers. Per discussion with the City staff, it appears that the reconciling journal vouchers in prior fiscal years were either not completed or were completed incorrectly. The client has been unsuccessful in obtaining records for the program for prior fiscal years.

Effect. The City may be overstating cash by as much as \$189,951 for the General Fund.

Recommendation. In order to properly reconcile the General Fund Cash Imprest Account, the City should conduct further research on the War on Weeds Program.

Management Response. We concur with this finding. The City will research the cause of the incorrect and missing journal vouchers and complete the reconciliation of the Cash Imprest Account.

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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-11 Dedicated Infrastructure

Condition. Many of the infrastructure assets, such as streets, storm drains, easements and related right of ways, are constructed by developers and then transferred to the City when completed. The City does not record these assets upon date of acquisition.

Criteria. According GASB 34, paragraph 18, “donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.”

Cause. Policies and procedures have not been developed and implemented to ensure that donated infrastructure capital assets are properly recorded upon date of donation.

Effect. The infrastructure assets donated prior to 2006 are included in the retroactive adjustment of fixed assets. However, 2006 and 2007 infrastructure additions do not include donated assets, thereby understating infrastructure balances.

Recommendation. Policies and procedures should be developed and implemented to ensure that assets transferred to the City from private developers are properly recorded upon the date of donation.

Management Response. The City concurs with this finding. Planning Department, Finance and Administrative Services Department, and Municipal Development Department staff have discussed this requirement and will develop procedures to ensure dedicated infrastructure amounts captured by the Planning Department are forwarded to the Department of Finance and Administrative Services for inclusion in the City’s capital asset records. The City will retroactively update the capital asset records for fiscal year 2006 and 2007 dedicated infrastructure amounts.

CITY OF ALBUQUERQUE
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B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-12 Gross Receipts Tax Accrual in Refuse and Joint Water Sewer

Condition. There is an unreconciled difference between what the City reported and paid to the State for June gross receipts tax and the accrual recorded in the general ledger for Refuse and Joint Water Sewer (JWS). At June 30, 2007, Refuse recorded \$120,403 more in gross receipts tax payable in the general ledger than what was reported and paid to the State; and for JWS, \$175,077 more was recorded in the general ledger than what was reported and paid to the State.

Criteria. Good accounting practice and strong internal controls include a reconciliation of general ledger accounts to supporting schedules.

Cause. A new billing system was implemented in 2007. The system automatically records the gross receipts tax when bills are created. The City has not determined if system is incorrectly calculating gross receipts taxes or if it is not properly relieving the accrual when cash receipts are posted. The account balance was not reconciled to the tax return.

Effect. Gross receipts tax in the general ledger may be over stated.

Recommendation. The variance in gross receipts tax should be investigated and resolved. Additionally, account balances should be reconciled to subsidiary ledgers and/or supporting schedules and variances identified investigated and resolved in a timely manner.

Management Response. The City will reconcile the variance between the gross receipt tax accrual and the amount subsequently paid. Based upon the result of the reconciliation, the City will take the necessary corrective action.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-13 Infrastructure Capital Assets Variances

Condition. The City implemented retroactive reporting of its infrastructure capital assets. The reporting of the arroyo easements, detention basins, and the storm lift stations requires additional research and possible adjustment. The arroyo differences that need additional research include approximately \$10,200,000 in unnamed arroyos and costs that need to be determined. The basins include potential additional costs of approximately \$1,600,000. Also a pump station at Alameda was included that is actually maintained by Bernalillo County. In addition, the estimated costs of the storm lift stations will be reviewed in a subsequent period.

Criteria. Good accounting practice requires that capital assets are reconciled, and that proper costs and ownership be determined.

Cause. The City had not been reconciling infrastructure capital assets on a regular basis.

Effect. The City may be understating infrastructure capital assets.

Recommendation. It is recommended that the City should reconcile all infrastructure capital assets and determine ownership and estimated costs.

Management Response. The City concurs with this finding and will provide additional resources in order to more accurately record and document cost and ownership issues for arroyo easements, detention basins, and storm lift station infrastructure.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

06-16 Operating Grants Fund Balance

Condition. There is a remaining fund balance in the Operating Grants fund and the City has not identified the cause and/or source of the fund balance. The Operating Grants Fund is used to account for various grants from federal and state agencies and other sources which are restricted by the granting agency to expenditures for specified purposes (Enactment No. 51-1979).

Criteria. Generally, grant accounting recognizes revenues equal to expenditures, and that fund balance equals zero – costs in excess of receipts will be recorded as a receivable and receipts in excess of costs will be recorded as deferred revenues. However, there are occasions when grants will require the City to match expenditures. In this case, funds will be transferred from other funds into the Operating Grants Fund to meet matching requirements. However, good accounting practices require proper tracking of those matching funds or any additional revenue sources.

Cause. There has been turnover in the accounting department. Plus, an additional detail review of this fund and other revenue/expense sources is not being performed by management.

Effect. Costs may not be properly recorded. Grantors may subsequently disallow costs if a proper accounting of matching funds, or identification of other sources, is not done.

Recommendation. The source and cause of the fund balance should be identified and procedures put into place that ensures that these funds tracked. An additional review of this fund should be performed by an appropriate member of management.

Management Response. The City Accounting Division will evaluate the methodology utilized for grant accounting to ensure that available fund balances within the grant fund are identified by grant or program. The City uses the life-to-date accounting methodology to account for projects funded by grant monies and the related City match. The year ending grant fund balance of \$6,250,335 is committed to the projects budget remaining amount of \$6,275,118.

CITY OF ALBUQUERQUE
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B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-01 Risk Management Disbursements

Condition. We selected a random sample of 38 cash disbursements from the 65,535 disbursement transactions made by the City this fiscal year. Six disbursements in our sample were charged to object code 526331, Bi-Weekly Indemnity Payments in the Risk Management Fund. Two of the six were incorrectly charged to object code 526331. Those payments were both to medical service providers who render radiologic services and should have been charged to object code 526311, Medical Expense-Vendors, also in the Risk Management Fund.

Criteria. The City is self-insured for claims up to a maximum of \$600,000 for each workers' compensation incident. The Risk Management Fund is used to account for and finance the City's uninsured risks of loss. The City's Chart of Accounts defines account 526311 as the account to charge payments for medical services to injured City employees. The Chart of Accounts further defines account 526331 as the account to charge bi-weekly indemnity payments to injured City employees.

Cause. A coding error occurred in the software used by the Risk Management Division which resulted in many transactions being charged to the wrong general ledger account.

Effect. A total of 702 transactions totaling \$223,533 paid to medical service providers were erroneously charged to account 526331 instead of account 526311. Almost ten percent of the \$2,296,385 charged to account 526331, Bi-Weekly Indemnity Payments was posted in error to that general ledger account. Errors of this type undermine the credibility of the City's general ledger.

Recommendation. We recommend that the Risk Management Division monitor the transactions posted to its general ledger accounts each month. Other City Departments should likewise review the transactions posted to their general ledger accounts each month. While this task might seem to be better performed by the City's accountants in the Department of Finance & Administrative Services, each of the City's various departments has better first-hand knowledge of which transactions should or should not be charged to each of their individual general ledger account. The Risk Management Division should also follow up with the changes that were made to the software to prevent these errors from recurring.

Management Response. The City had the vendor correct this problem and this error is no longer occurring and monthly reconciliation of all financial transactions are being performed.

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B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-02 Allowance For Uncollectible Accounts

Condition. Albuquerque Housing Services has not established formal policies and procedures over calculating the allowance for uncollectible accounts.

Criteria. City Administrative Instruction 2-2 Section 10 and 12 “Accounts Receivables” require departments to develop departmental accounts receivable policies and procedures and to review and monitor accounts receivable aging reports for uncollectible amounts. In addition, good accounting practice and strong internal controls require that policies and procedures for calculating and recording estimates be established and maintained.

Cause. Albuquerque Housing Services was not aware of the City’s requirement to develop written procedures in regards to the monitor of uncollectible accounts receivable amounts.

Effect. The allowance has potentially been understated in prior years and, without formal policies and procedures, there is the risk that the allowance is misstated or that the calculation is not consistent over several years.

Recommendation. Albuquerque Housing Services should formalize its policies and procedures for calculating the allowance for uncollectible accounts.

Management Response. Albuquerque Housing Services concurs (AHS) there is no formal (written) policy and procedure for the calculation of the allowance for uncollectible accounts; however, practical assumptions have always been used by management to derive the allowance estimate. In FY07 AHS began using the sum of the uncollectible accounts for all vacated tenants for the previous three calendar years as the estimate for doubtful accounts. Prior to FY07, AHS was using the uncollectible accounts total from 4 years and prior, following the State rule for write-offs as a guide. AHS will formalize the process by putting it in writing to include in our policies and procedures manual.

CITY OF ALBUQUERQUE
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B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-03 – Premature Purchase of Airline Ticket

Condition. A Travel Liaison for the City booked an economical (lowest fare available) non-refundable ticket to be used by a City employee prior to receiving a signed and approved Travel Authorization Form T-01. The airline ticket which cost \$329.60 was ultimately used in December, 2007.

Criteria. The City’s Travel Regulations, Chapter 2, Section II – Travel Authorization Guidelines states that travel requests must be submitted and approved in advance of the travel. The Travel Regulations in Chapter 12, Section II.K state further that a completed Travel Authorization Form T-01 must be approved prior to “booking the tickets.” In other words, the tickets must not be purchased until travel is virtually a certainty and a detailed travel itinerary has been developed.

Cause. The travel policies and procedures were not followed by the Travel Liaison.

Effect. This transaction is in violation of the City’s travel regulations and resulted in the City having funds invested in an airline ticket that was subject to being forfeited if not used by January 8, 2008.

Recommendation. We recommend that the City review all T-Card policies and procedures with all staff. The Travel Liaison for each department must understand the policies and procedures that are in place to conform to the Travel Regulations and the need to adhere to them.

Management Response. We concur with the finding. The department will review the City’s travel regulations and will follow all the requirements in the future.

CITY OF ALBUQUERQUE
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B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-06 Capitalization of Work in Progress

Condition. As part of the Capital Assets audit, we tested Work In Progress (WIP) items which the City capitalizes once the project is at least 90% complete. Out of twenty three such items we tested, two projects with the total value of over \$3 million were not capitalized even though the projects were 100% complete. Another item we tested was from an activity called Road Rehabilitation, which has been active since March 2000 with total appropriations of over \$95 million, and expenditure of over \$71 million through June 30, 2007. Since the WIP listings do not separate projects, we inquired further about this activity and were told by City personnel that it included many street rehabilitation projects which have been completed but not capitalized. The WIP reports are not geared to provide project by project information and do not provide necessary information to determine if a given project within the activity needs to be capitalized. Based on the information provided to us, we could not determine the amount of projects completed within the Road Rehabilitation activity which should have been capitalized in the current fiscal year or in prior fiscal years. In addition, we noted two projects in the Transit Department in the amounts of \$517,002 and \$347,073 included in current year 2007 capital asset additions to buildings that should have been capitalized in Fiscal Years 2005 and 2006, respectively. We also noted the amounts of \$347,073 and \$208,455 in current year building and improvement additions, respectively, which we were unable to trace to transactions that totaled to the amount capitalized.

Criteria. Good accounting practice requires capitalizing work in progress once the project is complete and available to be used. The Departments are not following GAAP and the City's capitalization policy in this regard.

Cause. The WIP listings are generated by activity, which may consist of various independent projects not related to each other. The accounting software used to generate these listings does not provide project by project status within the activity report. Thus the Departments wait until the entire activity meets the capitalization threshold rather than capitalizing each project once it meets the criteria. The City's fixed asset personnel in the accounting department are dependent on each department when determining whether items should be capitalized, or left in WIP. If the department does not adequately relay which assets are to be capitalized, the City's data will be incorrect.

Effect. The projects are not always capitalized at the appropriate time. The capital assets may be in use for several years before the City begins to record depreciation and thus the actual value of the assets may be less than the depreciated value due to delayed depreciation. The WIP amount stated in Financial Statements is higher than it should be by the amount of projects already completed but not yet capitalized; and by same token, the Capital Assets amount stated is lower than it should be by same amount.

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B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-06 Capitalization of Work in Progress (continued)

Recommendation. The WIP listing should be broken down further by projects, which then should be monitored for completion at the project level. Individual projects that meet the capitalization threshold should then be capitalized in the fiscal year that the criteria are met. The city should ensure employees with capital asset responsibilities are aware of the city's fixed asset policies and procedures and are capable of properly determining when a capital asset should be capitalized. All capitalized amounts should be properly supported for the full capitalized amount.

Management Response. The City concurs with this finding and will implement the auditor recommendations. The Accounting Division and the Municipal Development Department will ensure that WIP is capitalized at project level and not at the activity level.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-07 Inventory

Condition. During our inventory testwork for the Transit Department, we noted that 13 of the 70 items selected were not included in the final inventory reports. Upon further investigation, we learned that a total of 1,073 items were not included in the final inventory reports, resulting in an understatement of inventory of \$181,284.

Criteria. Good internal control procedures should include verifying the completeness of data prior to entry into the general ledger.

Cause. The completeness of data contained in the final inventory reports was not verified prior to entry into the general ledger.

Effect. Inventory was understated by \$181,284.

Recommendation. The City should verify the completeness of data contained in the final inventory reports prior to entry into the general ledger.

Management Response. The City concurs with this finding. The Transit Department will develop procedures to ensure that that final inventory report is verified for completeness prior to entry into the City general ledger.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-08 Uncollateralized Bank Deposits

Condition. The City's cash balance on deposit at Bank of America exceeded the FDIC limit of \$100,000 on June 30, 2007 by \$1,734,926. The bank has only posted \$88,147, thus leaving the City's bank accounts undercollateralized by \$779,316. The bank has not collateralized "uncollected funds" in the City's accounts.

Criteria. The Public Money statutes, 6-10-16 and 6-10-17 NMSA 1978 require the bank to collateralize the City's bank accounts in an amount equal to one half of the public monies in excess of the FDIC insured amount. The Public Money statutes do not differentiate between "collected" and "uncollected" funds.

Effect. The City has cash on deposit at the bank that is at risk of loss in the case of bank failure.

Cause. The Bank of America has relied upon an advisory opinion from the Federal Deposit Insurance Corporation (FDIC) that is not germane to the issue of whether the City's bank balances at Bank of America are adequate collateralized pursuant to the New Mexico Public Money statutes cited in the criteria.

Recommendation. Ask the bank to collateralize the City's accounts pursuant to the Public Money Statutes. If the bank fails to comply with the Public Money Statutes within the ten days provided by 6-10-17.1 NMSA 1978, the City should withdraw its fund from the bank within the next ten days.

Management Response. The City will request that the bank review its collateralization policy to ensure compliance with New Mexico collateralization laws.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-09 Schedule of Expenditures of Federal Awards (SEFA)

Condition. During our test work of the SEFA, we noted that the current year expenditures were adjusted for prior year expenditures that were reported in the incorrect grants. We also noted prior year expenditures that were not reported on the SEFA, but were subsequently determined to be federal expenditures.

Criteria. Good internal control procedures should include processes to verify and review the accuracy and completeness of financial information.

Cause. Federal grant reporting is de-centralized. DFAS accountants rely upon the information provided by the departments, and there is no process in place for DFAS to verify the accuracy of the information provided. Federal and non-federal expenditures are not separately tracked in the general ledger system.

Effect. There is a risk that federal expenditures reported on the SEFA are inaccurate.

Recommendation. Processes should be in place that will ensure the accuracy and completeness of the reporting of federal expenditures. These processes should include a general ledger system that is designed to allow for the separate recording and tracking of federal and non-federal expenditures, revenues, grants receivable and deferred revenues. Additionally, personnel with the proper training and experience should review federal expenditures and verify that the SEFA is reported correctly.

Management Response. The City concurs with this finding and will develop processes and procedures that are designed to accurately record and track federal expenditures and grants receivable and deferred revenue.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-10 Purchase Cards

Condition. The City recorded 14,212 purchase card (P-Card) transactions during this fiscal year. We reviewed a sample of 63 P-Card transactions and the following was noted: 13 transactions were not reconciled and reviewed in EAGLS, 13 purchase logs were not reconciled and signed by the Card Coordinator, four purchases were split into eight transactions to avoid exceeding the \$1,000 limit on P-Card transactions, three transactions were for the purchase of goods from vendors other than the vendor that had a contract with the city and seven transactions were for the purchase of car wash services, the purchase of which is not clearly permitted by the P-Card policies and procedures. A transaction was actually made with a P-Card instead of a T-Card. This was for the purchase of pre-paid theater tickets by the Bear Canyon Senior Center but was charged to travel. Had this transaction not been coded to travel, it probably would have gone unnoticed during the audit. In addition, three transactions were for the purchase of gasoline, and the City paid \$21.04 in gross receipts tax on the purchase of balloons for the Biopark.

Criteria. The City's Policies and Procedures over P-Card purchases require that there is pre-approval on all purchases, the log/reconciliation and EAGLS/ reconciliation of P-Cards purchased to be reviewed on a weekly basis and the purchase of gasoline and certain other items is specifically disallowed. Likewise, the City's Purchasing Cards Policies and Procedures forbid the use of P-Cards for purchases of "entertainment of any sort." Individual purchases are not supposed to be split into two or more transactions to avoid the \$1,000 limit set for P-Card transactions. The City is exempt from paying gross receipts tax on goods.

Cause. It appears there is a lack of adequate formal training dealing with P-Card use and the policies and procedures governing P-Cards are not being enforced at all levels.

Effect. Non-compliance with P-Card policies and procedures.

Recommendation. We recommend that management continues to emphasize that P-Card policies and procedures are adhered to in all cases. Departments should review P-Card transactions to identify patterns of reoccurring transactions that could be potentially set up as a contract. Card holders should notify management when tax has been paid so a tax-exempt certificate can be issued. Further, the City should revise its Purchasing Cards Policies and Procedures to allow for purchases related to group activities sponsored by the City through the senior centers and community centers. In addition, we recommend that the City implement the recommendations included in the special audit of the purchasing card program released in September 2007 by the City's Office of Internal Audit and Investigations.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

07-10 Purchase Cards

Management Response.

The City concurs with this finding. In September of 2007, the City implemented new P-Card software (Works). Controls have been established in the new software that require Departments to review, reconcile, and approve their P-Card transactions before their P-Card credit limit is replenished. The City's Purchasing and Accounting Divisions will provide additional training to the P-Card users at the Purchasing User Group meetings to ensure compliance with City P-Card policies regarding split purchases and the payment of gross receipt tax. The City will review its P-Card policies regarding the use of the P-Card for group activities sponsored by the City's senior and community centers.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD
PROGRAM AUDIT**

**01-18 Federal Claim – U. S. Department of Justice – COPS Universal Hiring Grant
CFDA# 16.710**

Condition. The federal government may assess a claim against the City of Albuquerque to recover federal funds that might have been spent for purposes other than adding personnel.

Criteria. When applying for a grant, the applicant should submit accurate information and once the award has been received, the recipient is required to spend the money as directed in the grant document.

Cause. The Department of Justice, who issued the federal grant to the City, is questioning how the grant money was spent. The City of Albuquerque has received the report from the Department of Justice and disagrees with a large portion of the amount the federal agency is questioning.

Effect. It is possible that the City may be disqualified for future Department of Justice grant awards.

Questioned Costs. The original amount in question was \$4,152,447. In response to the federal agency and after a thorough review of the City's records by City personnel, the City has reimbursed the Department of Justice the sum of \$151,636 in the current year and is not anticipating further reimbursement. The City is awaiting final determination from the Department of Justice.

Recommendation. We recommend that the City review information submitted in applications to the Department of Justice and examine procedures for monitoring the COPS grants to ensure that compliance requirements are being adhered to.

Management Response. The City concurs with this finding. The Office of Inspector General and the COPS Office Audit Liaison Division came to an agreement with City APD on an additional six outstanding issues and closed out those items in FY07. The three agencies are actively working to resolve the final eight recommendations.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD
PROGRAM AUDIT (CONTINUED)**

07-04 SEFA Reporting

Condition. During our audit of allowable expenditures for the Federal Transit Program, CFDA 20.507, we noted federally funded expenditures recognized in the current year that actually occurred in the previous fiscal year. The fiscal year 2006 expenditures were initially incorrectly recorded during 2006 under CFDA 20.500. An adjustment was created in the current year in the amount of \$954,627 to recognize prior year expenditures in the current year under CFDA 20.507. Thus, by reporting it in the current year; it appears as though \$954,627 was spent in the current year when it was not.

Criteria. OMB Circular A-133 §.205 Basis for determining Federal awards expended states “The determination of when an award is expended should be based on *when* the activity related to the award occurs”. In addition §.310(a) *Financial Statements* and §.310(b) *Schedule of expenditures of Federal awards* require that the auditee shall prepare the financial statements and the SEFA for the period covered by the auditee’s financial statements.

Effect. The City’s SEFA and financial statements are not accurately stated. Federal funds may also be jeopardized or delayed due to inaccurate recording of grant expenditures.

Cause. The Federal Transit Program did not disclose the federal grant expenditures in the fiscal year of actual occurrence.

Recommendation. The Federal Transit Program should record the federal expenditures in the year that they occurred. The SEFA, in order to be consistent with the accompanying financial statements, should reflect expenditures from the same fiscal year as the financial statements.

Management Response. The City concurs with this finding. DFAS Accounting will work with the Transit Department to ensure that Transit expenditures are properly recorded and reported on the SEFA. The department’s Grants Manager position was vacant when these transactions were initially recorded incorrectly under CFDA 20.500. Consequently, the department hired a FTA grant consultant in the Summer of 2006, at which time the error was detected and a journal voucher immediately prepared to correct the misappropriation and subsequent expenditure error. At this time, the department has developed internal control measures to ensure that new grant funds are appropriated correctly. New funds now are associated with a new activity; funding for like-kind projects are not combined with existing activities, thereby ensuring that new grant are not commingled with existing grants.

CITY OF ALBUQUERQUE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD
PROGRAM AUDIT (CONTINUED)**

07-05 Vacation Leave Approval

Condition. During our audit of allowable expenditures for the Summer Lunch Program, CFDA 10.559 and the Early Headstart Program, CFDA 93.600 we noted one occurrence out of twenty two in the Summer Lunch Program and one out of twenty six in the Early Headstart Program where leave was not approved prior to being taken. The leave taken by an employee paid out of each of these federally funded programs was approved three days subsequent to when the leave was taken. There was no indication in either instance that the leave was verbally approved in advance.

Criteria. The City of Albuquerque's Personnel Rules and Regulations, Section 401.2 A requires that vacation leave must be approved twenty four hours prior to the leave being taken. Although the rules are silent as to whether approval must be in writing; approvals should be documented in a form that is auditable.

Effect. The Summer Lunch and Early Headstart Programs are not in compliance with the City of Albuquerque's Personnel Rules and Regulations. In addition, federal funds may be jeopardized if policies are not adhered to.

Cause. The Summer Lunch and Early Headstart Programs did not ensure that employee leave forms for vacation time are completed and approved at least twenty four hours prior to the leave being taken.

Recommendation. The Summer Lunch and Early Headstart Programs should ensure that all vacation leave is approved within the time period that is set forth in the City's Personnel Rules and Regulations. If the leave request is approved verbally at least 24 hours prior to when the leave is taken; such approval should be documented so that it is auditable.

Management Response. We concur with this finding. However, it should be noted that in both instances leave was verbally authorized by the respective supervisors prior to being taken. The rules and regulations do not specify "written" approval. However, we will remind supervisors to enforce the requirement of 24 hour prior written approval.