

SPECIAL AUDIT REPORT

OF

FUND 242 EXPENDITURES
ENVIRONMENTAL HEALTH DEPARTMENT
AIR QUALITY DIVISION

REPORT NO. 10-109



City of Albuquerque
Office of Internal Audit

Fund 242 Expenditures
Environmental Health Department
Air Quality Division
Report No. 10-109

Executive Summary

Background

The Office of Internal Audit (OIA) conducted a special audit of the Air Quality Fund (Fund 242) operated by the Air Quality Division of the Environmental Health Department (EHD.) The audit was requested by the EHD director.

Fund 242 was established by City Ordinance §9-5-1-13 under the New Mexico Air Quality Control Act, 74-2-16 NMSA 1978. The ordinance and statute require that all permit fees collected by Fund 242 shall only be used to support air quality permitting functions including reviewing and acting on applications for permits, implementing and enforcing terms and conditions of issued permits, monitoring emissions and ambient air quality, preparing applicable permitting regulations or guidance, modeling, analyzing and demonstrations to assist with the permitting process, and preparing inventories and tracking emission data.

The Air Quality Division (AQD) includes the Operating Permit program that is responsible for air quality permit processes and the Vehicle Pollution Management (VPM) program that administers the motor vehicle inspection/maintenance program specifically to reduce carbon monoxide from motor vehicles.

OIA noted that the combined Fund Balance for Fund 242 was projected to decline by 70% from FY07 through the end of FY10.

Objective:

Does EHD-AQD have adequate controls, policies and procedures over expenditures?

Testing results show that 115 of 306 (38%) invoices that were tested were either not appropriately paid from Fund 242, in whole or in part, or the invoices were not paid in accordance with City policies and procedures. Three purchasing card transactions were both Fund 242 exceptions and not paid in accordance with City policies and procedures.

Recommendation:

EHD-AQD should implement measures to improve its internal control environment to ensure compliance with Fund 242 expenditure requirements, City policies and procedures.

Objective:

Are expenditures made from Fund 242 in compliance with department procedures, City rules, regulations and ordinances, state statutes and other applicable rules and regulations?

Of the 306 invoices tested, OIA found:

- 88 invoices were not appropriately paid from Fund 242 in whole or in part;
- 30 invoices were not paid in compliance with City Purchasing card, Petty Cash, and IT technical procurement policies and procedures.

OIA tested a sample of 134 pieces of computer and other portable electronic devices and noted:

- 59 pieces of equipment could not be located in AQD offices;
- 44 pieces of equipment that were not included on the AQD internal equipment tracking report were found at AQD offices;
- Surplus/Salvage forms were not accurately completed; and
- EHD-AQD does not have a Property Accounting Liaison.

OIA found that a contract for professional services appeared to create a conflict of interest because the vendor was also required to serve on the City Energy Conservation Council.

Recommendations:

EHD-AQD management should establish effective internal controls to ensure that Fund 242 expenditures are made in compliance with City ordinance §9-5-1-13, the New Mexico Air Quality Control Act, 74-2-17 NMSA 1978 and City purchasing policies and procedures.

EHD-AQD management should appoint a Property Accounting Liaison to monitor computer and other equipment purchases and the disposition of equipment to mitigate the risk of loss or theft of City property.

The CAO should consider the implications of contract requirements that might create the appearance of a conflict of interest.

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit
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March 2, 2011

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

Audit: Special Audit
Fund 242 Expenditures
Audit No. 10-109

FINAL - REVISED

INTRODUCTION

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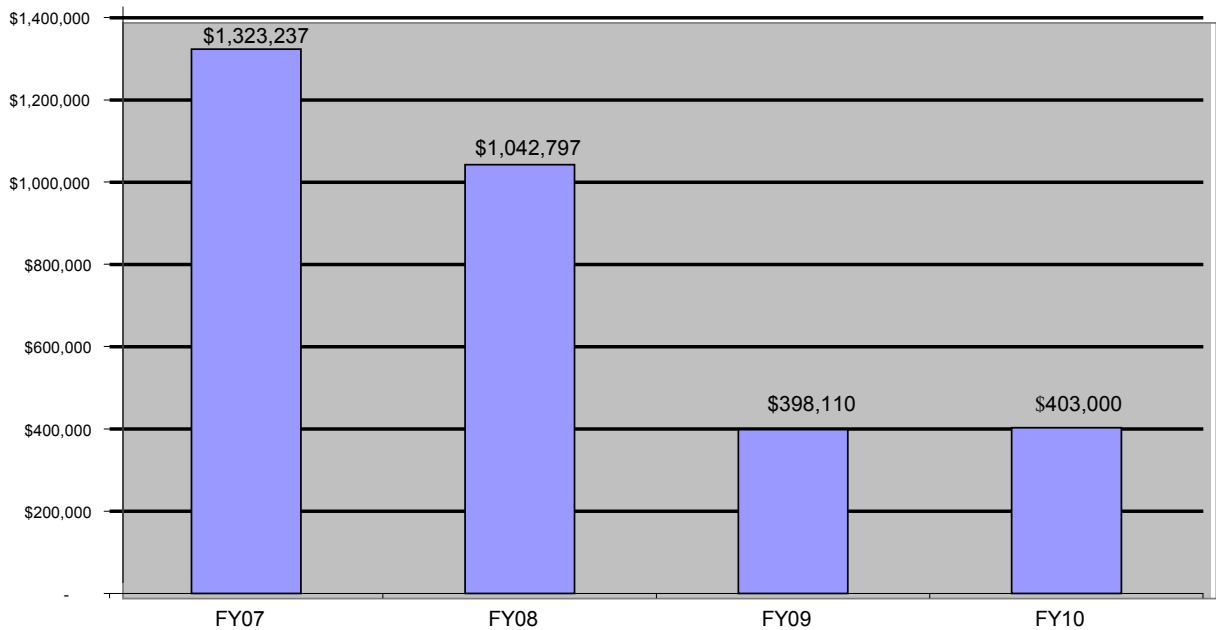
The Air Quality Division (AQD) includes the Operating Permit program that is responsible for air quality permit processes and the Vehicle Pollution Management (VPM) program that administers the motor vehicle inspection/maintenance program specifically to reduce carbon monoxide from motor vehicles.



Fund 242 revenues declined 4% between FY07/08 and 5% between FY08/09. From FY07 through FY10, the combined fund balance of Fund 242 was projected to decline in total by approximately \$920,000 or 70%, as shown in the table and graph below.

Ending Fund Balance	Total
FY07 – Actual	\$1,323,237
FY08 – Actual	\$1,042,797
FY09 – Actual	\$ 398,110
FY10 - Projected	\$ 403,000
FY07 to FY10 - \$ Change / % Change	<\$ 920,237> / <70%>

Fund 242- Fund Balance Change FY07 - FY10



AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Does EHD-Air Quality Fund 242 have adequate controls, policies and procedures over expenditures?
- Are expenditures made from Fund 242 in compliance with departmental procedures, City rules, regulations and ordinances, state statutes, and other applicable rules and regulations?

SCOPE

Our audit did not include an examination of all functions and activities related to AQD. Our scope included expenditures made from Fund 242 between FY07 and FY10.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, December 29, 2010, and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

OIA reviewed state statutes, City ordinances, policy and procedures related to Fund 242, purchasing policies and procedures, procurement card (P-card) policies and procedures, and applicable contracts paid from Fund 242. OIA also reviewed applicable Generally Accepted Accounting Principles (GAAP) related to the audit scope.

OIA interviewed AQD personnel who manage or supervise the fiscal operations to gain an understanding of the daily operations of the division. OIA performed detailed testing of accounts payable expenditures, P-card transactions and expenditures made for three AQD contracts. OIA interviewed Office of Management and Budget personnel who prepare the estimated Fund 242 fund balance reports for the two AQD programs, Operating Permits and VPM.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. EHD-AQD SHOULD ESTABLISH EFFECTIVE INTERNAL CONTROLS TO ENSURE THAT EXPENDITURES MADE FROM FUND 242 ARE IN COMPLIANCE WITH REGULATIONS AND POLICIES AND PROCEDURES.

OIA tested a sample of 306 invoices from a population of 2,065 invoices that were paid from Fund 242 between FY07 and FY10. The sample included 244 invoices that were statistically selected and 62 invoices that were judgmentally selected.

Testing results show that 115 of 306 invoices (38%) were either not appropriately paid from Fund 242, in whole or in part (*Section A*) or the invoices were not paid in accordance with City policies and procedures (*Section B*). Three P-card purchases were both Fund 242 exceptions and not paid in accordance with City policies and procedures.

A. Expenditures not appropriate, in whole or in part, from Fund 242

Of the 306 invoices reviewed, OIA found 36 invoices paid through the accounts payable system or with a City P-card that were paid inappropriately, in whole or in part, from Fund 242.

Expenditure Type	Number/Dollar/Amount of Invoices Tested	Number, % and Amount of Exception	Nature of Exceptions Identified
Accounts Payable including P-card transactions	201 invoices, \$432,473	36 invoices or 18% totaling \$47,783	General Fund expenditures were paid from Fund 242. For example: advertising costs, conference fees and temporary employee expenses for employees and activities of other EHD programs.

OIA reviewed 52 payments to three contractors paid from Fund 242. Invoice testing showed that Fund 242 paid a disproportionate share of the invoices:

- The City paid 6 invoices totaling \$42,478 for professional services to plan and organize the August 2007 Best Green Practices Summit. Fund 242 was charged \$13,025 (31%) for these services. OIA estimated that two of the 22 sessions (9%) offered at the Summit related to the purposes of Fund 242. There did not appear to be a methodology for the allocation of costs among various City programs and/or departments.
- Fund 242 paid 27 invoices totaling \$108,445 for static and billboard advertising. There was not an allocation to other City programs and/or departments for advertising messages that did not relate to Fund 242.
- Fund 242 paid 19 invoices totaling \$24,583 for professional consulting services related to alternative fuels and general energy conservation. The invoices showed that several City departments and divisions were present at monthly Energy Conservation Council meetings and received the benefit of the professional consulting services provided. There was not an allocation to other City programs and/or departments.

The New Mexico Air Quality Control Act, 74-2-17 NMSA 1978, and City Ordinance §9-5-1-13 require that the permit fees collected in Fund 242 be used to support air quality permitting functions. The VPM program administers the motor vehicle inspection/maintenance program specifically to reduce carbon monoxide from motor vehicles.

Management should base expense allocations on a reasonable estimate of the underlying cost, e.g., percentage of use or a similar measurement. The allocation method should also be documented.

Internal controls were not effective to ensure compliance with Fund 242 regulations. Expenditures did not meet the purpose of Fund 242, which contributed to the decline of the fund balance.

B. Expenditures not in compliance with City P-card policies and procedures, IT technical procurement, and Cash Handling-Petty Cash policies and procedures

Of the 306 invoices OIA reviewed, 30 invoices or 10% were not paid in compliance with City policies and procedures.

Expenditure Type	Number/Dollar Amount of Invoices Tested	Number, % and Amount of Exception	Nature of Exceptions Identified
Petty Cash reimbursements	5 invoices, \$2,155	5 exceptions or 100% totaling \$271	A portion of the petty cash reimbursement was used to purchase personal-use items and items that are available under City contract or from the City warehouse.
P-card transactions	48 invoices, \$19,356	25 exceptions or 52% totaling \$11,656	A portion of the P-card transactions were used to purchase items available under contract and to purchase IT technical equipment without evidence that the equipment met pre-established IT standards. Several of the invoices tested showed that the City paid tax on the purchases.

The DFAS P- Cards Policies and Procedures prohibit the use of P-cards for items that can be obtained under an existing City contract or at the City warehouse. It also requires cardholders to notify their department card coordinator if a vendor charges tax on a P-card transaction. The City is exempt from paying gross receipts taxes for goods.

The DFAS-Treasury Division Cash Handling Manual prohibits the use of petty cash to purchase personal use items. Petty cash is not allowed to be used to circumvent purchasing procedures and ordinances.

Information Technology Policies and Standards require that all computer equipment and Global Positioning System (GPS) devices be purchased to meet established IT standards.

EHD-AQD P-cardholders attended DFAS P-card training but failed to comply with P-card policies and procedures. The City might have paid more for P-card expenditures than if the EHD-AQD had made the purchases through existing City contracts. IT equipment purchases might not meet City standards.

RECOMMENDATION

EHD-AQD should implement measures to improve its internal control environment to ensure compliance with Fund 242 expenditure requirements and City policies and procedures.

RESPONSE FROM EHD-AQD

“In years prior to 2010, EHD-AQD agrees that there may have been lapses in effective internal controls. In January 2010, EHD established effective internal controls for all purchasing actions that are outlined in the following summary. Any time a purchase is initiated it must be reviewed and approved by the appropriate supervisor, EHD finance staff and the Director. This approval process is documented via e-mail. EHD finance staff ensures that there are adequate funds for the purchase, that the items are allowable under applicable program goals, objectives, regulations and that all City purchasing policies are followed. The EHD Director signs all requisitions. EHD is in the process of formalizing the purchasing protocols in writing. EHD anticipates that written purchasing protocols will be completed in July 2011.”

2. THE CHIEF ADMINISTRATIVE OFFICER (CAO) SHOULD ENSURE CONTRACTS DO NOT CREATE THE APPEARANCE OF A CONFLICT OF INTEREST.

During testwork, OIA found that the CEO of a City contractor was an appointed member of the City of Albuquerque Energy Conservation Council during the audit period. The contract requires the vendor to serve on the Energy Conservation Council.

OIA believes that a contract between the City and any company owned or operated by a member of a City board or commission creates the appearance of a conflict of interest, which is incompatible with transparency in City government operations. The CEO’s membership on the Energy Conservation Council also appears to violate City Ordinance §14-8-5-3: Zoning, Planning and Building - Energy Conservation Council, which prohibits members of the Energy Conservation Council from representing a specific agency or organization.

RECOMMENDATION

The CAO should consider the implications of allowing City departments to enter contracts where the contractor, a member of the contractor’s family or the

contractor’s employee(s) serves on a City commission or board and should revise City policy as deemed appropriate.

RESPONSE FROM CAO

“The contractor is no longer a member of the Mayor's Energy Council. Therefore, no action is required to address the auditor's concerns in this situation. Additionally, it is important to note that the Energy Council is not a decision-making body; its sole function is to make a recommendation to the Mayor on how the City of Albuquerque manages and consumes energy in its facilities using capital funds targeted for energy conservation projects. The contractor was never in a position to benefit from his membership on the Council.”

3. EHD-AQD SHOULD APPOINT A PROPERTY ACCOUNTING LIAISON TO MONITOR EQUIPMENT.

OIA selected a sample of 134 pieces of AQD computer equipment and portable electronic devices and noted 59 items, 44%, could not be located at AQD offices. AQD did not have records to support the disposition of the missing equipment, so OIA was not able to determine if the equipment had been salvaged, lost or stolen.

During testwork in the Civic Plaza offices in December 2010, OIA located a computer assigned to an EHD employee but the laptop was listed on a Surplus/Salvage form dated June 2010. While at the Sunset Gardens offices, an AQD employee told OIA that his original laptop had been replaced and that the older laptop was at his personal residence. At the VPM offices, OIA counted 297 thumbdrives. The manager said that the drives were not currently being used but there was a plan for them. AQD purchased 300 thumbdrives in December 2009 for \$5,400.

OIA identified 44 pieces of computer equipment that were not included on the AQD internal equipment-tracking report: 25 computers at the Sunset Gardens location, 14 computers at the VPM offices, and 5 computers at the Civic Plaza office.

City assets are at risk of loss or theft without an effective process to track computer and electronic equipment purchases, assignment and disposition. Equipment that has been listed as salvage but that has not been physically removed from departments is at increased risk for theft.

EHD does not have a Property Accounting Liaison. This contributed to poor controls over computer and electronic equipment, incomplete equipment records, inaccurate records of where the equipment was located and inaccurate records of equipment that had been recorded as being salvaged. Surplus/salvage forms were inaccurate and not consistently signed by EHD management or by DFAS-Property Accounting.

Administrative Instruction 6-2: Control of Fixed Assets and Disposition of Surplus Property and Salvage (AI 6-2), requires that any property that has been declared as surplus by a City department be placed under the physical control of the Purchasing Division-Internal Services Section, which is responsible for disposition of the property.

AI 6-3: Establishment of Property Accounting Liaisons, requires City departments to appoint a Property Accounting Liaison whose responsibility it is to see that property controls are adequately followed within the department and that property inventories be conducted.

AI 6-4: Capitalization of City Assets, requires departments to establish and maintain control over all non-capitalized assets (i.e., under \$5,000 per item). It requires departments to maintain an inventory of all computer equipment regardless of the cost of each item.

RECOMMENDATION

EHD-AQD should:

- Appoint a Property Accounting Liaison who is responsible for performing a complete inventory of all computer equipment and other portable electronic devices.
- Ensure that Surplus/Salvage forms are completed for equipment. Salvaged equipment should be physically removed and transferred to the DFAS-Purchasing Division-Internal Services Section.

RESPONSE FROM EHD-AQD

“EHD agrees that it should have a formal system in place that outlines responsibility for maintaining an inventory of computer equipment and other portable electronic devices. An EHD management committee is drafting a plan to track the purchase and resulting disposition of computer and other equipment purchases, including ensuring that surplus/salvage forms are completed for equipment no longer used by EHD and that the equipment is

removed and transferred to DFAS Purchasing Division – Internal Services Section. EHD anticipates that responsibility for maintaining/tracking the inventory will be designated to division managers and/or section supervisors. EHD will designate a property accounting liaison to coordinate the effort with each division/section. It is anticipated that the plan will be completed by July 2011.”

CONCLUSION

As the results of the audit indicate, EHD-AQD has a weak system of internal controls over the expenditure of Fund 242. Inappropriate expenditures from Fund 242 contributed to a 70% decline in the overall fund balance from FY07 to FY10.

EHD-AQD did not properly monitor computer and electronic equipment purchases, track the location or the disposition of the equipment and did not maintain an accurate list of computer and other electronic equipment to mitigate the risk of loss or theft of City property.

An effective control environment is one where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization’s policies and procedures and its ethical and behavioral standards. A well-controlled environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control.

We greatly appreciate the assistance and cooperation of the EHD-AQD personnel during the audit.

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