

***REPORT TO***

***CITY COUNCIL***

***ON THE***

***CITYWIDE FISCAL YEAR 2005 SECOND QUARTER BUDGET***

***05-103B***



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

## **INTRODUCTION**

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

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

## **RESOURCES AND FUND BALANCE**

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

	<b>FY05 APPROVED BUDGET (000's)</b>	<b>FY05 REVISED BUDGET (000's)</b>	<b>FY05 2nd QUARTER PROJECTIONS (000's)</b>
Resources:			
Revenue*	\$ 393,124	\$ 406,600	\$ 406,367
Beginning fund balance	<u>51,587</u>	<u>64,786</u>	<u>64,786</u>
Total resources	444,711	471,386	471,153
Appropriations/Expenditures:	<u>401,803</u>	<u>407,059</u>	<u>401,722</u>
Fund Balance	<u>\$ 42,908</u>	<u>\$ 64,327</u>	<u>\$ 69,431</u>
Fund balance adjustments	<u>(486)</u>	<u>(162)</u>	<u>(162)</u>
Fund balance reserves	<u>(40,078)</u>	<u>(39,030)</u>	<u>(39,030)</u>
<b>Available fund balance</b>	<b><u>\$ 2,344</u></b>	<b><u>\$ 25,135</u></b>	<b><u>\$ 30,239</u></b>

\* Revenues are projected, actual revenues may vary

## **PROJECTED OVER-EXPENDITURES**

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

### ***GENERAL FUND PROGRAMS***

There are 102 appropriated General Fund operating programs. The General Fund is used to account for resources and expenditures traditionally associated with governments that are not required to be accounted for in another fund. Appropriations are at the program level, the level at which expenditures may not legally exceed appropriations. The following General Fund programs are in jeopardy of exceeding budget appropriations:

*Program 27525 – Albuquerque Fire Department CIP Funded Employees* program is projected to exceed its budget of \$92,000 by \$39,000. The CIP funded positions have been approved and will be fully funded through a reimbursement from capital projects fund 305. The Fire Department is waiting to adjust the appropriation until further in the year to more accurately project the expenditures.

### ***NON-GENERAL FUND PROGRAMS***

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

*Program 21503 - Metropolitan Detention Center (MDC) Corrections/Detention* program is projected to overspend its \$36,626,000 budget by \$433,000.

As noted in the first quarter review, the projected over-expenditure in the Corrections/Detention program continues to be caused by two factors: increased supply usage and a high employee vacancy rate resulting in increased overtime costs. A direct correlation exists between supply costs (food, medication, clothing, etc.) and the inmate population. The FY05 budget estimates were based on a population of 2,100 inmates; however, during the first quarter the population was approximately 2,350 inmates. This number decreased to 2,058 during the second quarter, as traditionally occurs during these months of the year. Management reports historical data indicates that the population will again increase during the third and fourth quarters of the fiscal year.

The high vacancy rate is due to numerous factors including Correction Officers being off the job on injury time, vacation and military leave. Each pod at MDC is required to have a minimum number of Officers on duty. These posts must be filled by existing Officers working overtime.

As of the end of the second quarter, there have been no additional appropriations made to this program. The City and Bernalillo County share in the costs to run MDC. Accordingly, if MDC overspends it will be necessary for the City and Bernalillo County to appropriate additional funds.

Program 54501 – *The Solid Waste Management Department (SWMD) Collections* program in the Refuse Disposal Fund 651 is projected to overspend its appropriated budget of \$13,752,000 by \$1,342,000. SWMD management reports that the increase in fuel costs is responsible for the projected over-expenditure in FY05. Fuel was budgeted at an average cost of \$.89/gallon for FY05; however, the actual average cost for a gallon of fuel was \$1.48 during the second quarter. Despite salary savings and other cut-backs SWMD plans to make, it appears the Collections program will be overspent for FY05.

During our review of the Refuse Disposal Operating Fund (#651) programs we noted the following:

- Disposal – program 54502 – A journal voucher for \$35,054 was posted by Risk Management in FY05 to charge the Disposal program for investigative services that were provided by an outside vendor and invoiced during fiscal year 2004. These invoices were not accrued at June 30, 2005 and are being reflected inappropriately in FY05 expenditures.
- Administrative Services – program 54503 – Payments totaling approximately \$296,000 for construction related to the Main Facility Storm Drainage project were charged to Fund 651, the Operating Fund. These invoices should be charged to Fund 653, the Refuse Disposal Capital Fund. Management intends to move these expenditures to the Capital Fund before the end of FY05.
- Collections – program 54501 – We noted nine roll-off containers totaling \$37,441 were purchased and charged to a capital outlay account in Fund 651, the Operating Fund. It appears these items should also be charged to the Capital Fund.

### **PROJECTED UNDER-EXPENDITURES**

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

### ***GENERAL FUND PROGRAMS***

Program 23510 – *Cultural Services Department CIP Biopark* program is projected to underspend its budget of \$1,945,000 by \$288,000. Biopark management reports that many temporary positions were vacant at the end of the first quarter resulting in a projected under-expenditure of \$479,000 in this program. Several of these CIP positions were filled during the second quarter decreasing the projection to \$288,000.

Programs 31504 and 31506 - *Family and Community Services' (FCS) Provide Early Childhood Education* and the *Provide Mental Health Services* programs are projected to underspend their budgets by \$287,000 and \$120,000, respectively. FCS management reports that over 80% of the expenditures of the Provide Early Childhood Education program are personnel costs. The employee vacancy rate was unusually high during the first quarter of FY05 leading to the large projected under-expenditure. Many of these positions were filled during the second quarter. Management reports that the East San Jose Child Development Center should be coming back on-line during the fourth quarter which will also reduce the unexpended amount.

The Provide Mental Health Services program receives a portion of the ¼ cent Public Safety Tax. FCS management reports that much staff time was spent early in the fiscal year developing the programming. Also, the program got a late start on the procurement process to get provider contracts in place. Several of these contracts were approved by Council during the second and third quarters so FCS anticipates an increase in expenditures during the fourth quarter. The projected under-expenditure in this program has decreased from \$258,000 at the end of the first quarter to \$120,000 at the close of the second quarter.

Program 25550 – *Department of Finance and Administrative Services (DFAS) Citizens Services* program is projected to underspend its \$1,453,000 budget by \$416,000. This program supports the 311 Call Center and is a new program for FY05. Program management reports that the majority of the call agents are being hired as close to the go-live date of the project as possible to eliminate staffing inefficiencies. The go-live date of the 311 Center is set for July 1, 2005. Management believes the actual unspent amount at the end of FY05 will be less than the second quarter projected amount due to the staffing approach being used.

Program 41501 – *Office of Internal Audit and Investigations* is projected to underspend its \$1,189,000 budget by \$137,000. The primary reason for the projected under expenditure is salary savings. At the end of the second quarter, four of Internal Audit's 12 positions were unfilled. Internal Audit has a difficult time filling these positions due to the higher salaries that are available to potential applicants in public accounting and private industry. Management anticipates the actual under expended amount to be even higher than the 2<sup>nd</sup> quarter projections because the projections assumed all four of the vacancies would be filled from January 2005 through the end of the fiscal year; however, the four positions remain vacant at the end of the 3<sup>rd</sup> quarter.

Program 49507 – *The Long Range Planning* program in the Planning Department is projected to underspend its \$1,352,000 budget by \$101,000. Planning Management also reports the under expenditure is related to salary savings. The Long Range Planning program contains 6 positions. During the first and second quarters of FY05, four of these positions became vacant due to retirement, termination or transfer. Three of these

positions have since been filled; however, they have been filled with entry level, lower pay-step salaries which is resulting in the under expenditure in the program.

### ***NON-GENERAL FUND PROGRAMS***

*Programs 54502 (Disposal), 54503 (Administrative Services) and 54504 (Recycling)* in the Refuse Disposal Operating Fund (#651) are projected to underspend by \$499,000, \$448,000 and \$127,000, respectively. Management is making cut-backs in these programs wherever possible in an attempt to minimize the fund over expenditure as a whole. The projected fund over expenditure is primarily due to increased fuel costs in the Collections program.

### **CONCLUSION**

Although a few programs are in jeopardy of exceeding appropriations, most projected over-expenditures appear to be manageable and will not have a negative impact requiring additional appropriations. Based on the information provided by the departments **it appears that 2 programs will likely require additional appropriations.** These programs are:

<u>Department</u>	<u>Projected Over-Expenditure</u>
Corrections Department – Corrections/Detention program	\$ 443,000
Solid Waste Management Department – Collections program	\$ <u>1,342,000</u>
TOTAL	\$ <u>1,785,000</u>

### **EXECUTIVE RESPONSE FROM THE CAO**

*“The Executive appreciates your review of the Second Quarter Fiscal Year 2005 expenditure projections and agrees that the two programs referenced appear to be most likely to require additional appropriations. We continue to work with the departments and monitor spending.*

*“If the level of the over expenditure is reduced, the corrections program may be “cleaned-up” at the end of the fiscal year with unanticipated additional revenue already received in the Corrections and Detention Fund 260 from SCAPP and Southwest Border funding. The second quarter revenue report estimated an additional \$438,000.*

*“The challenge in Solid Waste is more problematic, but may be similarly resolved. We will continue to manage in a way that will, wherever practical and feasible, reduce the amount of the overexpenditure and hope that fuel prices*

***make it possible. Fortunately, revenue in the Refuse Disposal Enterprise Fund 651 is coming in somewhat stronger than forecast in the FY/05 budget. The second quarter revenue estimate anticipates as much as an additional \$906,000, which is fortunate given the unfunded mandates added during the year. Due to substantial fuel price uncertainty, however, this situation may need to wait until the end of the fiscal year to be rectified with additional revenue.”***

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